

**TOWN OF MONTEAGLE, TENNESSEE**

**ANNUAL FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 2009**

## I. INTRODUCTORY SECTION

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**TOWN OF MONTEAGLE, TENNESSEE**  
**Town Officials**  
**June 30, 2009**

Mayor ..... Charles Rollins

Alderman..... Marilyn Nixon

Alderman.....Edward L. (Bud) Knott

Alderman..... Dean Lay

Alderman.....Alexander Orr

Town Judge ..... Dorothy Buck

Town Recorder.....Joy Sturtevant

## **II. FINANCIAL SECTION**



Certified Public  
Accountants

301 N. Market  
Chattanooga, TN  
37405

Office: 423-756-1170  
Fax: 423-756-1436  
www.jmw-cpa.com

Members  
American Institute  
of Certified  
Public Accountants

Paul Johnson, III, CPA

Brian T. Wright, CPA

Karen Hutcherson, CPA

## INDEPENDENT AUDITOR'S REPORT

Mayor and Aldermen  
Town of Monteagle, Tennessee  
Monteagle, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Monteagle, Tennessee, as of and for the year ended June 30, 2009, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town of Monteagle, Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Monteagle, Tennessee, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2010, on our consideration of the Town of Monteagle, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayor and Aldermen  
Town of Monteagle, Tennessee  
Page Two

Management's Discussion and Analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Monteagle, Tennessee's basic financial statements. The Introductory Section, combining and individual non-major fund financial statements and schedules and Supplementary Information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements and schedules and Supplementary Information Section have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Johnson, Murphey & Wright, P.C.*

Chattanooga, Tennessee  
February 24, 2010



## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Monteagle, Tennessee, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Monteagle, Tennessee for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with the Town's financial statements.

### FINANCIAL HIGHLIGHTS

The assets of the Town of Monteagle, Tennessee exceeded its liabilities at June 30, 2009, by \$6,951,106 (net assets). Of this amount \$3,242,020 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.

The Town's governmental activities operated at a surplus of \$60,512. The Town's business-type activities operated at a surplus of \$1,688,591.

As of the close of the current fiscal year, the Town of Monteagle, Tennessee's governmental funds reported combined ending fund balances of \$1,095,256.

At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,031,190, or 91.84%, of total General Fund expenditures.

The Town's Water and Sewer Fund received \$285,592 in grant funds from Rural Development.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction of the Town of Monteagle, Tennessee's basic financial statements. The Town of Monteagle, Tennessee's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### **Government-wide Financial Statements**

The *Government-wide Financial Statements* are designed to provide readers with a broad overview of the Town of Monteagle, Tennessee's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the Town of Monteagle, Tennessee'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 Town of Monteagle, Tennessee is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the Town of Monteagle, Tennessee 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 Town of Monteagle, Tennessee include general government, public safety, public works, state street aid, and public welfare and recreation. The business-type activities of the Town of Monteagle, Tennessee include the Water and Sewer Fund and the Natural Gas Fund.

The government-wide financial statements can be found on pages 15 and 16 of this report.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Monteagle, Tennessee, 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 Town of Monteagle, Tennessee can be divided into two categories: governmental funds and proprietary funds.

### **Governmental Funds**

Governmental funds are 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 the governmental funds and governmental activities.

The Town of Monteagle, Tennessee maintains three 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. Data from the other two governmental funds are combined into a single aggregate presentation. Individual fund data for each of the two non-major governmental funds is provided in the form of combining statements later in this report beginning on page 45.

The Town of Monteagle, Tennessee adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided for the major governmental fund, which is the General Fund, to demonstrate compliance with this budget, as well as for non-major funds.

The basic governmental fund financial statements can be found on pages 17 through 24 of this report.

### **Proprietary Funds**

The Town of Monteagle, Tennessee maintains one type of proprietary fund: enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Monteagle, Tennessee uses enterprise funds to account for its water and sewer and natural gas operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer Fund and Natural Gas Fund, both of which are considered to be major funds of the Town of Monteagle, Tennessee.

The basic proprietary fund financial statements can be found on pages 25 through 27 of this report.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 28 through 43 of this report.

**Other Information**

The statements referred to earlier in connection with non-major governmental funds, is presented immediately following the Notes to the Financial Statements. Individual fund statements and schedules can be found on pages 47 and 48 of this report.

**FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE**

**Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the Town of Monteagle, Tennessee, assets exceeded liabilities by \$6,951,106 at the close of this fiscal year.

The largest portion of the Town of Monteagle, Tennessee’s net assets (52.44 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure), less any debt used to acquire those assets that is still outstanding. The Town of Monteagle, Tennessee uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Town of Monteagle, Tennessee’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.

Approximately 0.92%, or \$64,066, of the Town of Monteagle, Tennessee’s net assets represents resources that are subject to external restrictions on how they may be used. 46.64%, or \$3,242,020, in net assets may be used to meet the government’s ongoing obligations to its citizens and creditors.

At June 30, 2009, the Town of Monteagle, Tennessee is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The table below provides a summary of the Town’s net assets broken down by governmental and business-type activities.

**Town of Monteagle, Tennessee’s Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Current and other assets	\$1,150,509	\$1,058,464	\$2,297,833	\$1,148,085	\$3,448,342	\$2,206,549
Capital assets	<u>1,672,235</u>	<u>1,768,242</u>	<u>3,609,046</u>	<u>3,263,478</u>	<u>5,281,281</u>	<u>5,031,720</u>
Total assets	<u>\$2,822,744</u>	<u>\$2,826,706</u>	<u>\$5,906,879</u>	<u>\$4,411,563</u>	<u>\$8,729,623</u>	<u>\$7,238,269</u>
Non-current liabilities						
outstanding	\$ 930,805	\$1,001,922	\$ 746,113	\$ 938,805	\$1,676,918	\$1,940,727
Other liabilities	<u>72,953</u>	<u>66,310</u>	<u>28,646</u>	<u>29,229</u>	<u>101,599</u>	<u>95,539</u>
Total liabilities	<u>\$1,003,758</u>	<u>\$1,068,232</u>	<u>\$ 774,759</u>	<u>\$ 968,034</u>	<u>\$1,778,517</u>	<u>\$2,036,266</u>
Net assets:						
Invested in capital assets -						
net of related debt	\$ 759,653	\$ 774,531	\$2,885,367	\$2,366,772	\$3,645,020	\$3,141,303
Restricted	64,066	73,867	-	-	64,066	73,867
Unrestricted	<u>995,267</u>	<u>910,076</u>	<u>2,246,753</u>	<u>1,076,757</u>	<u>3,242,020</u>	<u>1,986,833</u>
Total net assets	<u>\$1,818,986</u>	<u>\$1,758,474</u>	<u>\$5,132,120</u>	<u>\$3,443,529</u>	<u>\$6,951,106</u>	<u>\$5,202,003</u>

**Changes in Net Assets**

Governmental activities increased the Town of Monteagle, Tennessee's net assets by \$60,512.

