

**CITY OF OAK HILL, TENNESSEE**

**Annual Financial Report**

**For the Year Ended June 30, 2009**

## **INTRODUCTORY SECTION**

**CITY OF OAK HILL, TENNESSEE**

Officials of the City of Oak Hill, Tennessee

June 30, 2009

| <u>Name</u>           | <u>Title</u>             |
|-----------------------|--------------------------|
| Elected Officials:    |                          |
| Tommy Alsup, II       | Mayor                    |
| Austin McMullen       | Commissioner             |
| Ray Throckmorton, III | Commissioner             |
| Management:           |                          |
| Kevin Helms           | City Manager             |
| Mary Clyde Sparks     | Assistant City Manager   |
| Patrick Steiner       | Administrative Assistant |
| Bill Burdette         | Chief Building Official  |

**CITY OF OAK HILL, TENNESSEE**

**Table of Contents**

|  | <u>Page Number</u> |
|--|--------------------|
| <b>INTRODUCTORY SECTION:</b>   |                    |
| Officials of the City of Oak Hill, Tennessee.....  | I                  |
| <b>FINANCIAL SECTION:</b>  |                    |
| Independent Auditor's Report .....   | 1                  |
| Management's Discussion and Analysis . . . . .   | 2-9                |
| <b>Basic Financial Statements:</b>   |                    |
| <b>Government-Wide Financial Statements</b>  |                    |
| Statement of Net Assets . . . . .  | 11                 |
| Statement of Activities . . . . .  | 12                 |
| <b>Fund Financial Statements:</b>  |                    |
| Balance Sheet - Governmental Funds . . . . .   | 14                 |
| Reconciliation of Balance Sheet to Statement of Net Assets of Governmental Activities . . . . .  | 15                 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds . . . . .   | 16                 |
| Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balance<br>Of Governmental Funds to the Statement of Activities . . . . . | 17                 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (GAAP Basis)<br>And Actual:   |                    |
| General Fund . . . . .   | 18- 19             |
| Sanitation Fund . . . . .  | 20                 |
| Notes to Financial Statements . . . . .  | 22-27              |

**CITY OF OAK HILL, TENNESSEE**

**Table of Contents, Continued**

|  | <u>Page Number</u> |
|--|--------------------|
| <b>Financial Schedules:</b>  |                    |
| Schedule of Capital Assets - by Function and Activity . . . . .  | 29                 |
| Schedule of Changes in Capital Assets . . . . .  | 30                 |
| Schedule of Cash and Cash Equivalents and Investments - All Funds . . . . .  | 31                 |
| Schedule of Insurance Coverage . . . . .   | 32                 |
| <br><b>COMPLIANCE AND INTERNAL CONTROL:</b>  |                    |
| <b>Report on Compliance and Other Matters and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> . . . . .</b> | <b>34-36</b>       |

**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, and each major fund of the City of Oak Hill, Tennessee as of and for the year ended June 30, 2009, 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 auditing standards generally accepted 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 opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the City of Oak Hill, Tennessee as of June 30, 2009, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund and the Sanitation Fund 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 August 31, 2009 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 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 the audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is 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 conducted 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 and the Introductory Section as listed in the table of contents are not a required part of the basic financial statements. The Financial Schedules and the Introductory Section are presented for purposes of additional analysis. The Financial Schedules and the Introductory Section 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

August 31, 2009

## **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, 2009. 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 \$8,576,459. Of this amount, \$7,997,455 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's total net assets increased by \$352,594 primarily as a result of higher than expected Hall income tax revenue of \$696,375, even as expenses were \$9,949 more than in the prior year. 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.

The City's governmental funds reported combined ending fund balances of \$7,997,455 an increase of \$382,574 in comparison to the prior year. The City had higher than planned state shared revenues especially state income tax revenues. The increase in revenues was offset by higher expenditures. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$7,997,455 or 611% 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, governmental 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 a 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 14-20 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 22-27 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 \$8,576,459 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.

**City of Oak Hill's Net Assets**

|                            | 2009<br>Governmental<br><u>Activities</u> | 2008<br>Governmental<br><u>Activities</u> |
|----------------------------|---|---|
| Current and other assets   | \$ 8,046,246                              | 7,683,555                                 |
| Capital assets             | <u>579,004</u>                            | <u>608,984</u>                            |
| Total assets               | 8,625,250                                 | 8,292,539                                 |
| Other liabilities          | <u>48,791</u>                             | <u>68,674</u>                             |
| Total liabilities          | 48,791                                    | 68,674                                    |
| Net assets:                |   |   |
| Invested in capital assets | 579,004                                   | 608,984                                   |
| Unrestricted               | <u>7,997,455</u>                          | <u>7,614,881</u>                          |
| Total net assets           | \$ 8,576,459                              | 8,223,865                                 |

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. 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 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 \$7,997,455. 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 611% of total general fund expenditures.

