

**CITY OF OAK HILL, TENNESSEE**

Annual Financial Report

For the Year Ended June 30, 2004

# CITY OF OAK HILL, TENNESSEE

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**CITY OF OAK HILL, TENNESSEE**

Directory of Officials

June 30, 2004

Mayor .....	Ray Throckmorton III
Vice-Mayor .....	Thomas Alsup II
Commissioner .....	Tommy Jacobs
City Manager .....	William Kraus
Administrative Assistant .....	Mary Clyde Sparks

**FINANCIAL SECTION**

YEARY, HOWELL & ASSOCIATES

*Certified Public Accountants*

501 EAST IRIS DRIVE  
NASHVILLE, TN 37204-3109

HUBERT E. (BUDDY) YEARY  
GREGORY V. HOWELL

**INDEPENDENT AUDITORS' REPORT**

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(615) 385-1008  
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To the Mayor and Board of Commissioners  
City of Oak Hill, Tennessee  
Oak Hill, Tennessee

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Oak Hill, Tennessee, for the year ended June 30, 2004, 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 Oak Hill's management. Our responsibility is to express an opinion on these financial statements based on our audit.

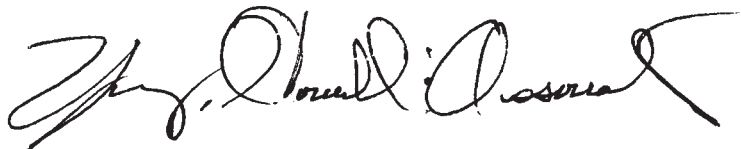
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial reporting contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, each major fund, and the aggregate remaining fund information of the City of Oak Hill, Tennessee at June 30, 2004, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Notes 1 and 7 to the basic financial statements, the City adopted the provisions of Government Accounting Standard Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement 37 *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments: Omnibus*, an amendment of GASB Statements No. 21 and 34, GASB Statement No. 38 *Certain Financial Statement Note Disclosures*, and Interpretation No. 6 *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Statements*, as of July 1, 2003. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2005, on our consideration of the City of Oak Hill's internal control over financial reporting and our test 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.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Oak Hill's basic financial statements. The Financial Schedule (Page 22) and Statistical Section (Pages 23-24) as listed in the Table of Contents are not a required part of the basic financial statements. The Financial Schedule has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is stated fairly, in all material respects, in relation to the basic financial statements taken as a whole. The Statistical Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



May 13, 2005

## Management's Discussion and Analysis

As management of the City of Oak Hill, Tennessee (the City) we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2004. The City is implemented provisions of GASB Statement 34 for fiscal year 2004.

In the initial year of adoption, comparative information is not presented. The analysis focuses on significant financial position, budget changes and variances from the budget, and specific issues related to funds and the economic factors affecting the City.

Management's Discussion and Analysis (MD&A) focuses on current year activities and resulting changes.

### Financial Highlights:

- The assets of the City of Oak Hill exceeded its liabilities at the close of the most recent fiscal year by \$6,445,319. Of this amount, \$6,380,393 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The governments total net assets decreased by \$250,939.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,380,393, a decrease of \$267,466 from the prior year. The entire \$6,380,393 is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance of the General Fund was \$6,380,393 or 701% of total general fund expenditures.

### Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the City of Oak Hill's basic financial statements. The City's basic financial statements comprise three components: (1) government - wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The Government - wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

## **Overview of the Financial Statements (Continued):**

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The City of Oak Hill has only government-wide financial statements for governmental activities, the City has no activities whose operations are intended to recover costs through user fees and charges (business-type activities). The governmental activities of the City of Oak Hill include general government, streets and sanitation.

The government - wide financial statements can be found on pages 8-9 of this report.

Fund financial statements. A Fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Oak Hill, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be categorized as governmental funds.

Governmental Funds. Governmental Funds are funds used to account for essentially the same functions reported as governmental activities in the government - wide financial statements. However, unlike the government - wide financial statements, government fund financial statements focus on near - term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near - term financing requirements

Because the focus of governmental funds is narrower than that of the government - wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government - wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and sanitation funds which are considered to be a major funds.

The City of Oak Hill, Tennessee adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 10-13 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government - wide and fund financial statements. The notes to the financial statements can be found on pages 14-18 of this report.

## Financial Analysis of the Financial Statements

### Government - wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Oak Hill, assets exceeded liabilities by \$6,445,319 at the close of the most recent fiscal year.