Business-type activities increased the Town of Monteagle, Tennessee's net assets by \$1,688,591.

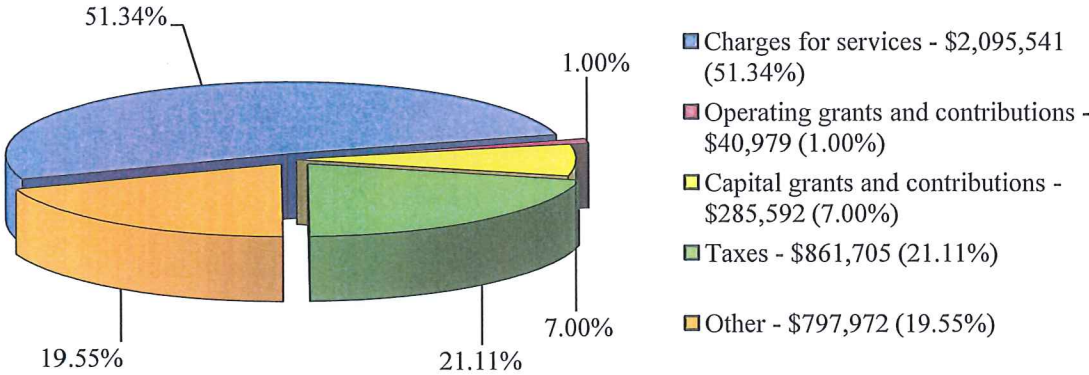
The table below provides a summary of the Town's net assets broken down by governmental and business-type activities.

**Town of Monteagle, Tennessee's Changes in Net Assets**

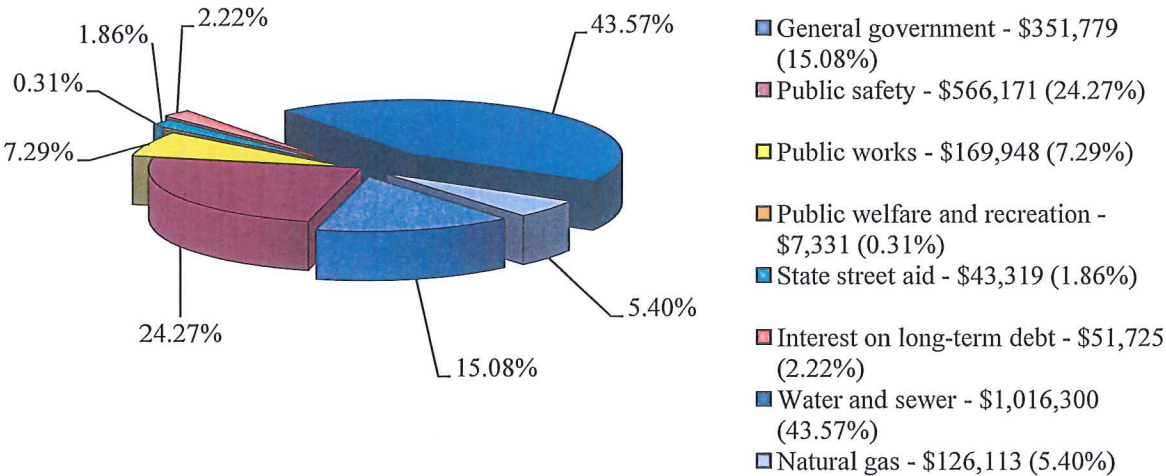
	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 165,903	\$ 151,375	\$ 1,929,638	\$ 1,937,725	\$ 2,095,541	\$ 2,089,100
Operating grants and contributions	40,979	66,668	-	-	40,979	66,668
Capital grants and contributions	-	-	285,592	214,408	285,592	214,408
<b>General revenues:</b>						
Taxes	861,705	861,062	-	-	861,705	861,062
Other	182,198	165,916	615,774	13,461	797,972	179,377
Total revenues	<u>1,250,785</u>	<u>1,245,021</u>	<u>2,831,004</u>	<u>2,165,594</u>	<u>4,081,789</u>	<u>3,410,615</u>
<b>Expenses:</b>						
General government	351,779	263,762	-	-	351,779	263,762
Public safety	566,171	542,125	-	-	566,171	542,125
Public works	169,948	29,841	-	-	169,948	29,841
Public welfare and recreation	7,331	10,212	-	-	7,331	10,212
State street aid	43,319	35,067	-	-	43,319	35,067
Interest on long-term debt	51,725	55,073	-	-	51,725	55,073
Water and sewer	-	-	1,016,300	1,230,091	1,016,300	1,230,091
Natural gas	-	-	126,113	552,540	126,113	552,540
Total expenses	<u>1,190,273</u>	<u>936,080</u>	<u>1,142,413</u>	<u>1,782,631</u>	<u>2,332,686</u>	<u>2,718,711</u>
Change in net assets	60,512	308,941	1,688,591	382,963	1,749,103	691,904
Net assets - beginning	<u>1,758,474</u>	<u>1,449,533</u>	<u>3,443,529</u>	<u>3,060,566</u>	<u>5,202,003</u>	<u>4,510,099</u>
Net assets - ending	<u>\$ 1,818,986</u>	<u>\$ 1,758,474</u>	<u>\$ 5,132,120</u>	<u>\$ 3,443,529</u>	<u>\$ 6,951,106</u>	<u>\$ 5,202,003</u>

The graphs below summarize the \$4,081,789 of town-wide revenue by source and the associated \$2,332,686 of expense by program. The graphs combine data from both governmental and business-type activities.

