

**CITY OF OAK HILL, TENNESSEE**

Annual Financial Report

For the Year Ended June 30, 2005

# CITY OF OAK HILL, TENNESSEE

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## **INTRODUCTORY SECTION**

**CITY OF OAK HILL, TENNESSEE**

Officials of the City of Oak Hill, Tennessee

June 30, 2005

<u>Name</u>	<u>Title</u>
Elected Officials:	
Roy Throckmorton, III	Mayor
Tommy Alsup, II	Vice Mayor
Tommy Jacobs	Commissioner
Management:	
William Kraus	City Manager
Mary Clyde Sparks	Assistant City Manager
Patrick Steiner	Administrative Assistant

# **FINANCIAL SECTION**

**JOHN R. POOLE, CPA**  
**CERTIFIED PUBLIC ACCOUNTANT**

134 NORTHLAKE DRIVE  
HENDERSONVILLE, TN 37075

(615) 822-4177

**Independent Auditor's Report**

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

I have audited the accompanying financial statements of the governmental activities, each major fund of the City of Oak Hill, Tennessee as of and for the year ended June 30, 2005, 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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted the audit in accordance with generally accepted auditing standards in the United States of America and standards applicable to financial reporting as contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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. I believe that the audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund of the City of Oak Hill, Tennessee as of June 30, 2005, and the respective changes in financial position and the cash flows where applicable for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 31, 2006 on the consideration of the City of Oak Hill's internal control over financial reporting and the 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 the 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 read in conjunction with this report in considering the results of the audit.

Management's Discussion and Analysis on pages 2-9, the Required Supplementary Information on pages 24-27 are not a required part of the financial statements but are supplementary information required by the Government Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and do not express an opinion on it.

The 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 Schedules as listed in the table of contents are not a required part of the basic financial statements. The Financial Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*John R. Poole, CPA*

March 31, 2006

# CITY OF OAK HILL, TENNESSEE

## 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, 2005. 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 \$6,477,853. Of this amount, \$6,249,046 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The governments total net assets increased by \$32,534 primarily as a result of increased interest and investment income of 226,079 over the prior year as the City moved some of its investments from the local investment pool to Government bonds and Certificate of Deposits. As added information, the City has supplied a graphical analysis of its revenues and expenses for the last few years to assist in reading this analysis.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,265,046 an decrease of \$115,347 in comparison to the prior year as the City made improvements to its infrastructure even though interest income increased as the City moved some its investments from the local investment pool to Government bonds and Certificate of Deposits. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$6,265,046 or 625% of the 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.

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.



The Statement of Net Assets presents information on all 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 .

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Oak Hill include general government, personnel, finance, streets and public works. The government-wide financial statements can be found on pages 11-12 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 from 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 are 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 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 several 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 fund which is considered to be major fund.

The City of Oak Hill 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 14-17 of this report.

Notes to the financial statements. The notes provide additional information that 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 18-23 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 the City of Oak Hill, assets exceeded liabilities by \$6,477,853 at the close of the most recent fiscal year.

By far the largest portion of the City's assets reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure) less any related debt use to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its 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.

## Financial Analysis of the Financial Statements

### City of Oak Hill's Net Assets

	2005 Governmental <u>Activities</u>	2004 Governmental <u>Activities</u>
Current and other assets	\$ 6,328,065	6,529,958
Capital assets	<u>228,807</u>	<u>64,926</u>
Total assets	6,556,872	6,594,884
Long-term liabilities	16,000	0
Other liabilities	<u>63,019</u>	<u>149,565</u>
Total liabilities	79,019	149,565
Net assets:		
Invested in capital assets net of debt	228,807	64,926
Unrestricted	<u>6,249,046</u>	<u>6,380,393</u>
Total net assets	\$ 6,477,853	6,445,319

At the end to the current fiscal year, the City is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

### **Financial Analysis of the Financial Statements**

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.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$6,265,046. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 625% of total general fund expenditures. The fund balance of the City's general fund decreased by \$115,347 as the City made significant investments in infrastructure and even though the City increased its interest income, in comparison to the prior year, as the City moved some its investments from the local investment pool to Government bonds and Certificate of Deposits.

#### **General Fund Budgetary Highlights**

The City exceeded certain original departmental budgets during the year, and as such amended its budget after year end.

#### **Capital Assets**

The City of Oak Hill's investment in capital assets from its governmental activities at June 30, 2005, amounts to \$228,807 (net or accumulated depreciation). This investment in capital assets is in buildings, infrastructure, machinery and equipment.. The total increase in the City's investment in capital assets for the current fiscal year was \$178,151.

Major capital asset events during the current fiscal year included the following:

\*Paving totaling 1,543,151 and the purchase of a City truck.