### Government-wide comparison of revenues of expenses

|                                    | 2009<br>Governmental<br>Activities | 2008<br>Governmental<br>Activities | Change Between<br>Years |
|------------------------------------|------------------------------------|------------------------------------|-------------------------|
| Revenues:                          |                                    |                                    |                         |
| Program revenues:                  |                                    |                                    |                         |
| Charges for services               | 125,165                            | 313,744                            | (188,579)               |
| Operating grants and contributions | 133,630                            | 232,292                            | (98,662)                |
| General revenues:                  |                                    |                                    |                         |
| Sales taxes                        | 342,165                            | 360,609                            | (18,444)                |
| Other state shared taxes           | 744,161                            | 975,482                            | (231,321)               |
| Interest and investment income     | 344,024                            | 397,425                            | (53,401)                |
| Other                              | 1,902                              | 1,094                              | 808                     |
| Total revenues                     | <u>1,691,047</u>                   | <u>2,280,646</u>                   | <u>(589,599)</u>        |
| Expenses:                          |                                    |                                    |                         |
| General government                 | 494,035                            | 582,861                            | (88,826)                |
| Highways and streets               | 554,426                            | 455,651                            | 98,775                  |
| Sanitation                         | 289,992                            | 289,992                            | 0                       |
| Total expenses                     | <u>1,338,453</u>                   | <u>1,328,504</u>                   | <u>9,949</u>            |
| Change in net assets               | <u>352,594</u>                     | <u>952,142</u>                     | <u>(599,548)</u>        |

## General Fund Budgetary Highlights

The City amended its General Fund budget and Sanitation Fund Budget during the year due to higher expenses. See pages 18-20 for a further analysis.

## Capital Assets

The City of Oak Hill's investment in capital assets from its governmental activities at June 30, 2009, amounts to \$579,004 (net or accumulated depreciation). This investment in capital assets is in buildings, infrastructure, machinery and equipment.

### City of Oak Hill's Capital Assets

|                               | 2009<br>Governmental<br><u>Activities</u> | 2008<br>Governmental<br><u>Activities</u> |
|-------------------------------|---|---|
| Buildings                     | \$ 95,668                                 | 95,668                                    |
| Infrastructure                | 618,176                                   | 618,176                                   |
| Equipment                     | <u>31,530</u>                             | <u>31,530</u>                             |
| Less accumulated depreciation | (166,370)                                 | (136,390)                                 |
| Net Capital Assets            | <u>\$ 579,004</u>                         | <u>608,984</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 2009-2010 budget, General fund revenues are budgeted to increase from the 2008-2009 budget year primarily due to increases in local permit revenue and an increase in the state shared revenues .

All of these factors were considered in preparing the City's budget for the 2009-2010 fiscal year.

## **Requests for Information**

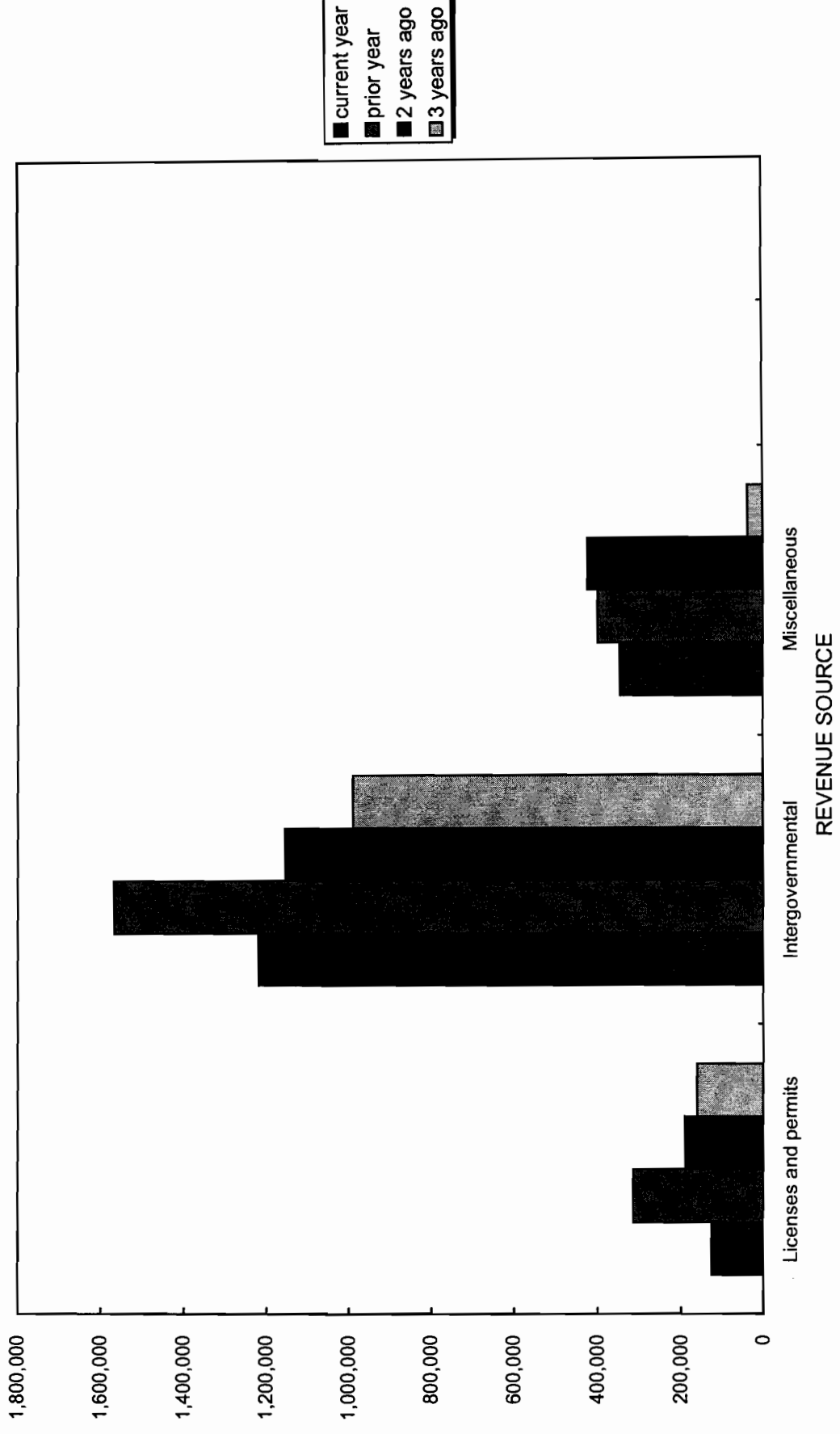
This financial report is designed to provide a general overview of the City of Oak Hill, Tennessee's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed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