## Financial Analysis of the Financial Statements

### City of Oak Hill's Net Assets

	Governmental Activities
Current and other assets	\$ 6,529,958
Capital assets	64,926
Total assets	6,594,884
Other liabilities	149,565
Total liabilities	149,565
Net assets:	
Invested in capital assets, net of related debt	64,926
Unrestricted	6,380,393
Total net assets	\$ 6,445,319

The government's net assets decreased by \$250,939 during the current fiscal year. The increase is largely attributed to the increases in street repair and maintenance expenditures.

### City of Oak Hill's Changes in Net Assets

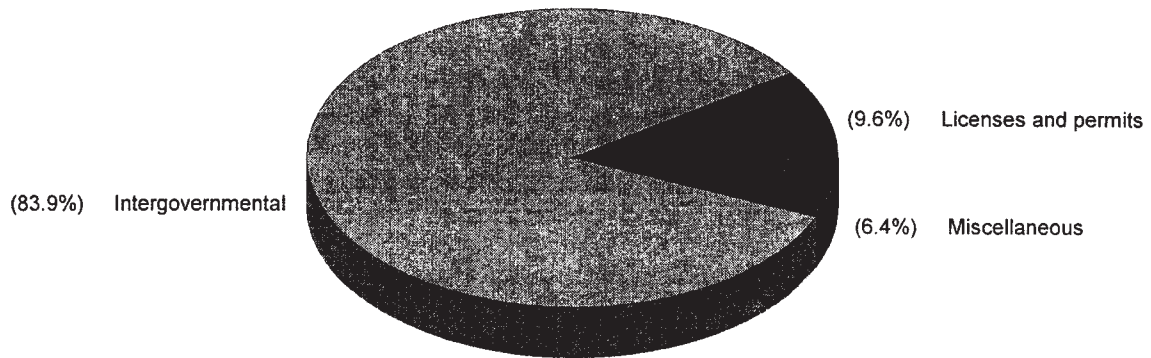
	Governmental Activities
Revenues:	
Charges for service	\$ 89,694
Operating grants	126,386
General revenues:	
Property taxes	
Sales taxes	263,082
Other taxes	391,904
Other	59,862
Total revenues	930,928
Expenses:	
General government	351,912
Streets	541,573
Sanitation	288,382
Total expenses	1,181,867
Increases in net assets	(250,939)
Net assets, beginning of year, as restated	6,696,258
Net assets, end of year	\$ 6,445,319



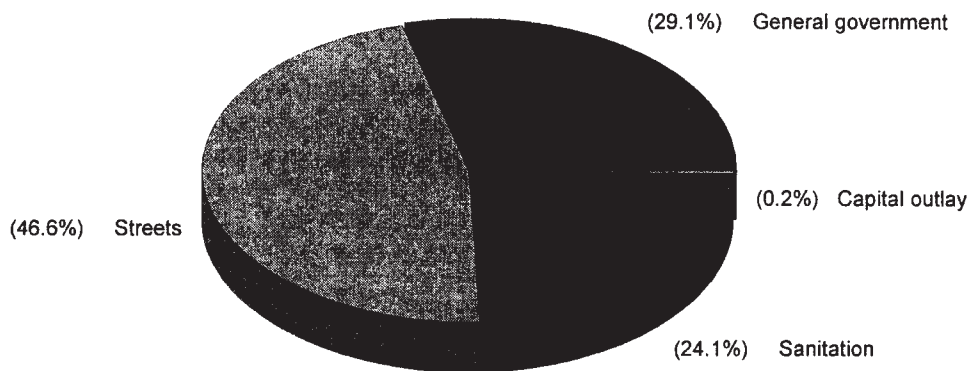
**Financial Analysis of the Financial Statements (Continued):**

The most significant decrease in actual continued revenue sources was from State shared excise taxes which decreased approximately \$108,000 or 29%. Expenditures for street repairs and maintenance increased by approximately \$203,000. These were the primary factors underlying the excess of expenditures over revenues for governmental activities.

**Revenues by Source - Governmental Fund Activities**



**Expenses - Governmental Fund Activities**



## Financial Analysis of the Financial Statements (Continued)

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance - related legal requirements.

### Governmental Funds

The focus of the City of Oak Hill 's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements in particular, unreserved fund balance may serve as a useful measure to a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,380,393 a decrease of \$267,466 from that of the prior year. The entire amount of \$6,380,393 is unreserved, which means it is available for spending at the government's discretion.