## City of Oak Hill's Capital Assets

	2005 Governmental <u>Activities</u>	2004 Governmental <u>Activities</u>
Buildings	\$ 95,668	95,668
Infrastructure	171,267	17,116
Equipment	<u>26,862</u>	<u>2,862</u>
Less accumulated depreciation	(64,990)	(50,720)
Net Capital Assets	<u>\$ 228,807</u>	<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

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

In the 2005-2006 budget, General fund revenues are budgeted to decrease from the 2004-2005 budget year primarily due to reductions in the state shared revenues .

All of these factors were considered in preparing the City's budget for the 2005-2006 fiscal year.

### Requests for Information

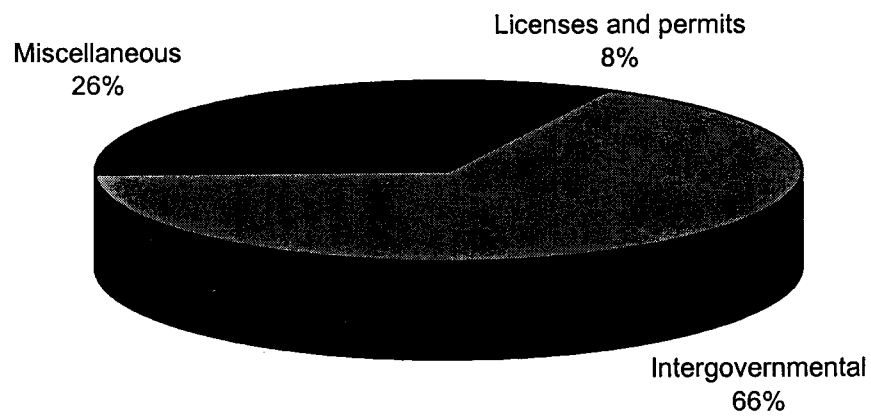
This financial report is designed to provide a general overview of the City of Oak Hill, Tennessee's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed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