Kevin Helms  
City of Oak Hill

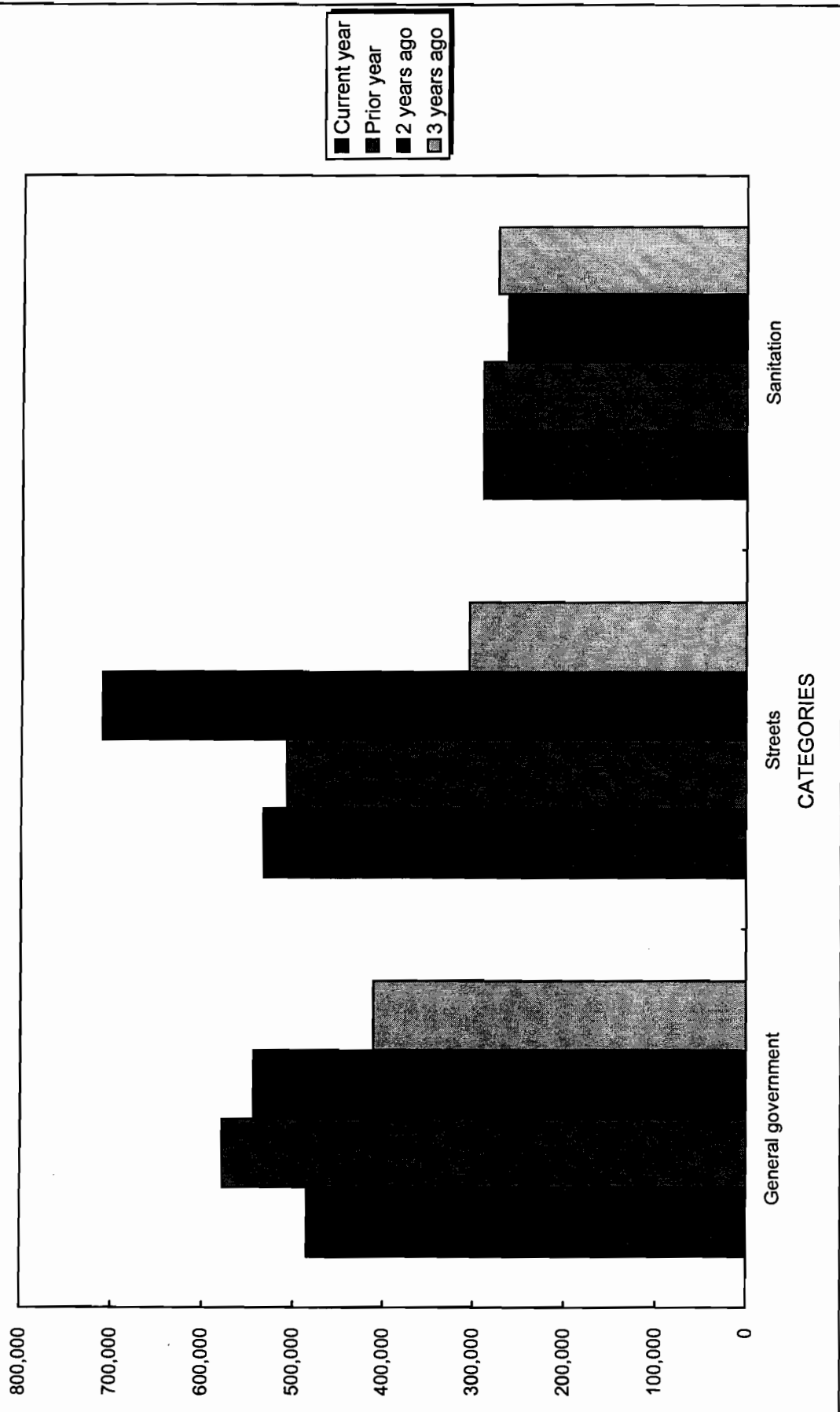
M. C. Sparks  
City of Oak Hill

Patrick Steiner  
City of Oak Hill

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



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



**BASIC FINANCIAL STATEMENTS**



**CITY OF OAK HILL, TENNESSEE**  
**Statement of Net Assets**

**June 30, 2009**

| <u>Assets and Other Debits</u>                 | <u>Governmental<br/>Activities</u> | <u>Total</u>            |
|--|------------------------------------|-------------------------|
| Cash and cash equivalents                      | \$516,239                          | 516,239                 |
| Certificate of deposit                         | 215,047                            | 215,047                 |
| Investments                                    | 6,448,029                          | 6,448,029               |
| Accounts receivable from other governments     | 856,785                            | 856,785                 |
| Prepaid assets                                 | 10,146                             | 10,146                  |
| Capital asset, net of accumulated depreciation | <u>579,004</u>                     | <u>579,004</u>          |
| <b>Total Assets and Other Debits</b>           | <b><u>\$8,625,250</u></b>          | <b><u>8,625,250</u></b> |
| <b>Liabilities:</b>                            |                                    |                         |
| Accounts payable                               | \$10,059                           | 10,059                  |
| Deferred revenue                               | 38,732                             | 38,732                  |
| Total Liabilities                              | <u>48,791</u>                      | <u>48,791</u>           |
| <b>Net Assets:</b>                             |                                    |                         |
| Investment in capital assets                   | 579,004                            | 579,004                 |
| Unrestricted                                   | 7,997,455                          | 7,997,455               |
| <b>Total Net Assets</b>                        | <b><u>8,576,459</u></b>            | <b><u>8,576,459</u></b> |

See accompanying notes to financial statements.

CITY OF OAK HILL, TENNESSEE

Statement of Activities

For the Year Ended June 30, 2009

| Function/Programs                | Program Revenues |                         |  | Net (Expenses) Revenue and<br>Changes in Net Assets |                            |                    |
