

CITY OF LAFOLLETTE  
NOTES TO FINANCIAL STATEMENTS

June 30, 2020

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity** - The City of LaFollette (the "City") is a primary government entity governed by an elected city council consisting of the mayor and four council members. The accompanying financial statements present the primary government and its discretely presented component unit, which is included because of the significance of its operational and financial relationship with the City. The component unit is reported in a separate column to emphasize that it is legally separate from the City.

**Discretely Presented Component Unit** - The City of LaFollette Emergency Communications District (the "District") provides local emergency telephone service and a primary emergency telephone number for the residents and businesses of the City of LaFollette. The District accounts for its operations as an enterprise fund. It is governed by an eight-member Board of Directors (the Board) appointed by the City Council of the City of LaFollette. A complete set of financial statements for the component unit may be obtained from the Finance Director of the City of LaFollette.

The accounting and reporting policies of the City relating to the accounts included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments (GAAP). Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), and the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Government Units*. All applicable GASB Statements have been implemented.

**Government-Wide Statements** - The statement of net position and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. These statements distinguish between the *governmental* and *business-type* activities of the City. Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

The Statement of Net Position presents the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

- *Net Investment In Capital Assets* - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted* - This component of net position consists of restrictions placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets." This net position is available for current use by the City.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fund Financial Statements** - The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are spent and the means by which spending activities are controlled. The various fund categories and fund types presented in the financial statements are described below:

**GOVERNMENTAL FUND TYPES**

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

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

**Capital Projects Funds** - Capital projects funds are used to account for financial resources segregated for the acquisition or construction of major capital facilities other than those financed by the enterprise funds.

**PROPRIETARY FUND TYPES**

**Enterprise Funds** - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The City of LaFollette - Board of Public Utilities (the Board) is a political subdivision of the City of LaFollette, Tennessee. The Board is comprised of the Electric Department and the Water Department, which are reported as separate enterprise funds of the City. The Electric Department operates under a board of commissioners and services the majority of Campbell County and portions of Claiborne and Union Counties. The Electric Department purchases its entire supply of electrical power from the Tennessee Valley Authority (TVA) under the terms of an all-requirements contract with a 10-year rolling termination date. The Water Department operates under a board of commissioners and provides water and wastewater services to the City of LaFollette and portions of Campbell and Claiborne Counties.

**Fund Balance Classifications** - GAAP establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications include nonspendable, restricted, committed, assigned, and unassigned and are based on the relative strength of the constraints that control how specific amounts can be spent. These classifications are defined as follows:

Nonspendable Fund Balance - includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. These amounts include inventories and prepaid items.

Restricted Fund Balance - includes amounts that have constraints placed on the use of the resources that are either (a) externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

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.

Committed Fund Balance - includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the City Council, the City's highest level of decision-making authority. The distinction between restricted and committed fund balances is the source and strength of the constraints placed on them.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Assigned Fund Balance - includes amounts that the City intends to use for a specific purpose, but for which the use is not legislatively mandated. City Council is the authorized body to make assignments.

Unassigned Fund Balance - the residual classification of the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

When committed, assigned or unassigned fund balance amounts are available for use, it is the City's policy to use the committed fund balance first; the assigned fund balance second; and then the unassigned fund balance, as they are needed.

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

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting, as are the proprietary 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.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recorded when it becomes susceptible to accrual (measurable and available):

- A. Revenue considered susceptible to accrual includes: property taxes, shared revenues, licenses, interest and charges for services (collected within sixty days after year-end).
- B. Interest and principal on general long-term debt indebtedness is not accrued but is recorded as an expenditure on its due date.
- C. Disbursements for purchase of capital assets providing future benefits are considered expenditures; bond proceeds are reported as other financing sources.
- D. Other tax and nonexchange revenue receivable includes local and state sales taxes, local beer tax, state income tax, and state gasoline and motor fuel tax. Certain other nonexchange transaction revenue is not recognized due to immateriality and not being susceptible to accrual.

The City's proprietary funds use the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The City reports the following major governmental fund: The General Fund which is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds: Electric Department Fund and Water Department Fund.