William Kraus  
City of Oak Hill

M. C. Sparks  
City of Oak Hill

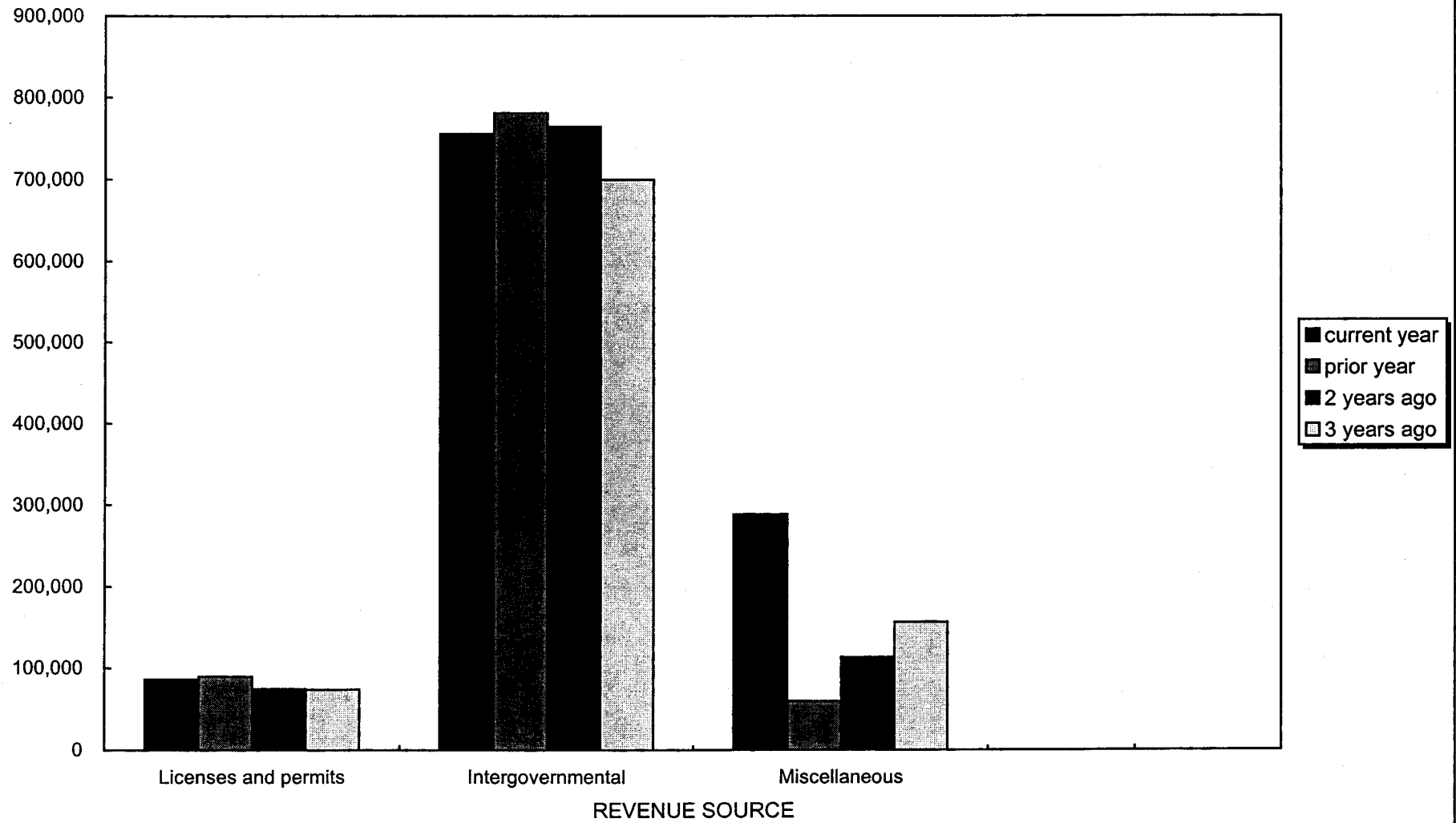
Patrick Steiner  
City of Oak Hill

**CITY OF OAK HILL, TENNESSEE  
GOVERNMENTAL REVENUES**

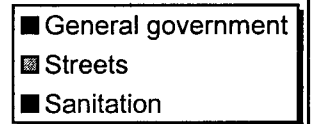
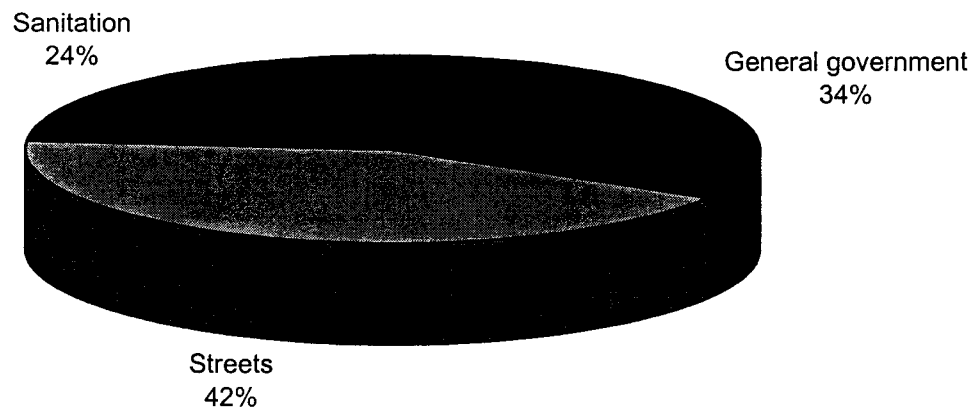