|----------------------------------|------------------|-------------------------|--|---|----------------------------|--------------------|
|                                  | Expenses         | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions              | Governmental<br>Activities | Total              |
| Government Activities:           |                  |                         |  |   |                            |                    |
| General government               | 494,035          | 125,165                 | 0  | 0   | (368,870)                  | (368,870)          |
| Highways and streets             | 554,426          | 0                       | 133,630                                  | 0   | (420,796)                  | (420,796)          |
| Sanitation                       | 289,992          | 0                       | 0  | 0   | (289,992)                  | (289,992)          |
| Total Governmental Activities    | <u>1,338,453</u> | <u>125,165</u>          | <u>133,630</u>                           | <u>0</u>  | <u>(1,079,658)</u>         | <u>(1,079,658)</u> |
| General Revenues                 |                  |                         |  |   |                            |                    |
| Sales taxes                      |                  |                         |  |   | 342,165                    | 342,165            |
| State income tax                 |                  |                         |  |   | 696,375                    | 696,375            |
| In lieu of taxes                 |                  |                         |  |   | 45,321                     | 45,321             |
| State beer tax                   |                  |                         |  |   | 2,465                      | 2,465              |
| Unrestricted investment earnings |                  |                         |  |   | 344,024                    | 344,024            |
| Other                            |                  |                         |  |   | 1,902                      | 1,902              |
| Total general revenues           |                  |                         |  |   | <u>1,432,252</u>           | <u>1,432,252</u>   |
| Changes in net assets            |                  |                         |  |   | 352,594                    | 352,594            |
| Net assets - beginning of year   |                  |                         |  |   | 8,223,865                  | 8,223,865          |
| Net assets - ending of year      |                  |                         |  |   | <u>8,576,459</u>           | <u>8,576,459</u>   |

See accompanying notes to financial statements.