The general fund is the chief operation fund of the City of Oak Hill, Tennessee. At the end of the current fiscal year, unreserved fund balance of the general fund was \$6,380,393.

As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 701% of total general fund expenditures.

The fund balance of the City's general fund decreased by \$267,466 during the current fiscal year. Key factors in this decline are as follows:

- increases in street maintenance and repair expenditures.

### **General Fund Budgetary Highlights**

There were no amendments to the original budget.

### **Capital Asset and Debt Administration**

#### Capital Assets

The City of Oak Hill's investment in capital assets from its governmental and business - type activities as of June 30, 2004, amounts to \$64,926 (net of accumulated depreciation). This investment in capital assets includes buildings, improvements, machinery and equipment, and infrastructure. The total increase in the City's investment in capital assets for the current fiscal year was \$19,978.

#### **City of Oak Hill's Capital Assets**

	<u>Governmental Activities</u>
Buildings and utility plant	95,668
Equipment and furniture	2,862
Infrastructure	17,116
	<u>115,646</u>
Less accumulated depreciation	<u>50,720</u>
Net Capital Assets	<u>64,926</u>

Additional information on the City of Oak Hill's capital assets can be found in the notes to the financial statements section of this report.

## **Capital Asset and Debt Administration (Continued)**

State statutes impose no debt limit on the amount of general obligation debt a governmental entity may issue.

## **Economic Factors and Next Year's Budget and Rates**

The economic outlook for Oak Hill remained much the same for 2004 as in prior years and no variation is expected in 2005. All of these factors were considered in preparing the City's budget for the 2005 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund decreased to \$6,380,393. The City did not appropriate any of this amount for spending in the 2005 fiscal year budget.

## **Requests for Information**

This financial report is designed to provide a general overview of the City of Oak Hill, Tennessee's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City Manager  
City of Oak Hill  
5548 Franklin Road  
Oak Hill, TN 37220

CITY OF OAK HILL, TENNESSEE

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
<b><u>Assets</u></b>	
Cash and cash equivalents	\$ 1,076,655
Investments	5,174,505
Receivables:	
Other governments	263,073
Other	15,725
Total Receivables	278,798
Depreciable capital assets, net of accumulated depreciation	64,926
 Total Assets	 \$ 6,594,884
 <b><u>Liabilities</u></b>	
Liabilities:	
Accounts payable	\$ 84,156
Accrued liabilities	464
Deferred revenue	64,945
 Total Liabilities	 149,565
 <b><u>Net Assets</u></b>	
Investment in capital assets, net of related debt	64,926
Restricted for:	
Unrestricted	6,380,393
 Total Net Assets	 \$ 6,445,319

See accompanying notes to financial statements.

**CITY OF OAK HILL, TENNESSEE**

**Statement of Activities**

**For the Year Ended June 30, 2004**

<b>Functions / Programs:</b>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expenses) Revenue and Changes in Net Assets Primary Government Governmental Activities</u>
<b>Primary Government:</b>				
Government Activities:				
General government	\$ 351,912	89,694	-	(262,218)
Streets	541,573	-	126,386	(415,187)
Sanitation	288,382	-	-	(288,382)
Total Primary Government	<u>\$ 1,181,867</u>	<u>89,694</u>	<u>126,386</u>	<u>(965,787)</u>
<b>General Revenues:</b>				
Sales taxes			\$	263,082
Other state shared taxes				391,904
Unrestricted investment earnings				59,862
Total general revenues				<u>714,848</u>
Change in net assets				(250,939)
Net assets - beginning of year, as restated				6,696,258
Net assets - end of year			\$	<u>6,445,319</u>

See accompanying notes to financial statements.

**CITY OF OAK HILL, TENNESSEE**

**Balance Sheet  
Governmental Funds**

**June 30, 2004**

	General Fund	Sanitation Fund	Total Governmental Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 1,076,655	-	1,076,655
Investments	5,174,505	-	5,174,505
Accounts receivable:			
Other governments	263,073	-	263,073
Other	15,725	-	15,725
Total Receivables	278,798	-	278,798
 Total Assets	 \$ 6,529,958	 -	 6,529,958
 <u>Liabilities</u>			
Accounts payable	\$ 84,156	-	84,156
Accrued liabilities	464	-	464
Deferred revenue-property tax	64,945	-	64,945
 Total Liabilities	 149,565	 -	 149,565
 <u>Fund Equity</u>			
Fund Balance:			
Unreserved - undesignated	6,380,393	-	6,380,393
Total Fund Equity and Other Credits	6,380,393	-	6,380,393
 Total Liabilities and Fund Equity	 \$ 6,529,958	 -	 6,529,958

See accompanying notes to financial statements.