### Town-wide Sources of Revenue



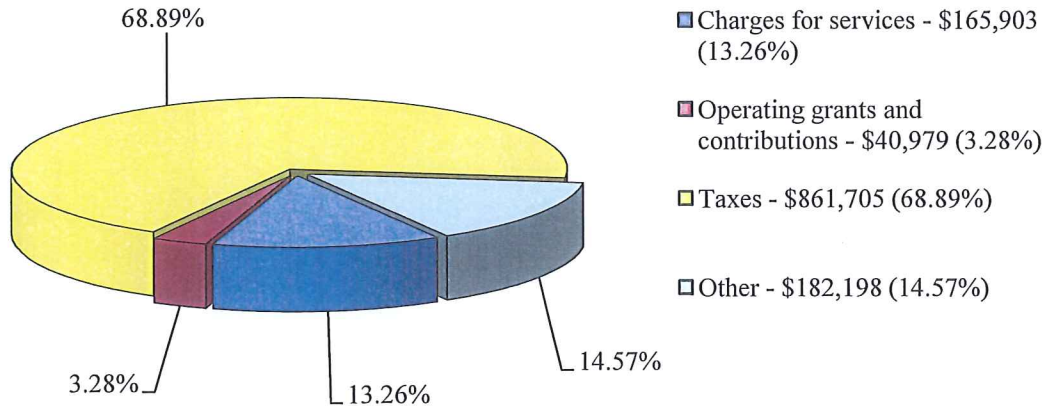
### Town-wide Program Expenses



**Governmental Activities**

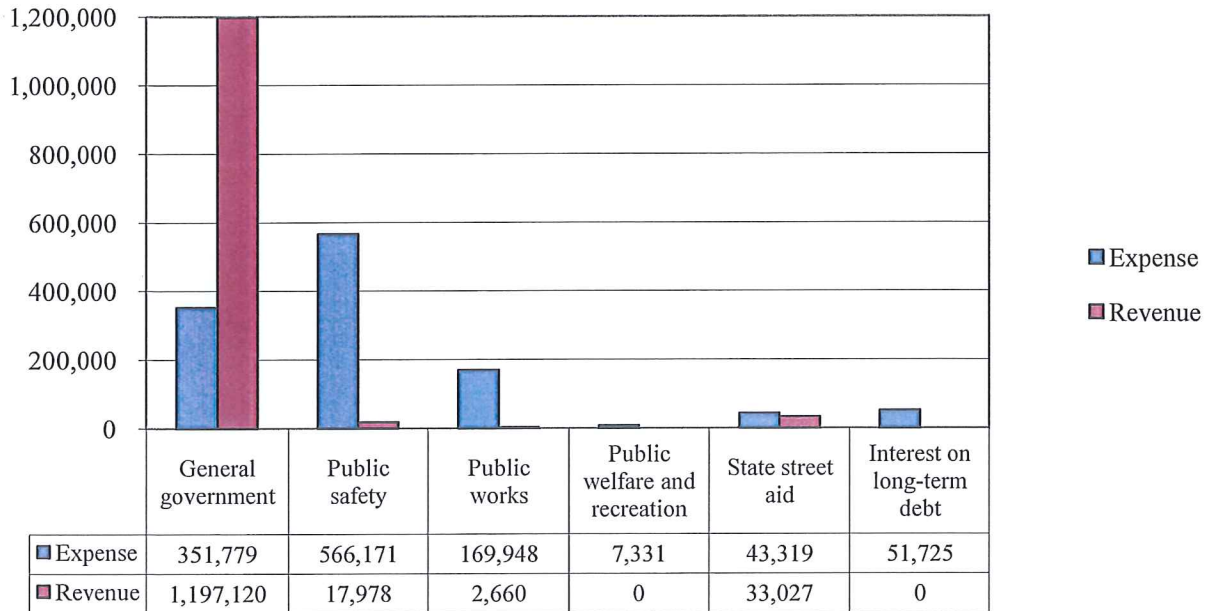
Governmental activities accounted for revenues of \$1,250,785. The following graph summarizes revenue by source.

**Revenue by Source -  
Governmental Activities**



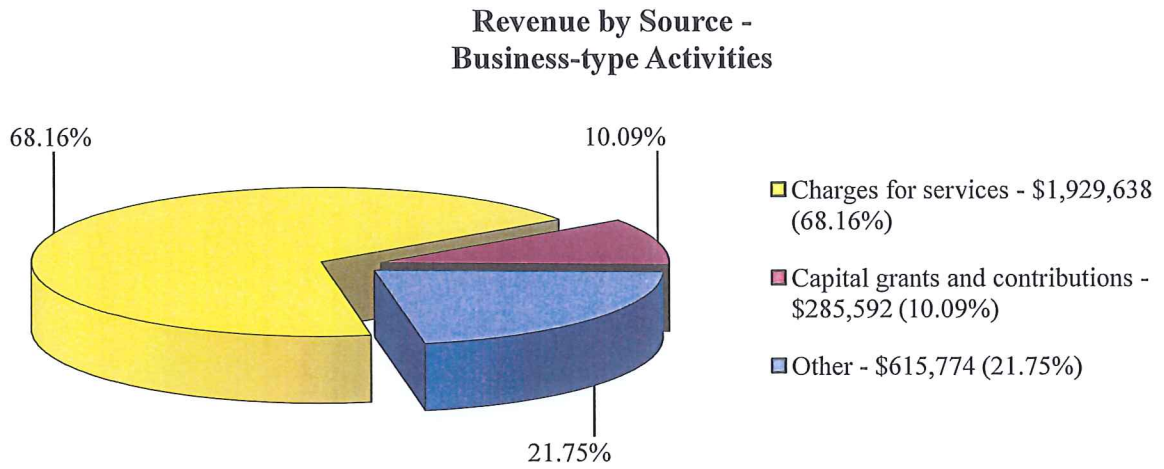
The following graph summarizes the revenue and related expense for each government program of the Town. The difference between expense and revenue is the financial burden placed on the Town for each program.