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

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Interfund Activity** - As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payment-in-lieu of taxes and other charges between the City's electric, water and wastewater utilities and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**Cash and Cash Equivalents** - Cash and cash equivalents consist of certificates of deposit, money market investment accounts and other temporary investments (including restricted cash) maturing within 90 days of original purchase.

**Property Taxes** - The City's property taxes are levied each October 1 on the assessed value as of the prior January 1 for all real and personal property located in the City. Assessed values are established by the State of Tennessee at the following rates of assumed market value:

- 1. Public Utility Property - 55% (railroads - 40%)
- 2. Industrial and Commercial Property
  - a. Real - 40%
  - b. Personal - 30%
- 3. Residential Property - 25%

**Deferred Property Taxes** - Property taxes for 2020 are recognized as an enforceable legal claim as of January 1, 2020. However, the revenue, net of estimated refunds and estimated uncollectible amounts, is recognized in the year in which the taxes are levied, which occurs on October 1 of each year and therefore is deferred until the following fiscal year.

**Capital Assets - Governmental Funds** - Capital outlay is recorded as expenditures in the governmental fund financial statements and as assets in the government-wide financial statements to the extent the City's capitalization threshold of \$5,000 is met. Depreciation on capital assets has been recorded using their estimated useful lives and the straight-line method. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Estimated useful lives of governmental funds' capital assets are as follows:

Land Improvements	10 - 17 years
Buildings and Improvements	25 - 50 years
Equipment	5 - 12 years
Vehicles	3 - 20 years
Infrastructure	15 - 50 years

**Compensated Absences** - The City records earned, but unused, vacation pay as a compensated absences liability. It is also the City's policy to allow governmental fund employees to be paid for accumulated sick leave upon retirement up to a maximum of 520 hours. In accordance with GAAP, a liability has been accrued for sick leave amounts that management has determined are earned and probable of being paid in the future, using the termination payment method. The amount of compensated absences due within one year on the balance sheet has been estimated based on prior years' experience.

**Budgetary Principles - Governmental Funds** - Prior to the beginning of the fiscal year, the City Council approves an operating budget for all governmental funds and holds public hearings. All supplemental appropriations must also be approved by City Council. Actual expenditures and operating transfers out may not legally exceed "budget" appropriations at the individual fund level. Budgetary control, however, is maintained at the departmental level.

Appropriations lapse at the close of the fiscal year to the extent that they have not been transferred to encumbrances.

The City prepares its budget in accordance with the modified accrual basis of accounting, which is consistent with GAAP.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.



**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**Presentation of Certain Taxes** - The City collects various taxes from customers and remits these amounts to applicable taxing authorities. The City's accounting policy is to exclude these taxes from revenues and cost of sales.

**Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The City's governmental funds' deferred outflows of resources consist of deferred pension outflows and the business-type activities' deferred outflows of resources consist of deferred OPEB outflows and deferred bond refunding losses. In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The City's governmental activities' deferred inflows of resources consist of deferred property taxes (see explanation above), deferred pension inflows, deferred OPEB inflows and escrow for the hospital facilities lease (see Note 12).

**Governmental Funds Employees' Pension Plan** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to this pension plan, and governmental fund employees' pension expense, information about the fiduciary net position of the City's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the City's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

**Net Position Flow Assumption** - Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted resources are available for use, it is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**Evaluation of Subsequent Events** - Management has evaluated subsequent events through , 2020, which is the date the financial statements were available to be issued. See Note 14 on subsequent events.

**Electric Department - Additional Significant Accounting Policies**

**Related Party and Interfund Activities** - For economic purposes and convenience, certain expenses incurred by the Board are incurred jointly between the Electric Department and the Water Department. The joint expenses are incurred for the use of the building, management, customer services, meter reading / service technicians, sharing of transportation vehicles, office personnel, equipment, etc. For the year ended June 30, 2020, expenses of the Electric Department and Water Department that cannot be directly attributed to the operations of each Department are allocated on a pro-rata basis based on the following:

	<u>Electric</u>	<u>Water</u>
Customer Ratio	69%	31%
Adjusted Customer Ratio	77%	23%
Equivalent Employee Ratio	70%	30%
Building	85%	15%
Meter Reading	43%	57%

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Electric Department - Additional Significant Accounting Policies (Continued)**

Additionally, the Electric Department bills and collects water and wastewater charges for the Water Department. These funds are periodically transferred to the Water Department. Accounts receivable and payable between the Electric Department and Water Department represent operating cash advances related to the transfer of these funds and the allocation of expenses mentioned above. These receivables and payables are included on the balance sheet within Accounts Receivable - Customers, Net and Accounts Payable. As of June 30, 2020, balances due from the Electric Department to the Water Department were \$336,625.