**CITY OF OAK HILL, TENNESSEE**

**Reconciliation of the Balance Sheet to the Statement of Net Assets  
of Governmental Activities**

**June 30, 2004**

<b>Amounts reported for fund balance - total governmental funds</b>	6,380,393
<b>Amounts reported for governmental activities in the statement of net assets are different because:</b>	
Restatement of prior years as a result of recording:	
Investment in capital assets, net of related debt	48,399
Capital assets used in governmental activities are not financial resources and , therefore, are not reported in the governmental funds:	
Asset additions	19,978
Depreciation	(3,451)
<b>Net assets of governmental activities</b>	<u>6,445,319</u>

See accompanying notes to financial statements.

**CITY OF OAK HILL, TENNESSEE**

**Combined Statement of Revenues,  
Expenditures and Changes in Fund Balances**

**All Governmental Fund Types**

**For the Year Ended June 30, 2004**

	General Fund	Sanitation Fund	Total Governmental Funds
Revenues:			
Licenses and permits	\$ 89,694	-	89,694
Intergovernmental	781,372	-	781,372
Miscellaneous	59,862	-	59,862
Total Revenues	930,928	-	930,928
Expenditures:			
Current:			
General government	348,461	-	348,461
Streets	558,689	-	558,689
Sanitation	-	288,382	288,382
Capital outlay	2,862	-	2,862
Total Expenditures	910,012	288,382	1,198,394
Excess (deficiency) of revenues over expenditures	20,916	(288,382)	(267,466)
<u>Other Financing Sources (Uses)</u>			
Transfer from (to) other funds	(288,382)	288,382	-
Total Other Financing Sources (Uses)	(288,382)	288,382	-
Net Change in Fund Balance	(267,466)	-	(267,466)
Fund Balance, beginning of year, as restated	6,647,859	-	6,647,859
Fund Balance, end of year	\$ 6,380,393	-	6,380,393

See accompanying notes to financial statements.



**CITY OF OAK HILL, TENNESSEE**

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance  
of Governmental Funds to the Statement of Activities**

**For the Year Ended June 30, 2004**

**Net change in fund balances-total governmental funds:** (267,466)

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

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. Gross  
sale proceeds are recognized in the Governmental Funds, only net gain (loss)  
is shown in the Government - Wide statement of activities.

Acquisition of capital assets	2,862
Depreciation expense	(3,451)

**Change in net assets of governmental activities** (268,055)

See accompanying notes to financial statements.

# CITY OF OAK HILL, TENNESSEE

## Notes to Financial Statements

June 30, 2004

### (1) Summary of Significant Accounting Policies

The financial statements of the City of Oak Hill have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

#### Reporting Entity

The accompanying financial statements present the government and its component units. Component units are entities for which the government is considered to be financially accountable. Component units, although legally separate entities, are required to be presented in the government's financial statements using either a "blended" or "discrete" presentation.

As of June 30, 2004, the City had no component units which were required to be included in these financial statements.

#### Accounting Pronouncements

Effective July 1, 2003, The City adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis for the State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and 34*, Statement No. 38, *Certain Financial Statement Note Disclosures* and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. The requirements of these statements represent a significant change in the financial reporting model used by the City. The financial statements now include government-wide financial statements prepared on the accrual basis of accounting and the economic measurement focus for all funds. The fund financial statements present information for individual major funds rather than by fund type. Nonmajor funds are presented in one column. Other significant changes include the reporting of capital assets, infrastructure and depreciation, the elimination of account groups, and the inclusion of management's discussion and analysis.

#### Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

# CITY OF OAK HILL, TENNESSEE

## Notes to Financial Statements, Continued

### (1) Summary of Significant Accounting Policies (Continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred as under accrual accounting. However, expenditures related to compensated absences and claims and judgements are recorded only when payment is due.

State shared revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period using the criteria specified in the paragraph above. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The General Fund is the government's primary operating fund. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include (i) charges to customers or applicants for goods, services, or privileges provided, (ii) operating grants and contributions, and (iii) capital grants and contributions. General revenues include all taxes and internally dedicated resources.