- Licenses and permits
- Intergovernmental
- Miscellaneous

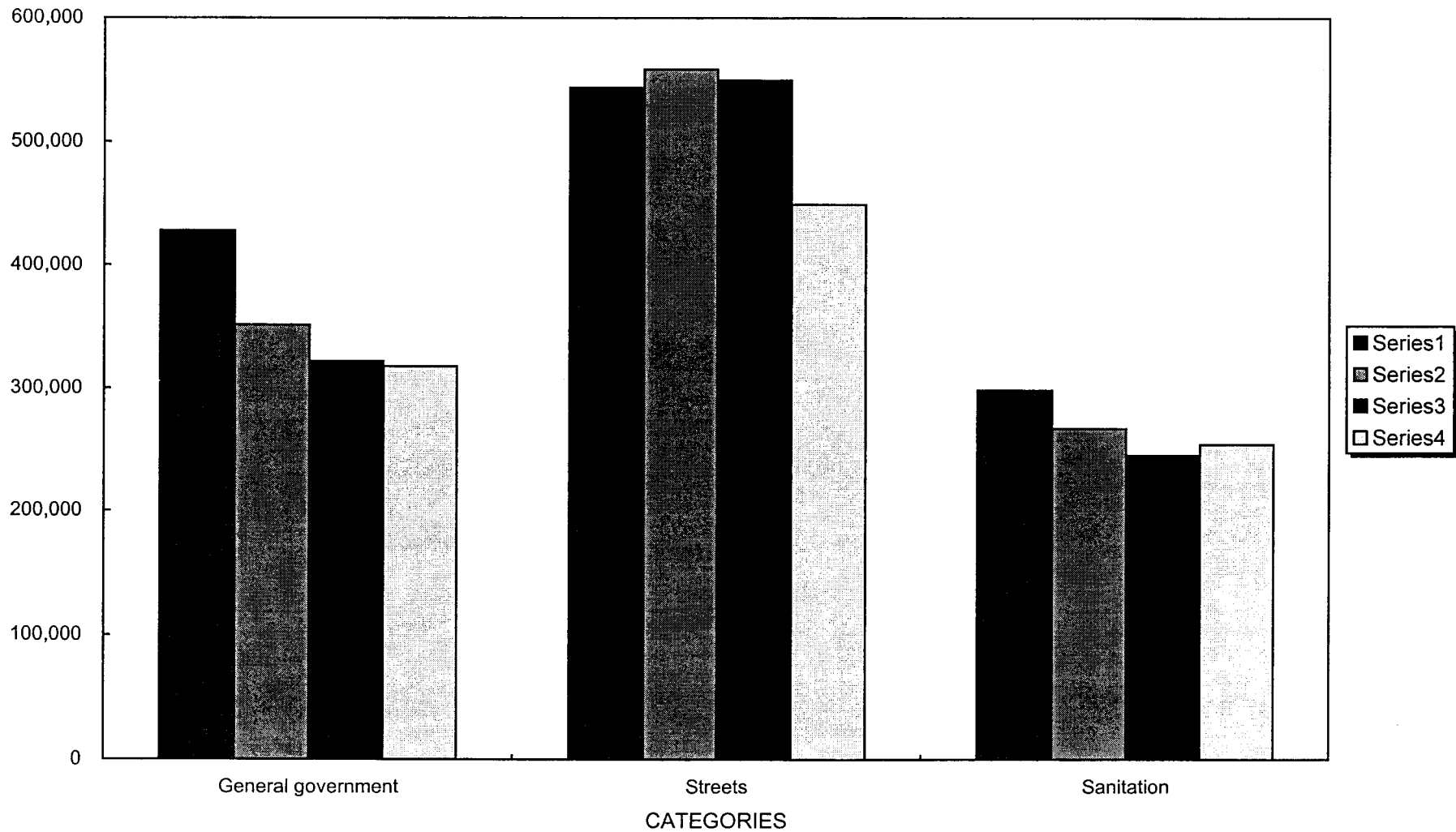
**CITY OF OAK HILL, TENNESSEE  
GOVERNMENTAL FUND REVENUES**



**CITY OF OAK HILL, TENNESSEE  
GOVERNMENTAL EXPENDITURES**



**CITY OF OAK HILL, TENNESSEE  
GOVERNMENTAL FUND EXPENDITURES**





Government-wide comparison of revenues of expenses

	2005 Governmental <u>Activities</u>	2004 Governmental <u>Activities</u>	Change Between <u>Years</u>
Revenues:			
Program revenues:			
Charges for services	86,393	89,694	3,301
Operating grants and contributions	225,036	126,386	98,650
General revenues:			
Sales taxes	271,257	263,082	8,175
Other state shared taxes	259,999	391,904	(131,905)
Interest and investment income	285,941	59,862	226,079
Other	2,616	0	2,616
Total revenues	<u>1,131,242</u>	<u>930,928</u>	<u>206,916</u>
Expenses:			
General government	404,554	351,912	52,642
Highways and streets	395,383	541,573	(146,190)
Sanitation	298,771	288,382	10,389
Total expenses	<u>1,098,708</u>	<u>1,181,867</u>	<u>(83,159)</u>
Change in net assets	<u>32,534</u>	<u>(250,939)</u>	<u>290,075</u>

# **BASIC FINANCIAL STATEMENTS**

**CITY OF OAK HILL, TENNESSEE**

**Statement of Net Assets**

**June 30, 2005**

<u>Assets and Other Debits</u>	<u>Governmental Activities</u>	<u>Total</u>
Cash and cash equivalents	\$592,074	592,074
Investments	5,350,773	5,350,773
Accounts receivable from other governments	385,218	385,218
Capital asset, net of accumulated depreciation	<u>228,807</u>	<u>228,807</u>
Total Assets and Other Debits	<u><u>\$6,556,872</u></u>	<u><u>6,556,872</u></u>
Liabilities:		
Accounts payable	\$27,773	27,773
Deferred revenue	35,246	35,246
Long-term liabilities:		
Due within one year	8,000	8,000
Due in more than one year	<u>8,000</u>	<u>8,000</u>
Total Liabilities	<u><u>79,019</u></u>	<u><u>79,019</u></u>
Net Assets:		
Investment in capital assets, net of related debt	228,807	228,807
Unrestricted	<u>6,249,046</u>	<u>6,249,046</u>
Total Net Assets	<u><u>6,477,853</u></u>	<u><u>6,477,853</u></u>

See accompanying notes to financial statements.

CITY OF OAK HILL, TENNESSEE

Statement of Activities

For the Year Ended June 30, 2005

<u>Function/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenue and Changes in Net Assets</u>	
			<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Total</u>
Government Activities:						
General government	404,554	86,393	0	0	(318,161)	(318,161)
Highways and streets	395,383	0	225,036	0	(170,347)	(170,347)
Sanitation	298,771	0	0	0	(298,771)	(298,771)
Total Governmental Activities	<u>1,098,708</u>	<u>86,393</u>	<u>225,036</u>	<u>0</u>	<u>(787,279)</u>	<u>(787,279)</u>
General Revenues						
Sales taxes					271,257	271,257
Other state shared taxes					259,999	259,999
Unrestricted investment earnings					285,941	285,941
Other					2,616	2,616
Total general revenues					<u>819,813</u>	<u>819,813</u>
Changes in net assets					<u>32,534</u>	<u>32,534</u>
Net assets - beginning of year					6,445,319	6,445,319
Net assets - ending of year					<u>6,477,853</u>	<u>6,477,853</u>

See accompanying notes to financial statements.