**Expenses and Program Revenues -  
Governmental Activities**

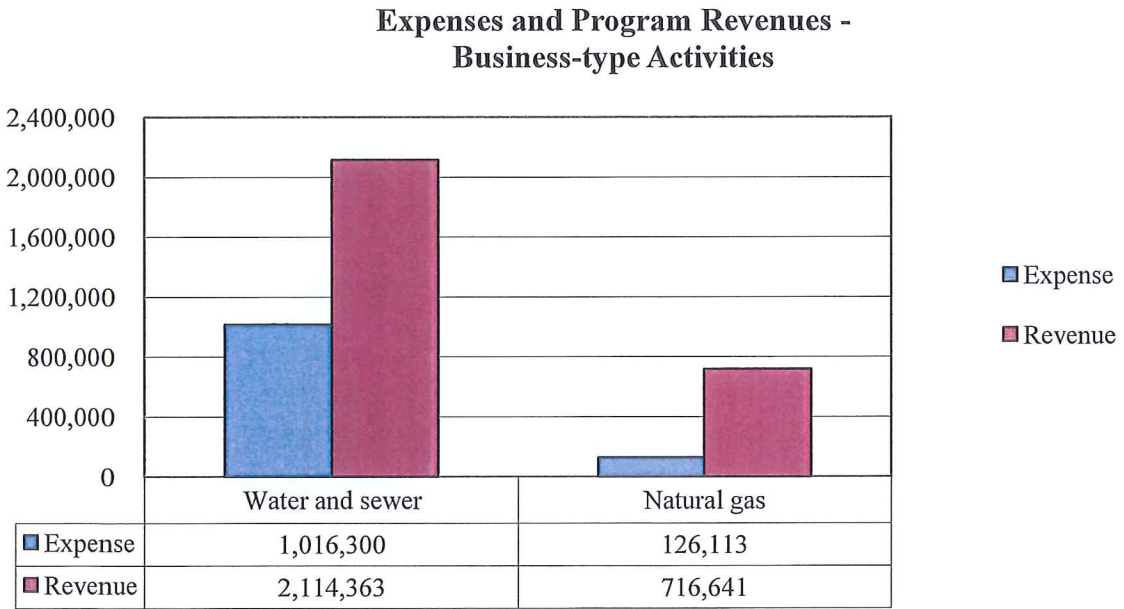


**Business-type Activities**

Business-type activities accounted for revenues of \$2,831,004. The following graph summarizes the revenue by source.



The following graph summarizes the revenue and related expense of operating the water and sewer and natural gas systems.



## FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

### **Governmental Funds**

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

As of the end of the current fiscal year, the Town of Monteagle, Tennessee's governmental funds reported combined ending fund balances of \$1,095,256. Within the governmental funds, \$24,205 is reserved for Drug Fund enforcement in the Drug Fund and \$39,861 is reserved for State Street Aid expenditures in the State Street Aid Fund. The fund balances of the Drug Fund and State Street Aid Fund are reserved due to their special revenue classification, although they appear as unreserved on the governmental Balance Sheet.

The General Fund is the chief operating fund of the Town of Monteagle, Tennessee. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$1,031,190. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total General Fund expenditures. Unreserved fund balance represents 91.84% of total fund expenditures.

### **Proprietary Funds**

The Town of Monteagle, Tennessee's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at the end of the year amounted to \$2,246,753 for the Water and Sewer Fund, and \$0 for the Natural Gas Fund.

### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget netted an increase of \$94,889 in fund balance change. The offsetting changes are listed below:

General Fund budgeted revenues increased \$65,364.

General Fund budgeted expenses decreased \$(29,525).

Departmental budget officers closely monitored expenditures during the fiscal year in order to minimize budget amendments.



## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The Town of Monteagle, Tennessee's investment in capital assets for its governmental and business-type activities as of June 30, 2009, amounts to \$5,281,281 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land rights, buildings, furniture, fixtures, equipment and vehicles, infrastructure and plant in service.

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

#### Governmental activities

Carrier condenser coil for General Government	\$ 4,527
Fatal Vision class kit for Police Department	\$ 2,000
Copier for Police Department	\$ 1,795

#### Business-type activities

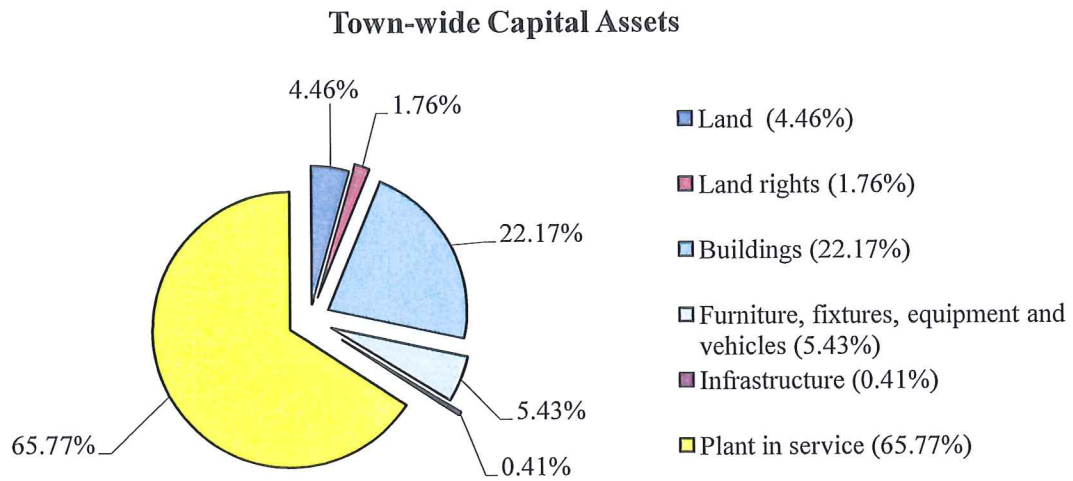
Sewer lines for Sewer Department	\$ 268,696
Water lines for Water Department	\$ 485,509
Water tanks for Water Department	\$ 51,338

The table below summarizes the Town's investment in capital assets and is broken down by governmental and business-type activities.

### Town of Monteagle, Tennessee's Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Land	\$ 235,573	\$ 235,573	\$ -	\$ 37,500	\$ 235,573	\$ 273,073
Construction in progress	-	-	-	214,408	-	214,408
Land rights	-	-	93,179	96,230	93,179	96,230
Buildings	1,170,697	1,206,340	-	-	1,170,697	1,206,340
Furniture, fixtures, equipment and vehicles	244,560	303,543	42,186	67,324	286,746	370,867
Infrastructure	21,405	22,786	-	-	21,405	22,786
Plant in service	-	-	3,473,681	2,848,016	3,473,681	2,848,016
Total capital assets	<u>\$ 1,672,235</u>	<u>\$ 1,768,242</u>	<u>\$ 3,609,046</u>	<u>\$ 3,263,478</u>	<u>\$ 5,281,281</u>	<u>\$ 5,031,720</u>

The following graph provides a breakdown of which assets make up the largest portion of the Town's total investment in capital assets. The graph combines assets used in both governmental and business-type activities.



Additional information on the Town of Monteagle, Tennessee's capital assets can be found in Note 5 on page 35 of this report.