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

#### Cash and Cash Equivalents

Cash and cash equivalents consist primarily of demand deposits with financial institutions and amounts deposited with the State of Tennessee Local Government Investment Pool. In addition, certificates of deposit or direct obligations of the Federal government or its agencies that are owned by a specific fund of the City having a maturity of three months or less when purchased are considered to be cash equivalents. Certificates of deposit and deposits in the investment pool are carried at cost which approximates fair value.

The State of Tennessee Local Government Investment Pool is a component of the State of Tennessee State Pooled Investment Fund that is an external investment pool not registered with the Securities and Exchange Commission. The State Pooled Investment Fund is administered by the State of Treasurer and is authorized by state statute to invest funds in accordance with the policy guidelines approved by the Funding Board of the State of Tennessee which exercises oversight responsibility, including the ability to significantly influence operations, designation of management and accountability for all fiscal matters. The Fund is audited annually by the office of the State Comptroller.

# CITY OF OAK HILL, TENNESSEE

## Notes to Financial Statements, Continued

### (1) Summary of Significant Accounting Policies, (Continued)

#### Capital Assets

Capital assets, which include property, plant, and equipment are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than \$500 and an estimated useful life in excess of three years. All fixed assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation has been provided over estimated useful lives using the straight-line method.

The estimated useful lives are as follows:

Infrastructure	30 years
Buildings	30 years
Equipment	5 years

#### Compensated Absences

The City's policy permits employees to accumulate earned but unused annual vacation. Upon termination, employees receive payment for accumulated annual leave days. All annual leave is accrued when incurred in the government-wide statements.

### (2) Cash, Cash Equivalents and Investments

The City is authorized to invest funds in Federal treasury bills and notes, State of Tennessee Local Government Investment Pool and financial institution demand deposit accounts and certificates of deposit. During the year, the City invested idle funds in interest-bearing checking and savings accounts and certificates of deposits with various financial institutions and in the State of Tennessee Local Government Investment Pool. State statutes require deposits in financial institutions to be secured and collateralized by the institutions and the collateral to meet certain requirements. More specifically, the statutes require funds to be deposited in an escrow account with another financial institution or the State of Tennessee Bank Collateral Pool for the benefit of the City in an amount equal to at least 105% of the value of the deposits that exceed FDIC coverage.

#### Cash and Cash Equivalents:

Cash:		
On hand	\$ 150	150
Insured (FDIC)	<u>56,381</u>	<u>57,088</u>
Total Cash Deposits	56,531	57,238
Local Government Investment Pool	<u>1,020,124</u>	<u>1,020,124</u>
Total Cash and Cash Equivalents	<u>\$ 1,076,655</u>	<u>1,077,362</u>

**CITY OF OAK HILL, TENNESSEE**

Notes to Financial Statements, Continued

(2) **Cash, Cash Equivalents and Investments (Continued)**

**Investments**

The City's investments are categorized below to give an indication of the level of risk assumed by the Government at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a third party's trust department or agent but not in the City's name.

	Category			Carrying Value	Market Value
	1	2	3		
U.S. Government Bonds	\$ 3,584,681	-	-	3,584,681	3,584,681
Certificates of Deposit	1,579,816	-	-	1,579,816	1,579,816
Short Term investments	<u>10,008</u>	-	-	<u>10,008</u>	<u>10,008</u>
Total	<u>\$5,174,505</u>	<u>-</u>	<u>-</u>	<u>5,174,505</u>	<u>5,174,505</u>

(3) **Accounts Receivable**

Accounts receivable at June 30, 2004, consisted of the following:

<u>Receivable from:</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Combined Total</u>
State of Tennessee	\$ <u>241,574</u>	<u>21,499</u>	<u>263,073</u>

(4) **Capital Assets, (Continued)**

**Governmental Activities:**

A summary of changes in capital assets as presented in the governmental activities column of the government-wide financial statements is as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
<b><u>Capital Asset - Cost</u></b>				
Depreciable capital assets:				
Building and Improvements	\$ 95,668	-	-	95,668
Equipment	-	2,862	-	2,862
Infrastructure	-	17,116	-	17,116
Total capital assets	<u>95,668</u>	<u>19,978</u>	<u>-</u>	<u>115,646</u>
<b><u>Accumulated Depreciation</u></b>				
Buildings and improvements	\$ 47,269	3,189	-	50,458
Equipment	-	262	-	262
Total Accumulated Depreciation	<u>\$ 47,269</u>	<u>3,451</u>	<u>-</u>	<u>50,720</u>

During 2004, the City completed a physical inventory of its capital assets, as a result the capital asset balance at July 1, 2003 was restated in the aggregate amount of \$27,691.