**CITY OF OAK HILL, TENNESSEE**

**Balance Sheet**

**Governmental Funds**

**June 30, 2009**

| <u>Assets</u>                                | <u>General<br/>Fund</u>       | <u>Sanitation<br/>Fund</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|-------------------------------|----------------------------|---|
| Cash and cash equivalents                    | \$516,239                     | \$0                        | \$516,239                               |
| Certificate of deposits                      | 215,047                       | 0                          | 215,047                                 |
| Investments                                  | 6,448,029                     | 0                          | 6,448,029                               |
| Accounts receivable from other governments   | 856,785                       | 0                          | 856,785                                 |
| Prepaid assets                               | <u>10,146</u>                 | <u>0</u>                   | <u>10,146</u>                           |
| <b>Total Assets</b>                          | <b><u>\$8,046,246</u></b>     | <b><u>\$0</u></b>          | <b><u>\$8,046,246</u></b>               |
| <br><u>Liabilities and Fund Equity</u>       |                               |                            |   |
| <b>Liabilities:</b>                          |                               |                            |   |
| Accounts payable                             | \$10,059                      | \$0                        | \$10,059                                |
| Deferred revenue                             | <u>38,732</u>                 | <u>0</u>                   | <u>38,732</u>                           |
| <b>Total Liabilities</b>                     | <b><u>48,791</u></b>          | <b><u>0</u></b>            | <b><u>48,791</u></b>                    |
| <br><b>Fund Equity:</b>                      |                               |                            |   |
| <b>Fund balance:</b>                         |                               |                            |   |
| Unreserved                                   | <u>7,997,455</u>              | <u>0</u>                   | <u>7,997,455</u>                        |
| <b>Total Fund Balance</b>                    | <b><u>7,997,455</u></b>       | <b><u>0</u></b>            | <b><u>7,997,455</u></b>                 |
| <br><b>Total Liabilities and Fund Equity</b> | <br><b><u>\$8,046,246</u></b> | <br><b><u>\$0</u></b>      | <br><b><u>\$8,046,246</u></b>           |

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

**FUND FINANCIAL STATEMENTS**

**CITY OF OAK HILL, TENNESSEE**

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

**June 30, 2009**

Amounts reported for fund balance - total governmental funds \$ 7,997,455

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

Capital assets used in governmental activities are not financial  
resources and, therefore, are not reported in the governmental funds 579,004

Net assets of governmental activities \$ 8,576,459

**CITY OF OAK HILL, TENNESSEE**

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

**All Governmental Funds**

**For the Year Ended June 30, 2009**

|  | <u>General<br/>Fund</u>   | <u>Sanitation<br/>Fund</u> | <u>Total</u>            |
|--|---------------------------|----------------------------|-------------------------|
| <b>Revenues:</b>   |                           |                            |                         |
| Licenses and permits   | \$125,165                 | \$0                        | 125,165                 |
| Intergovernmental  | 1,219,956                 | 0                          | 1,219,956               |
| Miscellaneous  | 345,926                   | 0                          | 345,926                 |
| <b>Total Revenue</b>   | <u>1,691,047</u>          | <u>0</u>                   | <u>1,691,047</u>        |
| <b>Expenditures:</b>   |                           |                            |                         |
| <b>Current:</b>  |                           |                            |                         |
| General government   | 484,802                   | 0                          | 484,802                 |
| Highways and streets   | 533,679                   | 0                          | 533,679                 |
| Sanitation   | 0                         | 289,992                    | 289,992                 |
| <b>Total Expenditures</b>  | <u>1,018,481</u>          | <u>289,992</u>             | <u>1,308,473</u>        |
| <b>Excess (deficiency) of<br/>        revenues over expenditures</b> | <u>672,566</u>            | <u>(289,992)</u>           | <u>382,574</u>          |
| <b>Other financing sources</b>                                       |                           |                            |                         |
| Operating transfer   | <u>(289,992)</u>          | 289,992                    | <u>0</u>                |
| <b>Total other financing sources</b>                                 | <u>(289,992)</u>          | <u>289,992</u>             | <u>0</u>                |
| <b>Net change in net assets</b>                                      | <u>382,574</u>            | <u>0</u>                   | <u>382,574</u>          |
| <b>Fund Balance, July 1, 2008</b>                                    | 7,614,881                 | 0                          | 7,614,881               |
| <b>Fund Balance, June 30, 2009</b>                                   | <u><u>\$7,997,455</u></u> | <u><u>\$0</u></u>          | <u><u>7,997,455</u></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, 2009**

|  |    |                 |
|--|----|-----------------|
| Net change in fund balances - total governmental funds:  | \$ | 382,574         |
| 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  |    | 0               |
| Depreciation expense   |    | <u>(29,980)</u> |
| Change in net assets of governmental activities  | \$ | <u>352,594</u>  |