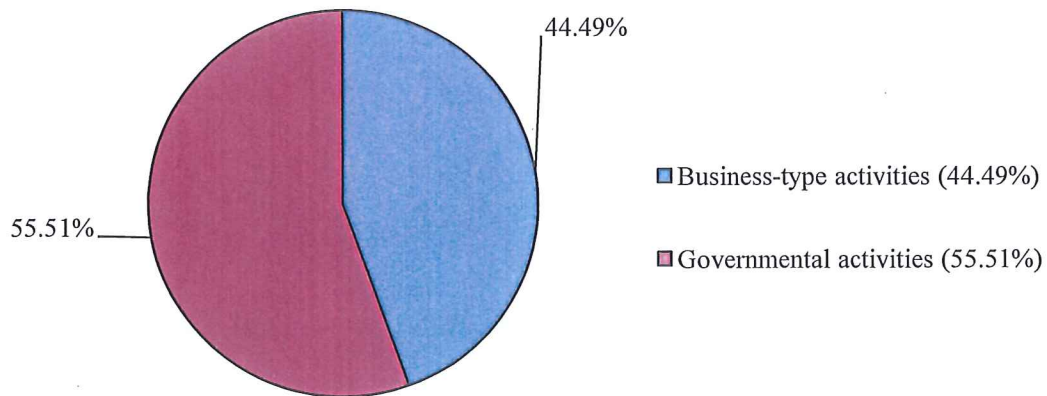
### Town of Monteagle, Tennessee's Outstanding Debt

At the end of the current fiscal year, the Town of Monteagle, Tennessee had total long-term debt outstanding of \$1,676,918; of that amount \$241,394 is due in the next fiscal year. The table below summarizes outstanding debt broken down by governmental and business-type activities.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Bonds payable	\$ 598,300	\$ 614,600	\$ 432,744	\$ 491,727	\$ 1,031,044	\$ 1,106,327
Capital outlay notes payable	314,282	379,111	290,935	404,979	605,217	784,090
Customer deposits	-	-	13,635	19,995	13,635	19,995
Compensated absences	<u>18,223</u>	<u>8,211</u>	<u>8,799</u>	<u>22,104</u>	<u>27,022</u>	<u>30,315</u>
	930,805	1,001,922	746,113	938,805	1,676,918	1,940,727
Less current portion	<u>( 83,998)</u>	<u>( 81,126)</u>	<u>( 157,396)</u>	<u>( 166,278)</u>	<u>( 241,394)</u>	<u>( 247,404)</u>
Total long-term debt	<u>\$ 846,807</u>	<u>\$ 920,796</u>	<u>\$ 588,717</u>	<u>\$ 772,527</u>	<u>\$ 1,435,524</u>	<u>\$ 1,693,323</u>

As shown in the graph below, long-term debt is split almost evenly between the Town's two types of activities.

**Long-term Debt By Activity**



Additional information on outstanding debt can be found in Note 6 on page 36 through 38.

**Currently Known Conditions Effecting Future Years**

The Town is currently under a sewer monitoration that prohibits any additional connections until some additional corrections are made. The Town is currently in the process of adding a new \$3.5 million dollar sewer plant.

**Requests for Information**

This financial report is designed to provide a general overview of the Town of Monteagle, Tennessee's finances for all those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information may be addressed to the Town of Monteagle, Tennessee, P.O. Box 127, Monteagle, Tennessee 37356.

## **BASIC FINANCIAL STATEMENTS**

**TOWN OF MONTEAGLE, TENNESSEE**  
**Statement of Net Assets**  
**June 30, 2009**

	<b>Primary Government</b>		<b>Totals</b>
	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	
<b>ASSETS</b>			
Cash	\$ 994,645	\$ 1,114,486	\$ 2,109,131
Investments	-	972,047	972,047
Accounts receivable - net	31,076	211,300	242,376
Due from other governments	124,788	-	124,788
Capital assets:			
Land and construction in progress	235,573	-	235,573
Other capital assets - net of depreciation	<u>1,436,662</u>	<u>3,609,046</u>	<u>5,045,708</u>
<b>TOTAL ASSETS</b>	<u>\$ 2,822,744</u>	<u>\$ 5,906,879</u>	<u>\$ 8,729,623</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 15,350	\$ 12,659	\$ 28,009
Accrued liabilities	57,603	15,987	73,590
Non-current liabilities:			
Due within one year -			
Bonds payable	17,400	46,536	63,936
Capital outlay notes payable	66,598	110,860	177,458
Due in more than one year -			
Customer deposits	-	13,635	13,635
Bonds payable	580,900	386,208	967,108
Capital outlay notes payable	247,684	180,075	427,759
Compensated absences	<u>18,223</u>	<u>8,799</u>	<u>27,022</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 1,003,758</u>	<u>\$ 774,759</u>	<u>\$ 1,778,517</u>
<b>NET ASSETS</b>			
Invested in capital assets - net of related debt	\$ 759,653	\$ 2,885,367	\$ 3,645,020
Restricted for:			
Non-recurring police expenditures	24,205	-	24,205
State street aid expenditures	39,861	-	39,861
Unrestricted	<u>995,267</u>	<u>2,246,753</u>	<u>3,242,020</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 1,818,986</u>	<u>\$ 5,132,120</u>	<u>\$ 6,951,106</u>

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

**TOWN OF MONTEAGLE, TENNESSEE**  
**Statement of Activities**  
**Year Ended June 30, 2009**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Primary Government:</b>							
Governmental activities:							
General government	\$ 351,779	\$ 147,925	\$ 5,292	\$ -	\$ (198,562)	\$ -	\$ (198,562)
Public safety	566,171	17,978	-	-	(548,193)	-	(548,193)
Public works	169,948	-	2,660	-	(167,288)	-	(167,288)
State street aid	43,319	-	33,027	-	(10,292)	-	(10,292)
Public welfare and recreation	7,331	-	-	-	(7,331)	-	(7,331)
Interest on long-term debt	51,725	-	-	-	(51,725)	-	(51,725)
Total governmental activities	<u>1,190,273</u>	<u>165,903</u>	<u>40,979</u>	<u>-</u>	<u>(983,391)</u>	<u>-</u>	<u>(983,391)</u>
<b>Business-type activities:</b>							
Water and sewer	1,016,300	1,803,240	-	285,592	-	1,072,532	1,072,532
Natural gas	126,113	126,398	-	-	-	285	285
Total business-type activities	<u>1,142,413</u>	<u>1,929,638</u>	<u>-</u>	<u>285,592</u>	<u>-</u>	<u>1,072,817</u>	<u>1,072,817</u>
<b>Total primary government</b>	<u>\$ 2,332,686</u>	<u>\$ 2,095,541</u>	<u>\$ 40,979</u>	<u>\$ 285,592</u>	<u>(983,391)</u>	<u>1,072,817</u>	<u>\$ 89,426</u>
<b>General revenues:</b>							
Local sales taxes					391,156	-	391,156
Hotel/motel tax					159,719	-	159,719
Local alcoholic beverage taxes					157,496	-	157,496
Franchise tax					11,802	-	11,802
Other state taxes					141,532	-	141,532
Interest revenue					8,311	26,091	34,402
Miscellaneous					173,887	589,683	763,570
Total general revenues					<u>1,043,903</u>	<u>615,774</u>	<u>1,659,677</u>
Change in net assets					60,512	1,688,591	1,749,103
Net assets - beginning					1,758,474	3,443,529	5,202,003
Net assets - end					<u>\$ 1,818,986</u>	<u>\$ 5,132,120</u>	<u>\$ 6,951,106</u>