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

General Government	\$ <u>3,451</u>
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**CITY OF OAK HILL, TENNESSEE**

Notes to Financial Statements, Continued

**(5) Commitments and Contingencies**

**Grants:**

Amounts received from Grantor agencies are subject to audit and adjustment by Grantor agencies, principally the Federal government. Any disallowed claims including amounts already collected, could become a liability of the applicable fund.

**(6) Risk Management**

The City of Oak Hill is exposed to various risks to general liability and property and casualty losses. The City deemed it was more economically feasible to participate in 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, an association of member Cities. The City pays an annual premium to the TML for its general liability and property and casualty insurance coverage. The creation of the pool provides for it to be self-sustaining through member premiums. The pool reinsures through commercial insurance companies for claims in excess of \$130,000 for each insured event. The City continues to carry commercial insurance for all other risks of loss, including workers' compensation, employees health and accident and environmental. Settled claims from these losses have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(7) Current Pronouncements of the Government Accounting Standards Board**

The transition from governmental balances to net assets of governmental activities in the government-wide financial statements are as follows:

Fund balance, beginning of year as previously reported	<u>General</u> \$ 6,612,176
Adjustments as a result of implementing GASB Statement 33 and 34:	
State shared tax deferral	35,683
Capital assets, net of accumulated depreciation	<u>48,399</u>
Total net assets of governmental activities, at July 1, 2003	<u>\$ 6,696,258</u>

Required Supplementary Information

**CITY OF OAK HILL, TENNESSEE**

**Schedule of Revenues, Expenditures and  
Changes in Fund Balance - Budget (GAAP Basis) and Actual**

**General Fund**

**For the Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
<b>Licenses and Permits:</b>				
Building permits	130,000	130,000	89,694	(40,306)
Total Licenses and Permits	130,000	130,000	89,694	(40,306)
<b>Intergovernmental:</b>				
Income tax	265,000	265,000	261,094	(3,906)
Beer tax	2,200	2,200	2,230	30
Sales tax	268,000	268,000	263,082	(4,918)
Gasoline inspection fee	127,500	127,500	126,386	(1,114)
T.V.A. in lieu of taxes	-	-	29,672	29,672
Metro road fund	95,000	95,000	88,000	(7,000)
Metro tax allocation for streets and roads	-	-	10,168	10,168
Other revenues	-	-	740	740
Total Intergovernmental	757,700	757,700	781,372	23,672
<b>Miscellaneous Revenues:</b>				
Other miscellaneous revenue	201,000	201,000	59,862	(141,138)
Total Miscellaneous Revenue	201,000	201,000	59,862	(141,138)
Total Revenue	\$ 1,088,700	1,088,700	930,928	(157,772)
<b>Expenditures:</b>				
<b>General Government:</b>				
<b>Current:</b>				
Salaries and wages	\$ 138,600	138,600	104,182	34,418
Employee benefits	12,000	12,000	9,904	2,096
City Attorney	15,000	15,000	20,071	(5,071)
Office supplies	4,000	4,000	3,959	41
Legal & professional	126,000	126,000	131,576	(5,576)
Utilities and maintenance fee	30,000	30,000	31,194	(1,194)
Appropriations	-	-	500	(500)
Miscellaneous	37,500	37,500	47,075	(9,575)
Capital outlay	-	-	2,862	(2,862)
Total General Government	363,100	363,100	351,323	11,777

Continued next page.

See accompanying notes to the required supplementary information.