**Utility Plant** - Utility plant and construction work in progress are stated at cost. Interest costs associated with long-term construction projects are capitalized. Donated assets are valued at their estimated fair value on the date donated. The Electric Department defines a capital asset as an asset with an initial individual cost or a project with a cumulative total cost of more than \$2,500 and estimated useful life in excess of one year. Major renewals and improvements are charged to the plant account while replacements, maintenance, and repairs, which do not improve or extend the life of the assets, are expensed currently. Utility plant items are depreciated over their estimated useful lives on the straight-line group method. Depreciation on property and equipment used by the Electric Department is charged as an expense against its operations. Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation has been provided at a rate of 2% to 20% per year for the Electric Department property and equipment.

**Deposits and Investments** - The Electric Department considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The department has not formally adopted an investment policy and places no limit on the amount that may be deposited with any one issuer.

The Electric Department has no formal policy regarding interest rate risk. Deposits are structured in a manner that ensures sufficient cash is available to meet the anticipated liquidity needs. Selection of deposit maturities must be consistent with the cash requirements of the department in order to avoid the forced redemption of deposits prior to maturity.

As authorized by statutes of the State of Tennessee (the State), the department may only invest in obligations of the United States Treasury, its agencies and instrumentalities; money market funds; the Local Government Investment Pool or in obligations which are rated in either of the two highest rated categories by a nationally recognized rating agency. As of June 30, 2020, the Electric Department had no investments.

**Accounts Receivable/Allowance for Doubtful Accounts and Unbilled Revenue** - The allowance for doubtful accounts is determined using historical information and current evaluations of existing economic conditions. Recognition has been given to unbilled revenue in the financial statements. At June 30, 2020, unbilled revenue was estimated at approximately \$1,914,000.

**Materials and Supplies** - Materials and supplies are valued at average cost.

**Customer Deposits** - The Electric Department requires customers to pay a refundable deposit when service is connected. Customer deposits are refunded when the customer has made their payments timely for a two-year period. The amount of customer deposits due within one year on the balance sheet has been estimated based on the prior years' experience.

**Compensated Absences** - It is the Electric Department's policy to permit employees to accumulate earned, but unused vacation leave up to a maximum of 240 hours. A liability representing the Electric Department's commitment to fund such costs from future operations has been recorded. It is also the Electric Department's policy to allow employees to be paid for accumulated sick leave upon retirement. In accordance with Statement No. 16 of the GASB, a liability has been accrued for sick leave amounts that management has determined are earned and probable of being paid in the future, using the termination payment method. The amount of compensated absences due within one year on the balance sheet has been estimated based on prior years' experience.

**Presentation of Certain Taxes** - The Electric Department collects various taxes from customers and remits these amounts to applicable taxing authorities. The Electric Department's accounting policy is to exclude these taxes from revenues and cost of sales.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Electric Department - Additional Significant Accounting Policies (Continued)**

**Revenue and Expenses** - Revenue and expenses are recorded on the accrual basis in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC).

**Budgeting** - The Electric Department adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with generally accepted accounting principles. The current operating budget details the Electric Department's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend capital contributions, grants, borrowings and certain revenues for capital projects. The Electric Department's budgets are not legally binding. During the year, management is authorized to transfer budgeted amounts between line items within the Electric Department's departments.