# **FUND FINANCIAL STATEMENTS**

**CITY OF OAK HILL, TENNESSEE**

**Balance Sheet**

**Governmental Funds**

**June 30, 2005**

<u>Assets</u>	<u>General Fund</u>	<u>Sanitation Fund</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$592,074	\$0	\$592,074
Investments	5,350,773	0	5,350,773
Accounts receivable from other governments	<u>385,218</u>	<u>0</u>	<u>385,218</u>
 Total Assets	 <u><u>\$6,328,065</u></u>	 <u><u>\$0</u></u>	 <u><u>\$6,328,065</u></u>
 <u>Liabilities and Fund Equity</u>			
Liabilities:			
Accounts payable	\$27,773	\$0	\$27,773
Deferred revenue	<u>35,246</u>	<u>0</u>	<u>35,246</u>
Total Liabilities	<u><u>63,019</u></u>	<u><u>0</u></u>	<u><u>63,019</u></u>
 Fund Equity:			
Fund balance:			
Unrestricted	6,265,046	0	6,265,046
Total Fund Balance	<u><u>6,265,046</u></u>	<u><u>0</u></u>	<u><u>6,265,046</u></u>
 Total Liabilities and Fund Equity	 <u><u>\$6,328,065</u></u>	 <u><u>\$0</u></u>	 <u><u>\$6,328,065</u></u>

The notes accompanying the financial statements are an integral part of these financial statements.

CITY OF OAK HILL, TENNESSEE

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

June 30, 2005

Amounts reported for fund balance - total governmental funds	\$ 6,265,046
Amounts reported for governmental activities in the statement of net assets are different because:	
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not recorded in the funds	
Capital lease payable	(16,000)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	<u>228,807</u>
Net assets of governmental activities	\$ <u><u>6,477,853</u></u>

CITY OF OAK HILL, TENNESSEE

Statement of Revenues, Expenditures  
and Changes in Fund Balances

All Governmental Funds

For the Year Ended June 30, 2005

	General	Sanitation Fund	Total
Revenues:			
Licenses and permits	\$86,393	0	86,393
Intergovernmental	756,292	0	756,292
Miscellaneous	288,557	0	288,557
Total Revenue	<u>1,131,242</u>	<u>0</u>	<u>1,131,242</u>
Expenditures:			
Current:			
General government	395,061	0	395,061
Highways and streets	378,064	0	378,064
Sanitation	0	298,771	298,771
Capital outlay			
General government	24,000	0	24,000
Highways and streets	165,761		165,761
Debt service			
Principal	8,000	0	8,000
Interest	932	0	932
Total Expenditures	<u>971,818</u>	<u>298,771</u>	<u>1,270,589</u>
Excess (deficiency) of revenues over expenditures	<u>159,424</u>	<u>(298,771)</u>	<u>(139,347)</u>
Other financing sources			
Capital lease proceeds	24,000	0	24,000
Operating transfer	(298,771)	298,771	0
Total other financing sources	<u>(274,771)</u>	<u>298,771</u>	<u>24,000</u>
Fund Balance, July 1, 2004	6,380,393	0	6,380,393
Fund Balance, June 30, 2005	<u>\$6,265,046</u>	<u>0</u>	<u>6,265,046</u>

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, 2005

Net change in fund balances - total governmental funds:	\$	(115,347)
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.		
Acquisition of capital assets		178,151
Depreciation expense		(14,270)
Revenues in the statement of activities that do not provide current financial resources to governmental funds- proceeds of capital lease		(24,000)
Expenditures in the statement of activities that reduce long-term liabilities		<u>8,000</u>
Change in net assets of governmental activities	\$	<u>32,534</u>

# CITY OF OAK HILL, TENNESSEE

## Notes to Financial Statements

June 30, 2005

### (1) Summary of Significant Accounting Policies

The City of Oak Hill, Tennessee, was incorporated under the Private Act of the Tennessee General Assembly. The City provides the following services, as authorized by its charter and duly passed ordinances: streets, public improvements, and general administrative services. The accounting policies of the City of Oak Hill, Tennessee conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

#### Reporting Entity:

Governmental Accounting Standards Board (GASB) Statement Number 14, "The Financial Reporting Entity" requires that financial statements present the reporting entity which consists of the primary government and any "Component Unit" organizations for which the primary government is financially accountable and any other "Component Unit" organizations for which the nature and significance of their relationship with the primary government are such that exclusion, could cause the City's general purpose financial statements to be misleading. There were no component units requiring blended or discrete presentation under the requirements of GASB Statement Number 14.

#### 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 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 Government 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, 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 the interfund activity has been removed from these statements. Government 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.

# CITY OF OAK HILL, TENNESSEE

## Notes to Financial Statements

June 30, 2005

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund revenues are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers property taxes as available if received within 60 days of year end. Expenditures are recorded generally when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Property taxes, 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 funds:

**General Fund** - The General Fund is the general operating fund of the City. It is used to account for all financial resources of the general government except those required to be accounted for in another fund.