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

**TOWN OF MONTEAGLE, TENNESSEE**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2009**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash	\$ 933,478	\$ 61,167	\$ 994,645
Accounts receivable - net	31,076	-	31,076
Due from other governments	118,865	5,923	124,788
<b>TOTAL ASSETS</b>	<b>\$ 1,083,419</b>	<b>\$ 67,090</b>	<b>\$ 1,150,509</b>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 12,326	\$ 3,024	\$ 15,350
Accrued liabilities	39,903	-	39,903
Total liabilities	52,229	3,024	55,253
 <b>Fund Balances</b>			
Unreserved, reported in			
General fund	1,031,190	-	1,031,190
Special revenue funds	-	64,066	64,066
Total fund balances	1,031,190	64,066	1,095,256
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,083,419</b>	<b>\$ 67,090</b>	<b>\$ 1,150,509</b>

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



**TOWN OF MONTEAGLE, TENNESSEE**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Assets**  
**Year Ended June 30, 2009**

Total fund balances per governmental funds balance sheet	\$ 1,095,256
Capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the funds.	1,672,235
Long-term liabilities, including bonds payable, capital outlay notes payable, compensated absences and accrued interest are not due and payable in the current period, and therefore, are not reported in the funds.	<u>(948,505)</u>
Net assets of governmental activities	<u>\$ 1,818,986</u>

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

**TOWN OF MONTEAGLE, TENNESSEE**  
**Governmental Funds**  
**Statement of Revenue, Expenditures and Changes in Fund Balances**  
**Year Ended June 30, 2009**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes	\$ 720,173	\$ -	\$ 720,173
Licenses and permits	27,475	-	27,475
Intergovernmental	149,484	33,027	182,511
Fines and forfeitures	17,978	-	17,978
Other	<u>302,157</u>	<u>491</u>	<u>302,648</u>
<b>TOTAL REVENUES</b>	<u>1,217,267</u>	<u>33,518</u>	<u>1,250,785</u>
<b>EXPENDITURES</b>			
<b>Current expenditures</b>			
General government	295,523	-	295,523
Public safety	496,635	-	496,635
Public works	157,119	-	157,119
State street aid	-	43,319	43,319
Public welfare and recreation	2,451	-	2,451
<b>Capital outlay</b>	37,622	-	37,622
<b>Debt service</b>	<u>133,484</u>	<u>-</u>	<u>133,484</u>
<b>TOTAL EXPENDITURES</b>	<u>1,122,834</u>	<u>43,319</u>	<u>1,166,153</u>
Excess (deficiency) of revenues over (under) expenditures	94,433	(9,801)	84,632
<b>Fund balances - beginning</b>	<u>936,757</u>	<u>73,867</u>	<u>1,010,624</u>
<b>Fund balances - end</b>	<u>\$ 1,031,190</u>	<u>\$ 64,066</u>	<u>\$ 1,095,256</u>

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

**TOWN OF MONTEAGLE, TENNESSEE**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**Year Ended June 30, 2009**

Net change in fund balances for total governmental funds	\$ 84,632
Governmental funds report capital outlay as expenditures, however, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeds capital outlay in the current period.	(96,007)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	81,129
Some items reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These activities consist of:	
Compensated absences	(10,012)
Accrued interest	<u>770</u>
Change in the net assets of governmental activities	<u>\$ 60,512</u>

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

**TOWN OF MONTEAGLE, TENNESSEE**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**Year Ended June 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
<b>REVENUES</b>				
Taxes				
Hotel/motel tax	\$ 150,000	\$ 158,282	\$ 159,719	\$ 1,437
Local sales tax	405,000	390,923	391,156	233
Alcoholic beverage tax	40,000	58,146	58,145	(1)
Local beer tax	115,000	103,948	99,351	(4,597)
Franchise tax	<u>8,000</u>	<u>11,590</u>	<u>11,802</u>	<u>212</u>
Total taxes	<u>718,000</u>	<u>722,889</u>	<u>720,173</u>	<u>(2,716)</u>
License and permits				
Building license and permits	<u>11,000</u>	<u>27,475</u>	<u>27,475</u>	<u>-</u>
Intergovernmental				
State sales tax	80,000	69,043	81,212	12,169
State mixed drink tax	16,000	17,174	17,414	240
State beer tax	350	646	646	-
State income tax	35,000	46,856	30,388	(16,468)
TVA In lieu of tax	5,700	11,872	11,872	-
Federal and state grants	-	-	5,292	5,292
State city streets and transportation	<u>2,500</u>	<u>2,663</u>	<u>2,660</u>	<u>(3)</u>
Total intergovernmental	<u>139,550</u>	<u>148,254</u>	<u>149,484</u>	<u>1,230</u>
Fines and forfeitures				
Court fines	<u>25,000</u>	<u>17,998</u>	<u>17,978</u>	<u>(20)</u>
Other revenues				
E-911 collections	132,000	139,920	139,921	1
Miscellaneous	5,000	33,836	28,544	(5,292)
Fees and commissions	150	53	53	-
Interest	5,000	7,820	7,820	-
Rent of facilities	120,000	120,450	120,450	-
Donations	<u>3,000</u>	<u>5,369</u>	<u>5,369</u>	<u>-</u>
Total other revenues	<u>265,150</u>	<u>307,448</u>	<u>302,157</u>	<u>(5,291)</u>
<b>TOTAL REVENUES</b>	<u>1,158,700</u>	<u>1,224,064</u>	<u>1,217,267</u>	<u>(6,797)</u>

(Continued)