**CITY OF OAK HILL, TENNESSEE**

**Schedule of Revenues, Expenditures and  
Changes in Fund Balance - Budget (GAAP Basis) and Actual, Continued**

**General Fund**

**For the Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures:				
Highway and Streets:				
Current:				
Street signs, lights and energy	29,500	29,500	38,398	(8,898)
State Street Aid Expenditures:				
Construction, maintenance and improvements to streets	212,500	212,500	251,814	(39,314)
Maintenance of right of way	130,000	130,000	183,902	(53,902)
Engineering	23,000	23,000	49,400	(26,400)
Miscellaneous	18,000	18,000	18,059	(59)
Capital outlay	-	-	17,116	(17,116)
Total Highways & Streets	413,000	413,000	558,689	(145,689)
 Total Expenditures	776,100	776,100	910,012	(133,912)
 Excess (deficiency) of revenues over expenditures	312,600	312,600	20,916	(291,684)
 Other financing sources (uses):				
Transfer to Sanitation Fund	(300,000)	(300,000)	(288,382)	(11,618)
 Total Other Financing Sources Uses	(300,000)	(300,000)	(288,382)	(11,618)
 Excess (deficiency) of revenues over expenditures	12,600	12,600	(267,466)	(280,066)
 Fund Balance, beginning of year, as previously reported	6,612,176	6,612,176	6,612,176	-
Restatement	-	-	35,683	35,683
Fund Balance, beginning of year, as restated	6,612,176	6,612,176	6,647,859	35,683
Fund Balance, end of year	\$ 6,624,776	6,624,776	6,380,393	(244,383)

See accompanying notes to the required supplementary information.

# CITY OF OAK HILL, TENNESSEE

## Notes to the Required Supplementary Information

### (1) Budgets and Budgetary Accounting

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

1. The City Manager submits to the Board of Commissioners the proposed operating budget for the fiscal year. The operating budget for the General Fund include proposed expenditures and the means of financing them. All appropriations in the current operating budget lapse into fund balance of the respective funds at the end of the fiscal year.
2. The budgets passed on the first reading and each of the following readings, and was adopted by ordinance on the second reading. In no event shall total appropriations for any fund exceed the estimated revenues and fund balance.
3. The amounts in the adopted budgets for each fund constitute its total annual appropriation and no expenditure may be made which will result in the annual appropriation for the fund being exceeded, unless an additional appropriation is made.  
  
The Mayor may transfer appropriations within the same department, other changes in appropriations require board approval. Budgetary control is considered established at the department level.
4. Budgeted amounts shown are those originally adopted and amended by the Mayor and Board of Aldermen. There were no amendments to the General and Special Revenue Funds original budgets. All balances of appropriations in the current operating budgets lapse into the fund balance of the fund from which appropriations were made at the end of the fiscal year.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

### (2) Budget Overages

As of June 30, 2004, the following budget overages were noted. Funding of any deficiencies is the ultimate responsibility of the City of Oak Hill, Tennessee.

	<u>Final Budget</u>	<u>Actual</u>	<u>Overage</u>
General Fund: Highway and Streets	\$ <u>413,000</u>	<u>558,689</u>	<u>145,689</u>

## **FINANCIAL SCHEDULES**

CITY OF OAK HILL , TENNESSEE

Schedule of Cash, Cash Equivalents and Investments

By Depository - All Funds

June 30, 2004

	<u>Interest Rate</u>	<u>Amount</u>
<b>General Fund</b>		
Cash & Cash Equivalents:		
Petty cash	-	\$ 150
Demand deposits:		
SunTrust	Various	56,381
Local government investment pool	Various	1,020,124
Investments:		
SunTrust		<u>5,174,505</u>
 Total General Fund		 <u>\$ 6,251,160</u>

**STATISTICAL SECTION**

**CITY OF OAK HILL, TENNESSEE**

**Schedule of Insurance Coverage**

**June 30, 2004**

<u>Type of Coverage</u>	<u>Description</u>	<u>Amount</u>	<u>Insuror</u>
<b>Liability</b>			
General Liability	Liability	\$250,000	TML Risk Management Pool
All Personnel Errors and Omissions liability	Liability - deductible \$1,000	1,000,000	TML Risk Management Pool
Property	Liability	Blanket coverage	TML Risk Management Pool
Crime	Liability	100,000	TML Risk Management Pool
Workers Compensation	Statutory	Statutory	TML Risk Management Pool

**CITY OF OAK HILL, TENNESSEE**

**Schedule of Salaries and Bonds of Principal Officials**

**For the Year Ended June 30, 2004**

<u>Official</u>	<u>Title</u>	<u>Salary</u>
William Kraus	City Manager	\$40,454
Mary Clyde Sparks	Administrative Assistant	38,432

The City has employee dishonesty coverage issued by TML Risk Management Pool that covers all City personnel. This coverage is limited to \$100,000.