**CITY OF OAK HILL, TENNESSEE**

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

**General Fund**

**For the Year Ended June 30, 2009**

|  | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u>        | <u>Actual<br/>Over (Under)<br/>Budget</u> |
|--|----------------------------|-------------------------|----------------------|---|
| <b>Revenues:</b>                       |                            |                         |                      |   |
| Licenses and permits                   | 100,000                    | 100,000                 | 125,165              | 25,165                                    |
| <b>Total Licenses and permits</b>      | <u>100,000</u>             | <u>100,000</u>          | <u>125,165</u>       | <u>25,165</u>                             |
| <b>Intergovernmental:</b>              |                            |                         |                      |   |
| TVA in lieu                            | 0                          | 0                       | 45,321               | 45,321                                    |
| State sales tax                        | 260,000                    | 260,000                 | 312,912              | 52,912                                    |
| Local sales tax                        | 30,000                     | 30,000                  | 29,253               | (747)                                     |
| State income tax                       | 400,000                    | 400,000                 | 696,375              | 296,375                                   |
| Metro road funds                       | 176,000                    | 176,000                 | 0                    | (176,000)                                 |
| State beer tax                         | 2,000                      | 2,000                   | 2,465                | 465                                       |
| State street income                    | 125,000                    | 125,000                 | 133,630              | 8,630                                     |
| <b>Total Intergovernmental Revenue</b> | <u>993,000</u>             | <u>993,000</u>          | <u>1,219,956</u>     | <u>226,956</u>                            |
| <b>Miscellaneous:</b>                  |                            |                         |                      |   |
| Interest and investment income         | 242,000                    | 242,000                 | 344,024              | 102,024                                   |
| Miscellaneous                          | 15,000                     | 15,000                  | 1,902                | (13,098)                                  |
| <b>Total Miscellaneous</b>             | <u>257,000</u>             | <u>257,000</u>          | <u>345,926</u>       | <u>88,926</u>                             |
| <br><b>Total Revenues</b>              | <br><u>1,350,000</u>       | <br><u>1,350,000</u>    | <br><u>1,691,047</u> | <br><u>341,047</u>                        |

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



**CITY OF OAK HILL, TENNESSEE**

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

**General Fund**

**For the Year Ended June 30, 2009**

|  | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u>           | <u>Actual<br/>Over (Under)<br/>Budget</u> |
|--|----------------------------|-------------------------|-------------------------|---|
| <b>Expenditures:</b>   |                            |                         |                         |   |
| <b>General Government:</b>                                   |                            |                         |                         |   |
| <b>Current:</b>  |                            |                         |                         |   |
| Salaries and wages   | 227,950                    | 217,950                 | 188,663                 | (29,287)                                  |
| Employee benefits  | 24,000                     | 90,500                  | 83,922                  | (6,578)                                   |
| Commission expense   | 16,200                     | 16,200                  | 16,200                  | 0   |
| Occupancy  | 28,500                     | 33,000                  | 31,924                  | (1,076)                                   |
| Professional services  | 50,000                     | 65,000                  | 48,040                  | (16,960)                                  |
| Public safety  | 35,000                     | 35,000                  | 4,500                   | (30,500)                                  |
| Office expense   | 8,300                      | 18,000                  | 17,459                  | (541)                                     |
| Insurance  | 13,500                     | 13,500                  | 22,589                  | 9,089                                     |
| City newsletter  | 41,000                     | 41,000                  | 38,091                  | (2,909)                                   |
| Vehicle expense  | 42,000                     | 2,500                   | 1,788                   | (712)                                     |
| Community outreach   | 35,000                     | 35,000                  | 7,691                   | (27,309)                                  |
| Miscellaneous  | 20,500                     | 33,800                  | 23,935                  | (9,865)                                   |
|  | <u>541,950</u>             | <u>601,450</u>          | <u>484,802</u>          | <u>(116,648)</u>                          |
| Capital outlay   | 0                          | 0                       | 0                       | 0   |
| <b>Total General Government</b>                              | <u>541,950</u>             | <u>601,450</u>          | <u>484,802</u>          | <u>(116,648)</u>                          |
| <b>Streets and Highway:</b>                                  |                            |                         |                         |   |
| Street lights  | 32,000                     | 42,000                  | 32,685                  | (9,315)                                   |
| Professional services  | 46,000                     | 46,000                  | 41,496                  | (4,504)                                   |
| Chipper and tree service                                     | 130,000                    | 163,500                 | 160,605                 | (2,895)                                   |
| Street maintenance   | 71,000                     | 152,000                 | 184,718                 | 32,718                                    |
| Snow removal   | 10,000                     | 24,000                  | 23,691                  | (309)                                     |
| Street signs   | 150,000                    | 118,000                 | 90,484                  | (27,516)                                  |
| <b>Total Street and Highway</b>                              | <u>439,000</u>             | <u>545,500</u>          | <u>533,679</u>          | <u>(11,821)</u>                           |
| <b>Total Expenditures</b>                                    | <u>980,950</u>             | <u>1,146,950</u>        | <u>1,018,481</u>        | <u>(128,469)</u>                          |
| <b>Excess (deficiency) of Revenues<br/>over Expenditures</b> | 369,050                    | 203,050                 | 672,566                 | 469,516                                   |
| <b>Other financing sources (uses):</b>                       |                            |                         |                         |   |
| Operating transfer to Sanitation Fund                        | <u>(240,000)</u>           | <u>(290,000)</u>        | <u>(289,992)</u>        | <u>8</u>                                  |
| <b>Total other financing sources (uses)</b>                  | <u>(240,000)</u>           | <u>(290,000)</u>        | <u>(289,992)</u>        | <u>8</u>                                  |
| <b>Fund Balance, July 1, 2008</b>                            | 7,614,881                  | 7,614,881               | 7,614,881               | 0   |
| <b>Fund Balance, June 30, 2009</b>                           | <u><u>7,743,931</u></u>    | <u><u>7,527,931</u></u> | <u><u>7,997,455</u></u> | <u><u>469,524</u></u>                     |