**Sanitation Fund** - To account for the activity of the City's garbage collection activities.

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

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 savings accounts, certificates of deposit with original maturities three months or less and amounts held by the State Local Government Investment Pool.

#### Receivables and Payables

Activity between funds that are representative of lending/ borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/ due to other funds" (i.e. the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available resources.

**CITY OF OAK HILL, TENNESSEE**

Notes to Financial Statements

June 30, 2005

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

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets consisting of certain improvements other than buildings, including roads, bridges, streets and sidewalks, and drainage systems are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an individual cost of \$5,000 and an estimated useful life in excess of three years. All fixed assets are valued at historical cost or estimated useful life in excess of two 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 asset lives are not capitalized.

Depreciation is provided over the estimated useful lives using the straight line method.

The estimated useful lives are as follows:

Infrastructure	30 years
Buildings	30 years
Furniture and Equipment	5-10 years

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental fund. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds and are presented in the accompanying financial statements as other assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose.

Estimates

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

# CITY OF OAK HILL, TENNESSEE

## Notes to Financial Statements

June 30, 2005

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

#### Credit Risk

Financial instruments that potentially subject the City to significant concentrations of credit risk consist principally of cash and accounts receivable. The City places its cash with federally-insured financial institutions, institutions participating in the State collateral pool. With respect to accounts receivable, credit risk is limited to two governmental agencies, the State of Tennessee and the City of Nashville, Tennessee, and as such the credit is deemed not significant.

#### Deferred Revenue

Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

#### Cash and Cash Equivalents

Cash and cash equivalents consist primarily of savings accounts, certificates of deposit, with original maturities three months or less and amounts held by local financial institutions.

#### Restricted Funds

It is the City's policy to use restricted funds when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

#### Total Columns on Combined Statements Overview

Total columns on the Combined Statements Overview are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to consolidation. Interfund eliminations have not been made in the aggregate of this data.

### (2) Cash and Cash Equivalents

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 funds that were not immediately needed in certificates of deposits and savings accounts. Deposits in financial institutions are required by State Statute to be secured and collateralized by the institutions.

The collateral must meet certain requirements and be deposited in an escrow account in a second bank for the benefit of the City and must total a minimum 105% of the value of the deposits placed in the institutions less the amount protected by federal depository insurance.

The City's deposits are categorized below to give an indication of the level of risk assumed by the City at year end.

**CITY OF OAK HILL, TENNESSEE**

Notes to Financial Statements

June 30, 2005

**(2) Cash and Cash Equivalents, continued**

Category 1 - Insured by FDIC or collateralized with securities held by the City or by its agent in its name.

Category 2- Uninsured but collateralized with securities held by the pledging financial institutions trust department or agent in the District's name.

Category 3 - Uninsured or uncollateralized.

	<u>Bank Balance</u>	<u>Carrying Amounts</u>
<u>Deposits:</u>		
Category 1	\$ 653,347	592,074
Category 2	-	-
Category 3	-	-
	<u>\$ 653,347</u>	<u>592,074</u>

**(3) 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.

	<u>Category</u>		
	<u>1</u>	<u>2</u>	<u>3</u>
U. S. Government Bonds	\$ 3,923,595	-	-
Certificates of Deposit	1,424,735	-	-
Short – Term Investments	2,443	-	-
Total	\$ <u>5,350,773</u>		

The Carrying value of all investments approximates the market value.

**(4) Accounts Receivable**

Accounts receivable at June 30, 2005, consist of the following:

<u>Fund</u>	<u>Other Government</u>	<u>Total</u>
General Fund	\$ <u>385,218</u>	<u>385,218</u>

**CITY OF OAK HILL, TENNESSEE**

Notes to Financial Statements, Continued

**(5) Capital Assets**

A summary of changes in general fixed assets as presented in the governmental activities column of the government-wide financial statement is as follows: :

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>
Building	\$ 95,668	-	-	95,668
Infrastructure	17,116	154,151	-	171,267
Equipment	2,862	24,000	-	26,862
Total	<u>\$ 115,646</u>	<u>178,151</u>	<u>-</u>	<u>293,797</u>
Accumulated depreciation	<u>50,720</u>			<u>64,990</u>
Capital Assets - net	<u>64,926</u>			<u>228,807</u>

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

General Fund:	
General Government	\$ 8,561
Highways and streets	5,709
Total	<u>14,270</u>

All assets are being depreciated.

**(6) Risk Management**

The City of Oak Hill is exposed to various risks to general liability and property and casualty losses. The City has decided it is more economically feasible to be 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, and association of member municipalities. The City pays an annual premium to the TML for its general liability and property and casualty insurance coverage. The pool reinsures through commercial insurance companies. The City has not had claims in excess of insurance coverage during the last three years.

**(7) Capital Lease**

During the year the City purchased a truck which was financed with a lease. The lease provides for annual three payments of \$ 9,832. The City made the first payment during the current year, and will make an annual payment in 2006 and 2007.