**Water Department - Additional Significant Accounting Policies**

**Related Party and Interfund Activities** - For economic purposes and convenience, certain expenses incurred by the Board are incurred jointly between the Electric Department and the Water Department. The joint expenses are incurred for the use of the building, management, customer services, meter reading / service technicians, sharing of transportation vehicles, office personnel, equipment, etc. For the year ended June 30, 2020, expenses of the Electric Department and Water Department that cannot be directly attributed to the operations of each Department are allocated on a pro-rata basis based on the following:

	<u>Electric</u>	<u>Water</u>
Customer Ratio	69%	31%
Adjusted Customer Ratio	77%	23%
Equivalent Employee Ratio	70%	30%
Building	85%	15%
Meter Reading	43%	57%

Additionally, the Electric Department bills and collects water and wastewater charges for the Water Department. These funds are periodically transferred to the Water Department. Accounts receivable and payable between the Electric Department and Water Department represent operating cash advances related to the transfer of these funds and the allocation of expenses mentioned above. These receivables and payables are included on the balance sheet within Accounts Receivable – Customers, Net and Accounts Payable. As of June 30, 2020, balances due from the Electric Department to the Water Department were \$336,625.

**Utility Plant** - Utility plant and construction work in progress are stated at cost. Interest costs associated with long-term construction projects are capitalized. Donated assets are valued at their estimated fair market value on the date donated. The Water Department defines a capital asset as an asset with an initial individual cost or a project with a cumulative total cost of more than \$2,500 and estimated useful life in excess of one year. Major renewals and improvements are charged to the plant account while replacements, maintenance, and repairs which do not improve or extend the life of the assets are expensed currently. Utility plant items are depreciated over their estimated useful lives on the straight-line group method. Depreciation on property and equipment used by the Water Department is charged as an expense against its operations. Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation has been provided at a rate of 2% to 20% per year for the Water Department's property and equipment.

**Accounts Receivable/Allowance for Doubtful Accounts and Unbilled Revenue** - The allowance for doubtful accounts is determined using historical information and current evaluations of existing economic conditions. Recognition has been given to unbilled revenue in the financial statements. At June 30, 2020, unbilled revenue was estimated at approximately \$296,000.

**Materials and Supplies** - Materials and supplies are valued at average cost.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Water Department - Additional Significant Accounting Policies (Continued)**

**Compensated Absences** - It is the Water Department's policy to permit employees to accumulate earned, but unused vacation leave up to a maximum of 240 hours. A liability representing the Water Department's commitment to fund such costs from future operations has been recorded. The Water Department allows employees to be paid for accumulated sick leave upon retirement. In accordance with GAAP, a liability has been accrued for sick leave amounts that management has determined are earned and probable of being paid in the future, using the termination payment method. The amount of compensated absences due within one year on the balance sheet has been estimated based on prior years' experience.

**Presentation of Certain Taxes** - The Water Department collects various taxes from customers and remits these amounts to applicable taxing authorities. The Water Department's accounting policy is to exclude these taxes from revenues and cost of sales.

**Revenue and Expenses** - Revenue and expenses are recorded on the accrual basis in accordance with the Uniform System of Accounts for Class A and B Water Utilities adopted by the National Association of Regulatory Utility Commissioners. Labor, materials, and overhead costs of treated but unsold water are charged to operations as they are incurred, and no attempt is made to inventory these at year-end. Certain revenue and expenses of the water division and wastewater division that cannot be directly attributed to the operations of each division are allocated on a pro-rata basis of 74% and 26%, respectively.

Labor, materials and overhead costs of treated, but unsold, water are charged to operations as they are incurred and no attempt is made to inventory these at year-end.

**Budgeting** - The Water Department adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with generally accepted accounting principles. The current operating budget details the Water Department's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend capital contributions, grants, borrowings and certain revenues for capital projects. The Water Department's budgets are not legally binding. During the year, management is authorized to transfer budgeted amounts between line items within the Water Department's divisions.

**Emergency Communications District - Additional Significant Accounting Policies**

**Budget** - Formal budgetary integration is employed as a management control device during the year for this fund. This annual budget is prepared on a basis consistent with generally accepted accounting principles (GAAP) and is approved by the District's Board of Commissioners. The budget may be amended by a majority vote of the Board of Commissioners. Actual expenditures and operating transfers out may not legally exceed budget appropriations. Budgetary control is maintained at the line item level. Appropriations lapse at the close of the fiscal year.