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

**CITY OF OAK HILL, TENNESSEE**  
**Statement of Revenues, Expenditures**  
**Changes in Fund Balance - Budget and Actual**

**Sanitation Fund**

**For the Year Ended June 30, 2009**

|  | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u>  | <u>Actual<br/>Over (Under)<br/>Budget</u> |
|--|----------------------------|-------------------------|----------------|---|
| Expenditures:  |                            |                         |                |   |
| Contract - garbage disposal                          | <u>240,000</u>             | <u>290,000</u>          | <u>289,992</u> | <u>(8)</u>                                |
| Total Expenditures                                   | <u>240,000</u>             | <u>290,000</u>          | <u>289,992</u> | <u>(8)</u>                                |
| Excess (deficiency) of revenues<br>over expenditures | (240,000)                  | (290,000)               | (289,992)      | 8   |
| Other Sources: Operating transfer                    | <u>240,000</u>             | <u>290,000</u>          | <u>289,992</u> | <u>(8)</u>                                |
| Fund Balance, July 1, 2008                           | <u>0</u>                   | <u>0</u>                | <u>0</u>       | <u>-</u>                                  |
| Fund Balance, June 30, 2009                          | <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.

**NOTES TO THE  
FINANCIAL STATEMENTS**

# CITY OF OAK HILL, TENNESSEE

## Notes to Financial Statements

June 30, 2009

### (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 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. 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, 2009

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

Separate financial statements are provided for governmental funds. Major individual governmental 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. 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 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 most governmental revenues as available if received within 60 days of years 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.

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.

#### 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, 2009

**(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 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 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.

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.

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.

## CITY OF OAK HILL, TENNESSEE

### Notes to Financial Statements

June 30, 2009

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

##### 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.

##### 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.

##### 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 all the 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.

#### (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. The City has deposit policies to minimize custodial credit risks. 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 with financial institutions are fully insured or collateralized by securities held in the government's name.

**CITY OF OAK HILL, TENNESSEE**

Notes to Financial Statements

June 30, 2009

**(3) Investments**

The City has investments of \$6,448,029 with Stern Agee. These investments include Cash and cash equivalents (\$506,916), Certificate of deposits (\$3,771,114) and Federal government bonds (\$2,169,999). These investments must be collateralized and 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 investment's with financial institutions are invested in Certificate of deposits which are all insured by FDIC and U.S. government securities with are guaranteed by the United States government.

The Carrying value of all investments approximates the market value.

**(4) Accounts Receivable**

Accounts receivable at June 30, 2009, consist of the following:

| <u>Fund</u>  | <u>Other Governments</u> |
|--------------|--------------------------|
| General Fund | \$ <u>856,785</u>        |

**(5) Capital Assets**

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

|                          | <u>Balance<br/>July 1, 2008</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance<br/>June 30, 2009</u> |
|--------------------------|---------------------------------|------------------|------------------|----------------------------------|
| Building                 | \$ 95,668                       | -                | -                | 95,668                           |
| Infrastructure           | 618,176                         | -                | -                | 618,176                          |
| Equipment                | 31,530                          | -                | -                | 31,530                           |
| Total                    | \$ <u>745,374</u>               | <u>-</u>         | <u>-</u>         | <u>745,374</u>                   |
| Accumulated depreciation | <u>136,390</u>                  |                  |                  | <u>166,370</u>                   |
| Capital Assets - net     | <u>608,984</u>                  |                  |                  | <u>579,004</u>                   |

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

|                      |               |
|----------------------|---------------|
| General Fund:        |               |
| General Government   | \$ 9,233      |
| Highways and streets | 20,747        |
| Total                | <u>29,980</u> |

All assets are being depreciated.



**CITY OF OAK HILL, TENNESSEE**

Notes to Financial Statements, Continued

**(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) Retirement Plan**

The City opened a Governmental 457B retirement plan for all of its full-time employees through the City of Oak Hill Retirement Plan, a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. The plan allows employees to contribute up to a maximum of \$15,000. The City's contribution for each employee is to match dollar for dollar up to 6% of the employee's salary. Additionally, the City contributes to an individual IRA for the employees. Total retirement plan expense for the year was \$20,500.

**(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.

**(9) Operating Transfers**

During the year the City transferred \$289,992 from the General Fund to the Sanitation fund to fund the operations of the Sanitation Fund.