## **OTHER REPORTS SECTION**



# YEARY, HOWELL & ASSOCIATES

*Certified Public Accountants*

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## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Mayor and Board of Commissioners  
City of Oak Hill  
Oak Hill, Tennessee

We have audited the general purpose financial statements and the combining and individual fund and account group financial statements of the City of Oak Hill, Tennessee as of and for the year ended June 30, 2004, and have issued our report thereon dated May 13, 2005. 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.

### Compliance

As part of obtaining reasonable assurance about whether the City of Oak Hill's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### Internal Control Over Financial Reporting

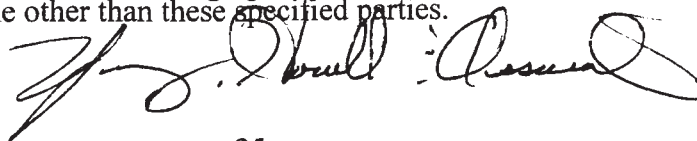
In planning and performing our audit, we considered the City of Oak Hill's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial 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 the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items (04-01), (04-02), (04-03), (02-01) and (02-02).

A material weakness is a 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 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 reportable conditions that are might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Oak Hill in a separate letter dated May 13, 2005.

This report is intended solely for the information and use of the audit committee, management, the State Comptroller's office and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

May 13, 2005



# CITY OF OAK HILL, TENNESSEE

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

(04-01) **Cash Receipts**

During our examination, we noted the following matters concerning cash receipt and recording:  
(i) a number of deposits selected for testing were not made within three working days, (ii) one instance of a building permit being issued that was not paid for, (iii) cash receipt records made it difficult to trace individual receipts, and (iv) one instance where the amount of money received was not fully deposited, resulting in a shortage of \$200

**Recommendation**

We strongly recommend that controls be implemented requiring (i) the deposit of funds within 3 days of receipt, and (ii) requiring the reconciliation of daily bank deposits with actual cash receipts tickets issued.

**Management Response**

We agree with the finding and have been more diligent in our deposit and reconciliation of cash receipts in subsequent months.

(04-02) **Payroll**

During our examination, we noted the following matters.  
(i) Bonuses paid during the year were not properly subjected to payroll tax nor formally approved by the Board of Commissioners, (ii) confusion relative to "contract labor" and "employees" of the City as defined under the Internal Revenue Code relative to payroll taxation. Only employees of the City are subject to payroll taxes, contractors of the City, as defined under the Code, are not subject to payroll taxes with only amounts paid in excess of \$600 to non corporate entities being required to be reported annually on Form 1099, and (iii) personnel files were not maintained for each employee of the City.

**Recommendation**

We recommend that all payments to employees of the City be properly subjected to federal payroll taxes. We also suggest that those who are not actual employees be paid as contract labor and reported accordingly. Furthermore, we suggest that personnel files be maintained, if possible, by someone who does not have payroll preparation responsibilities. These files should include the following:

- Signed and dated application for employment.
- Form I-9 Employment Eligibility Verification.
- Date of hire.
- Approved pay rate (updated as changes occur).
- Signed W-4 form.
- Insurance and other benefits elections forms.
- Beneficiary designation form.
- Employee's current address and telephone number.
- Next of kin's or other emergency contact's name, address, and current daytime telephone number.
- Employee evaluations.
- Benefit election forms for terminated or retire employees.

**Management Response**

We generally agree with the comment and will attempt to implements it in the future; though due to the small size of our staff, it is not always feasible or possible to totally separate the maintenance of personnel files from payroll preparation.

**CITY OF OAK HILL, TENNESSEE**

Schedule of Findings and Questioned Costs, Continued

For the Year Ended June 30, 2004

(04-03) **Bidding**

During our examination we noted one instance whereby current bid policy was not followed. The City's present bid policy requires that any purchase/construction project of \$10,000 or more, be formally advertised with written bids obtained.

Recommendation:

We suggest that the City's bidding policy be followed.

Management Response

We agree with the comment and have closely adhered to our bid policy in subsequent times.

(02-01) **Segregation of Duties**

Due to staff limitations, there is a lack of segregation of duties necessary to achieve the desired internal control over receipts and disbursements.

Recommendation:

We recommend a division of accounting functions whereas the employees divide the duties of collecting and disbursing of cash, posting accounting records, preparation of bank deposits, and daily balancing of receipts.

Management Response:

The City concurs with this recommendation and though we have a very small staff, have restructured the duties of the current administrative assistant, to become Assistant City Manager, and a new Administrative Assistant position was created (full time) from previously a part - time position.