**Capital Assets** - Capital assets are carried at cost and defined as an asset with an initial individual cost, or project with a cumulative total cost of more than \$5,000 and estimated useful life in excess of one year. Depreciation is computed using the straight-line method over an estimated useful life of five to twenty-five years.

**NOTE 2 - CASH, CASH EQUIVALENTS AND CERTIFICATES OF DEPOSIT**

**Custodial Credit Risk - Deposits** - For cash and cash equivalents, this is the risk that in the event of a bank failure, the City's deposits will not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City follows State law regarding collateralization of deposits, which requires collateral to be obtained on any deposits exceeding insurance coverage of the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2020, the book balances of cash, cash equivalents, and certificates of deposit totaled \$11,680,316 and the bank balances totaled \$11,975,368 (\$1,309,117 of which was covered by FDIC insurance, \$2,594,917 was insured by the Tennessee Bank Collateral Pool Board of the State of Tennessee Treasury Department, and \$8,071,334 which is in a financial institution not participating in the bank pool, but this institution pledges collateral held in safekeeping by a third party bank acting as an agent of the City in the City's name).

As of June 30, 2020, the book balances of the District's cash accounts were \$582,346 and the bank balances were \$587,126. Of the bank balances, \$250,000 was covered by FDIC insurance and \$337,126 was covered by collateral held by the Tennessee Bank Collateral Pool Board of the State of Tennessee Treasury Department.



**NOTE 3 - INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2020 are summarized as follows:

<u>Transfers To:</u>	Transfers From		Total
	<u>General Fund</u>	<u>State Street Aid Fund</u>	
Special Police Fund	\$ 25,178	0	25,178
Drug Fund	16,133	0	16,133
General Fund	0	40,000	40,000
Total	<u>\$ 41,311</u>	<u>\$ 40,000</u>	<u>\$ 81,311</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 4 - CAPITAL ASSETS**

**Governmental Activities**

Capital asset activity for the year ended June 30, 2020 is as follows:

	Balance <u>June 30, 2019</u>	Increases	Decreases	Balance <u>June 30, 2020</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 601,634	\$ 0	\$ 0	\$ 601,634
Construction In Progress	327,366	408,643	0	736,009
Total Capital Assets, Not Being Depreciated	<u>929,000</u>	<u>408,643</u>	<u>0</u>	<u>1,337,643</u>
Capital Assets, Being Depreciated:				
Land Improvements	951,566	0	0	951,566
Buildings and Improvements	3,590,025	21,216	0	3,611,241
Equipment, Furniture and Fixtures	1,989,420	50,463	0	2,039,883
Vehicles	4,451,381	34,790	(183,121)	4,303,050
Infrastructure	14,813,327	24,950	0	14,838,277
Total Capital Assets, Being Depreciated	<u>25,795,719</u>	<u>131,419</u>	<u>(183,121)</u>	<u>25,744,017</u>
Less Accumulated Depreciation for:				
Land Improvements	508,055	34,849	0	542,904
Buildings and Improvements	1,546,640	121,573	0	1,668,213
Equipment, Furniture and Fixtures	1,235,281	123,536	0	1,358,817
Vehicles	2,762,635	288,107	(183,121)	2,867,621
Infrastructure	10,131,446	316,921	0	10,448,367
Total Accumulated Depreciation	<u>16,184,057</u>	<u>884,986</u>	<u>(183,121)</u>	<u>16,885,922</u>
Total Capital Assets, Being Depreciated, Net	<u>9,611,662</u>	<u>(753,567)</u>	<u>0</u>	<u>8,858,095</u>
Governmental Activities Capital Assets, Net	<u>\$ 10,540,662</u>	<u>\$ (344,924)</u>	<u>\$ 0</u>	<u>\$ 10,195,738</u>

Depreciation was charged to governmental functions as follows:

Administration and Finance	\$ 81,535
Police Protection	92,757
Fire Protection	176,290
Animal and Infectious Disease Control	3,769
Streets and Highways and General Public Works	424,708
Recreation Center and Library	105,927
	<u>\$ 884,986</u>