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

**TOWN OF MONTEAGLE, TENNESSEE**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual (Continued)**  
**Year Ended June 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
<b>EXPENDITURES</b>				
<b>Current expenditures</b>				
General government				
Financial administration				
Salaries	\$ 125,600	\$ 112,974	\$ 112,973	\$ 1
Travel	2,500	732	731	1
Grants and donations	6,000	7,450	7,450	-
Office supplies	750	774	773	1
Insurance	40,170	36,348	33,041	3,307
Payroll tax	9,625	8,644	10,475	(1,831)
Repairs and maintenance	35,000	5,565	4,814	751
Advertising	8,000	8,009	8,008	1
Utilities	25,500	24,353	24,350	3
Miscellaneous	7,050	3,290	3,279	11
Supplies	24,000	27,705	25,980	1,725
Dues and subscriptions	1,000	3,396	3,396	-
Telephone	6,000	6,134	5,982	152
Contract services	9,500	8,548	8,019	529
Professional services	15,000	42,838	41,002	1,836
Total financial administration	<u>315,695</u>	<u>296,760</u>	<u>290,273</u>	<u>6,487</u>
Planning and zoning				
Supplies	300	-	-	-
Dues and subscriptions	100	-	-	-
Contract services	5,500	5,250	5,250	-
Professional services	2,500	-	-	-
Total planning and zoning	<u>8,400</u>	<u>5,250</u>	<u>5,250</u>	<u>-</u>
Total general government	<u>324,095</u>	<u>302,010</u>	<u>295,523</u>	<u>6,487</u>

(Continued)

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

**TOWN OF MONTEAGLE, TENNESSEE**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual (Continued)**  
**Year Ended June 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
<b>EXPENDITURES (Continued)</b>				
<b>Current expenditures (Continued)</b>				
Public safety				
Police department				
Salaries	\$ 344,500	\$ 314,386	\$ 314,385	\$ 1
Travel	500	817	816	1
Insurance	70,200	83,007	83,007	-
Payroll tax	26,080	23,433	23,432	1
Repairs and maintenance	12,000	13,249	13,249	-
Vehicle expense	25,000	12,790	12,789	1
Miscellaneous	4,600	4,455	4,455	-
Uniforms	1,000	1,506	1,506	-
Supplies	6,000	2,620	2,553	67
Utilities	12,000	11,385	11,384	1
Telephone	4,500	6,494	6,493	1
Total police department	<u>506,380</u>	<u>474,142</u>	<u>474,069</u>	<u>73</u>
Fire department				
Salaries	2,400	3,000	3,000	-
Insurance	30	27	26	1
Payroll tax	185	230	230	-
Repairs and maintenance	10,000	5,018	5,017	1
Vehicle expense	5,000	99	-	99
Miscellaneous	2,000	2,296	2,238	58
Supplies	3,000	3,127	3,127	-
Utilities	2,000	2,608	2,608	-
Electricity	1,200	840	840	-
Telephone	1,000	-	-	-
Contract services	8,000	5,480	5,480	-
Total fire department	<u>34,815</u>	<u>22,725</u>	<u>22,566</u>	<u>159</u>
Total public safety	<u>541,195</u>	<u>496,867</u>	<u>496,635</u>	<u>232</u>
Public works				
Street department				
Repairs and maintenance	<u>76,910</u>	<u>157,120</u>	<u>157,119</u>	<u>1</u>
Total public works	<u>76,910</u>	<u>157,120</u>	<u>157,119</u>	<u>1</u>

(Continued)

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

**TOWN OF MONTEAGLE, TENNESSEE**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual (Continued)**  
**Year Ended June 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>EXPENDITURES (Continued)</b>				
<b>Current expenditures (Continued)</b>				
Public welfare and recreation				
Parks and recreation				
Repairs and maintenance	\$ 1,500	\$ 2,451	\$ 2,451	\$ -
Grants	4,500	-	-	-
Total public welfare and recreation	<u>6,000</u>	<u>2,451</u>	<u>2,451</u>	<u>-</u>
<b>Capital outlay</b>				
General government	16,000	10,024	10,023	1
Police department	35,000	10,537	10,537	-
Fire department	7,500	16,540	16,540	-
Parks and recreation	-	-	522	(522)
Total capital outlay	<u>58,500</u>	<u>37,101</u>	<u>37,622</u>	<u>(521)</u>
<b>Debt service</b>				
Principal paid	77,000	81,275	80,988	287
Interest	75,000	52,351	52,496	(145)
Total debt service	<u>152,000</u>	<u>133,626</u>	<u>133,484</u>	<u>142</u>
<b>TOTAL EXPENDITURES</b>	<u>1,158,700</u>	<u>1,129,175</u>	<u>1,122,834</u>	<u>6,341</u>
Excess (deficiency) of revenues over (under) expenditures	-	94,889	94,433	(456)
<b>Fund balances - beginning</b>	<u>936,757</u>	<u>936,757</u>	<u>936,757</u>	<u>-</u>
<b>Fund balances - end</b>	<u>\$ 936,757</u>	<u>\$ 1,031,646</u>	<u>\$ 1,031,190</u>	<u>\$ (456)</u>

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

**TOWN OF MONTEAGLE, TENNESSEE**  
**Proprietary Funds**  
**Statement of Net Assets**  
**June 30, 2009**

	<b>Enterprise</b>		
	<b>Water and Sewer Fund</b>	<b>Natural Gas Fund</b>	<b>Total</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	\$ 1,114,486	\$ -	\$ 1,114,486
Investments	972,047	-	972,047
Accounts receivable - net	211,300	-	211,300
Total current assets	<u>2,297,833</u>	<u>-</u>	<u>2,297,833</u>
<b>Capital Assets</b>			
Other capital assets - net of accumulated depreciation	3,609,046	-	3,609,046
Total capital assets	<u>3,609,046</u>	<u>-</u>	<u>3,609,046</u>
<b>Total Assets</b>	<u>\$ 5,906,879</u>	<u>\$ -</u>	<u>\$ 5,906,879</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 12,659	\$ -	\$ 12,659
Accrued liabilities	15,987	-	15,987
Bonds payable - current	46,536	-	46,536
Capital outlay note payable - current	110,860	-	110,860
Total current liabilities	<u>186,042</u>	<u>-</u>	<u>186,042</u>
<b>Non-current Liabilities</b>			
Customers deposits	13,635	-	13,635
Bonds payable	386,208	-	386,208
Capital outlay note payable	180,075	-	180,075
Compensated absences	8,799	-	8,799
Total non-current liabilities	<u>588,717</u>	<u>-</u>	<u>588,717</u>
<b>Total Liabilities</b>	<u>\$ 774,759</u>	<u>\$ -</u>	<u>\$ 774,759</u>
<b>NET ASSETS</b>			
Invested in capital assets - net of related debt	\$ 2,885,367	\$ -	\$ 2,885,367
Unrestricted	2,246,753	-	2,246,753
<b>Total Net Assets</b>	<u>\$ 5,132,120</u>	<u>\$ -</u>	<u>\$ 5,132,120</u>