**(8) Commitments and Contingencies**

Grants:

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

**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, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Budget</u>
Revenues:				
Licenses and permits	100,000	100,000	86,393	(13,607)
Total Licenses and permits	<u>100,000</u>	<u>100,000</u>	<u>86,393</u>	<u>(13,607)</u>
Intergovernmental:				
TVA in lieu	0	0	31,820	31,820
State sales tax	260,000	260,000	271,257	11,257
State income tax	255,000	255,000	225,976	(29,024)
Metro road funds	90,000	90,000	88,000	(2,000)
State beer tax	2,000	2,000	2,203	203
State streets and transportation	125,000	125,000	137,036	12,036
Total Intergovernmental Revenue	<u>732,000</u>	<u>732,000</u>	<u>756,292</u>	<u>24,292</u>
Miscellaneous:				
Interest income	200,000	200,000	285,941	85,941
Miscellaneous	25,000	25,000	2,616	(22,384)
Total Miscellaneous	<u>225,000</u>	<u>225,000</u>	<u>288,557</u>	<u>63,557</u>
 Total Revenues	 <u>1,057,000</u>	 <u>1,057,000</u>	 <u>1,131,242</u>	 <u>74,242</u>

The notes accompanying the financial statements are an integral part of these financial statements.

**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, 2005**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Expenditures:				
General Government:				
Current:				
Salaries and wages	136,000	136,000	135,824	(176)
Employee benefits	19,200	19,200	17,596	(1,604)
Building inspection	64,000	64,000	74,705	10,705
Occupancy	25,000	25,000	27,873	2,873
Professional services	59,800	59,800	40,628	(19,172)
Donations	0	30,815	30,815	0
Telephone	0	0	4,285	4,285
Office expense	8,300	8,300	8,809	509
Insurance	3,000	3,000	16,023	13,023
Training	0	0	2,895	2,895
City newsletter	15,680	15,680	19,000	3,320
Auto expense	4,080	4,080	669	(3,411)
Election	0	0	8,332	8,332
Other	10,000	10,000	7,607	(2,393)
	<u>345,060</u>	<u>375,875</u>	<u>395,061</u>	<u>19,186</u>
Debt service	0	0	8,932	8,932
Capital outlay	58,320	58,320	24,000	(34,320)
Total General Government	<u>403,380</u>	<u>434,195</u>	<u>427,993</u>	<u>(6,202)</u>
Streets and Highway:				
Street lights and signs	16,000	20,000	28,069	8,069
Professional services	22,000	48,000	47,003	(997)
Chipper and tree service	125,000	135,000	134,941	(59)
Street maintenance	37,000	150,000	147,227	(2,773)
Snow removal	10,000	20,000	20,824	824
Paving	143,620	170,000	165,761	(4,239)
Total Street and Highway	<u>353,620</u>	<u>543,000</u>	<u>543,825</u>	<u>825</u>
Total Expenditures	<u>757,000</u>	<u>977,195</u>	<u>971,818</u>	<u>(5,377)</u>
Excess (deficiency) of Revenues over Expenditures	300,000	79,805	159,424	79,619
Other financing sources (uses):				
Capital lease proceeds	0	0	24,000	24,000
Operating transfer to Sanitation Fund	(300,000)	(300,000)	(298,771)	1,229
Total other financing sources (uses)	<u>(300,000)</u>	<u>(300,000)</u>	<u>(274,771)</u>	<u>25,229</u>
Fund Balance, July 1, 2004	6,380,393	6,380,393	6,380,393	0
Fund Balance, June 30, 2005	<u>6,380,393</u>	<u>6,160,198</u>	<u>6,265,046</u>	<u>104,848</u>

The notes accompanying the financial statements are an integral part of these financial statements.

**CITY OF OAK HILL, TENNESSEE**

**Schedule of Revenues, Expenditures  
Changes in Fund Balance - Budget and Actual**

**Sanitation Fund**

**For the Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Budget</u>
Expenditures:				
Contract - garbage disposal	<u>300,000</u>	<u>300,000</u>	<u>298,771</u>	<u>(1,229)</u>
Total Expenditures	<u>300,000</u>	<u>300,000</u>	<u>298,771</u>	<u>(1,229)</u>
Excess (deficiency) of revenues over expenditures	(300,000)	(300,000)	(298,771)	1,229
Other Sources (uses):	<u>300,000</u>	<u>300,000</u>	<u>298,771</u>	<u>(1,229)</u>
Fund Balance, July 1, 2004	<u>0</u>	<u>0</u>	<u>0</u>	<u>-</u>
Fund Balance, June 30, 2005	<u><u>\$0</u></u>	<u>0</u>	<u>0</u>	<u>0</u>

The notes accompanying the financial statements are an integral part of these financial statements.