## 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, 2009

|                | <u>General<br/>Government</u> | <u>Highways<br/>and Streets</u> | <u>Total</u>     |
|----------------|-------------------------------|---------------------------------|------------------|
| Building       | \$95,668                      | 0                               | \$95,668         |
| Infrastructure | 0                             | 618,176                         | 618,176          |
| Equipment      | <u>31,530</u>                 | <u>0</u>                        | <u>31,530</u>    |
| Total          | <u>\$127,198</u>              | <u>\$618,176</u>                | <u>\$745,374</u> |

CITY OF OAK HILL, TENNESSEE

Capital Assets Used in the Operation of Governmental Funds

Schedule of Changes in Capital Assets

June 30, 2009

|                | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Ending<br/>Balance</u> |
|----------------|------------------------------|------------------|--------------------|---------------------------|
| Building       | \$95,668                     | 0                | 0                  | \$95,668                  |
| Infrastructure | 618,176                      | 0                | 0                  | 618,176                   |
| Equipment      | <u>31,530</u>                | <u>0</u>         | <u>0</u>           | <u>31,530</u>             |
| Total          | <u>\$745,374</u>             | <u>\$0</u>       | <u>\$0</u>         | <u>\$745,374</u>          |

**CITY OF OAK HILL, TENNESSEE**

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

**June 30, 2009**

|   | <u>Carrying<br/>Value</u> |
|---|---------------------------|
| General Fund:   |                           |
| Demand deposits - Bank of America                     | \$174,929                 |
| Demand deposits - Civic Bank                          | 178,880                   |
| Demand deposits - Suntrust                            | 127,497                   |
| State of Tennessee - local government investment pool | 34,933                    |
| Certificate of deposit                                | 215,047                   |
| Investments   | <u>6,448,029</u>          |
| Total General Fund                                    | <u>7,179,315</u>          |
| <br>  |                           |
| Total - All funds                                     | <u><u>\$7,179,315</u></u> |

**CITY OF OAK HILL, TENNESSEE**

**Schedule of Insurance Coverage**

**June 30, 2009**

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**

134 NORTHLAKE DRIVE  
HENDERSONVILLE, TN 37075

(615) 822-4177

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND OTHER  
MATTERS 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 financial statements of the governmental activities and each major fund of the City of Oak Hill as of and for the year ended June 30, 2009, and have issued a report thereon dated August 31, 2009. I conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing the audit, I considered the City of Oak Hill's internal control over financial reporting as a basis for designing the auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Oak Hill's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

My consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified a deficiency in internal control over financial reporting that I consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

The significant deficiencies are as follows:

Prior Year:

2002-1 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. I recommend that the City strengthen its internal control in cash receipts, cash disbursements, and reconciliation of cash.

Management Response:

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.



08-01 Overdependence on Vendor

During the year the City used its publisher of City newsletter for a variety of services (city newsletter, public relations, legal services, consulting, book publisher and website provider). In reviewing the invoices submitted by this vendor there was no description of the exact services provided, no description of time spent performing city services. The City could not produce a schedule or contract of negotiated rates for each of the services provided.

Recommendation: Management of the City will review each service that all of our vendors provide. We will make an understanding with our vendors to establish the fee that will be paid for each service provided.

Disposition: City has made improvements in the area and is not an ongoing concern.

08-02 Operating Budgets

The City exceeded its appropriation budget by \$200,000. While formal financial budgets are prepared and approved by the Board, they are not used effectively to produce variance reports which management could use in evaluating the operating results. The operating budgets should be used to compare monthly and year-to-date actual results. Significant variances should be investigated, explained and documented. Budgets provide management with an invaluable tool for conveying its goals and for monitoring the City's progress. If used effectively, budgets can help the City immediately identify potential problem areas and provide a basis to measure and assess the reliability of the monthly and financial operating results. As key management decisions are based on the City's operating results, reliable information provided in the monthly reports becomes a more critical factor to the City's success.

Management Response

We will prepare these reports on a monthly basis.

Disposition: City has completed this project and there were no such concerns in the current year.

08-03 Inadequate documentation for disbursements

The City's files did not include adequate supporting documentation for each disbursement. For many disbursements, the files contained no documentation of the expenditure. The Internal Control and Compliance Manual for Tennessee Municipalities, Title 2, Chapter 2, Section 4 states:

Municipal officials should ensure .... that supporting documentation is filed alphabetically by vendor or by date paid. All disbursements, regardless of the accounting procedures, must be supported by invoices, cash tickets or other adequate supporting documentation. Section 3 also requires that the related documentation accompany checks presented for approval and signing.

To document that each disbursement was for a valid municipal purpose, officials should ensure that adequate supporting documentation is maintained in the municipality's files in accordance with the Internal Control and Compliance Manual for Tennessee Municipalities. Before signing a check, authorized individuals should review the supporting documentation to determine that the disbursement is for a valid purpose.

Management Response

The above procedures are now being followed.

Disposition: City has made improvements in this area and the City is pursuing further support of all expenditures.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that the significant deficiency 2002-01 (Separation of Duties) is a material weakness.

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 or other matters that are required to be reported under *Government Auditing Standards*.

The City of Oak Hill's response to the findings identified in the audit is described above. I did not audit the Management Response and, accordingly, I express no opinion on it.

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. Pool, CPA*

August 31, 2009