## CITY OF OAK HILL, TENNESSEE

### Notes to Required Supplementary Information

June 30, 2005

#### (1) Budgets and Budgetary Accounting

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

- a. Formal budgets are adopted and approved by Council vote on an annual basis for the all Funds. These budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- b. The City Council approves, by ordinance, total budget appropriations by department only. The Mayor is authorized to transfer budget amounts between line items within each department; however, any revisions that alter the total appropriations of any fund must be approved by the City.
- c. The budget amounts shown in the financial statements are the final authorized amounts as amended during the year.

## SUPPLEMENTAL INFORMATION

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

CITY OF OAK HILL, TENNESSEE

Capital Assets Used in the Operation of Governmental Funds

Schedule of Capital Assets by Function and Activity

June 30, 2005

	<u>General Government</u>	<u>Highways and Streets</u>	<u>Total</u>
Building	\$95,668	0	\$95,668
Infrastructure	0	171,267	171,267
Equipment	<u>26,862</u>	<u>0</u>	<u>26,862</u>
Total	<u>\$122,530</u>	<u>\$171,267</u>	<u>\$293,797</u>

CITY OF OAK HILL, TENNESSEE

Capital Assets Used in the Operation of Governmental Funds

Schedule of Changes in Capital Assets

June 30, 2005

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Building	\$95,668	0	0	\$95,668
Infrastructure	17,116	154,151	0	171,267
Equipment	<u>2,862</u>	<u>24,000</u>	<u>0</u>	<u>26,862</u>
Total	<u>\$115,646</u>	<u>\$178,151</u>	<u>\$0</u>	<u>\$293,797</u>

**CITY OF OAK HILL, TENNESSEE**

**Schedule of Cash and Cash Equivalents and Investments  
All Funds**

**June 30, 2005**

	<u>Carrying Value</u>
General Fund:	
Demand deposits	\$7,142
State of Tennessee - local government investment pool	584,932
Investments	<u>5,350,773</u>
Total General Fund	<u>5,942,847</u>
Total - All funds	<u><u>\$5,942,847</u></u>



**CITY OF OAK HILL, TENNESSEE**

**Schedule of Insurance Coverage**

**June 30, 2005**

Type of Coverage

General Liability	\$250,000
Errors and Omissions Liability	1,000,000
Property	Blanket Coverage
Crime	100,000
Workers Compensation	Statutory
<u>Employee Dishonesty Policy</u>	
Mayor	100,000
Recorder	100,000
All other employees	100,000

**COMPLIANCE AND  
INTERNAL CONTROL**

**JOHN R. POOLE, CPA**  
**CERTIFIED PUBLIC ACCOUNTANT**

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

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

I have audited the basic financial statements of the City of Oak Hill as of and for the year ended June 30, 2005, and have issued a report thereon dated March 31, 2006. I conducted the audit in accordance with generally accepted auditing standards 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 and Other Matters**

As part of obtaining reasonable assurance about whether the City of Oak Hill's financial statements are free of material misstatement, I 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 the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of the audit and, accordingly, I do not express such an opinion. The results of the 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 the audit, I considered the City of Oak Hill's internal control over financial reporting in order to determine the auditing procedures for the purpose of expressing the opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Oak Hill's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are as follows:

**Current Year Comments**

**05-01 Signatures on Checks**

During our testing of the City's disbursements, it was noted that most checks were only signed by the City Recorder. The City should always have more than one signature for approval on all disbursements.

**Recommendation:**

The City should always have two signatures on all checks.

**Management Response:**

We will improve our procedures and start requiring two signatures on all checks.

Prior Year Reportable Conditions:

02-1 Separation of Duties

Due to the limited number of personnel employed by the City of Oak Hill, several functions, which ideally should be performed by different individuals, are regularly performed by one or two persons. We recommend that the City strengthen its internal control in cash receipts, cash disbursements, and reconciliation of cash.

Disposition:

Due to the size of the office, a complete separation of duties is not possible. However we are continuing to monitor office responsibilities and segregate duties as needed.

04-01 Cash Receipts

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

Recommendation:

To strengthen controls over cash including depositing funds within three days, and reconciling each days deposit slip to the actual deposit.

Management's Response:

We agree and will implement these procedures.

Disposition:

All of the above were completed except a few instances of not making cash deposits within the required three days.

04-02 Payroll

Certain inconsistencies were noted related to payroll in the prior year, specifically payments related to contractors and employees.

Recommendation:

The City should follow the Internal Revenue Service guidelines involving all payments to employees.

Disposition:

No exceptions in the current year.

04-03 Bidding

During the audit it was 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:

The City should always follow the City's purchasing policy.

Management Response:

We agree and will follow the policy.

Disposition:

One exception occurred in the current year, when the City renewed a contract for a contractor who had made significant capital purchases in order to serve the City.

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 caused by error or 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. My 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, I believe none of the above reportable conditions to be a material weakness.

This report is intended solely for the information and use of the audit committee, management, and State Comptrollers Office and is not intended to be and should not be used by anyone other than these specified parties.

*John R. Poole, CPA*

March 31, 2006