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



**TOWN OF MONTEAGLE, TENNESSEE**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Year Ended June 30, 2009**

	<b>Enterprise</b>		
	<b>Water and Sewer Fund</b>	<b>Natural Gas Fund</b>	<b>Totals</b>
<b>OPERATING REVENUES</b>			
Water sales and sewer charges - net	\$ 1,753,965	\$ -	\$ 1,753,965
Gas sales - net	-	125,057	125,057
Connection fees	49,275	1,341	50,616
Total operating revenues	<u>1,803,240</u>	<u>126,398</u>	<u>1,929,638</u>
<b>OPERATING EXPENSES</b>			
Purchased gas	-	53,842	53,842
Water transmission and treatment	149,199	-	149,199
Sewer treatment	222,512	-	222,512
Gas operating and maintenance	-	59,395	59,395
Shop and maintenance	239,532	-	239,532
Administration	176,188	5,049	181,237
Depreciation	198,818	7,827	206,645
Total operating expenses	<u>986,249</u>	<u>126,113</u>	<u>1,112,362</u>
Operating income (loss)	<u>816,991</u>	<u>285</u>	<u>817,276</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest revenue	6,060	20,031	26,091
Miscellaneous revenue	19,471	-	19,471
Gain on sale of fixed assets	-	570,212	570,212
Grant revenue	285,592	-	285,592
Interest expense	(30,051)	-	(30,051)
Total non-operating revenues (expenses)	<u>281,072</u>	<u>590,243</u>	<u>871,315</u>
Income (loss) before transfer	1,098,063	590,528	1,688,591
Residual equity transfer	<u>1,320,308</u>	<u>(1,320,308)</u>	<u>-</u>
Changes in net assets	2,418,371	(729,780)	1,688,591
Net assets - beginning	<u>2,713,749</u>	<u>729,780</u>	<u>3,443,529</u>
Net assets - end	<u>\$ 5,132,120</u>	<u>\$ -</u>	<u>\$ 5,132,120</u>

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

**TOWN OF MONTEAGLE, TENNESSEE**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**Year Ended June 30, 2009**

	<b>Enterprise</b>		
	<b>Water and Sewer Fund</b>	<b>Natural Gas Fund</b>	<b>Total</b>
<b>Cash Flows From Operating Activities</b>			
Receipts from customers	\$ 1,759,153	\$ 154,510	\$ 1,913,663
Payments to suppliers	(613,697)	(36,961)	(650,658)
Payments to employees	(237,272)	(10,618)	(247,890)
Net cash provided (used) by operating activities	<u>908,184</u>	<u>106,931</u>	<u>1,015,115</u>
<b>Cash Flows From Non-capital Financing Activities</b>			
Payments to other funds	(50,000)	50,000	-
Residual equity transfer	<u>1,320,308</u>	<u>(1,320,308)</u>	<u>-</u>
Net cash provided (used) by non-capital financing activities	<u>1,270,308</u>	<u>(1,270,308)</u>	<u>-</u>
<b>Cash Flows From Capital and Related Financing Activities</b>			
Proceeds of sale of fixed assets	-	570,212	570,212
Principal paid on bonds and notes	(157,027)	-	(157,027)
Interest paid on bonds and notes	(30,051)	-	(30,051)
Capital grants and contributions	285,592	-	285,592
Acquisition and construction of capital assets	<u>(595,630)</u>	<u>-</u>	<u>(595,630)</u>
Net cash provided (used) by capital and related financing activities	<u>(497,116)</u>	<u>570,212</u>	<u>73,096</u>
<b>Cash Flows From Investing Activities</b>			
Interest revenue	6,060	20,031	26,091
Miscellaneous revenue	19,471	-	19,471
Purchase of investments	<u>(972,047)</u>	<u>-</u>	<u>(972,047)</u>
Net cash provided (used) by investing activities	<u>(946,516)</u>	<u>20,031</u>	<u>(926,485)</u>
Net increase (decrease) in cash	734,860	(573,134)	161,726
Cash - beginning	<u>379,626</u>	<u>573,134</u>	<u>952,760</u>
Cash - end	<u>\$ 1,114,486</u>	<u>\$ -</u>	<u>\$ 1,114,486</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>			
Operating income (loss)	\$ 816,991	\$ 285	\$ 817,276
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	198,818	7,827	206,645
(Gain) loss on sale of fixed assets	(54,533)	81,950	27,417
(Increase) decrease in accounts receivable	(44,087)	28,112	(15,975)
Increase (decrease) in accounts payable	(1,986)	-	(1,986)
Increase (decrease) in accrued liabilities	2,711	(1,308)	1,403
Increase (decrease) in customer deposits	380	(6,740)	(6,360)
Increase (decrease) in compensated absences	<u>(10,110)</u>	<u>(3,195)</u>	<u>(13,305)</u>
Total adjustments	<u>91,193</u>	<u>106,646</u>	<u>197,839</u>
Net cash provided (used) by operating activities	<u>\$ 908,184</u>	<u>\$ 106,931</u>	<u>\$ 1,015,115</u>

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

**TOWN OF MONTEAGLE, TENNESSEE**  
**Notes to Financial Statements**  
**June 30, 2009**

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

The financial statements of the Town of Monteagle, Tennessee have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Town of Monteagle, Tennessee operates under a Mayor and Board of Aldermen within the following departments: general government, public safety, public works, state street aid, and public welfare and recreation.

The following is a summary of the more significant accounting policies:

**A. Reporting Entity**

In evaluating how to define the reporting entity, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP and GASB issued Statement No. 14, *The Financial Reporting Entity*. This statement requires that the financial statements present the Town of Monteagle, Tennessee (the primary government) and any component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting one of the following criteria; the primary government is accountable for the potential component unit (i.e., the primary government appoints the voting majority of its board and the primary government is able to impose its will upon the potential component unit); or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government.

Based on the foregoing criteria, there are no entities, which meet the above criteria for inclusion in the Town of Monteagle, Tennessee's financial statements.

**B. Basic Financial Statements**

The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities.

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

### B. Basic Financial Statements (Continued)

**Government-wide Statements** - The Statement of Net Assets and the Statement of Activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the Town. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis for column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Governmental activities generally are 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 both a gross and net cost comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town'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, fines, 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. The net cost (by function or business-type activity) is normally covered by general revenue (property or sales taxes, intergovernmental revenues, interest income, etc.).

This government-wide focus is designed to view the Town as a complete entity and the change in aggregate financial position resulting from the activities of the fiscal period.

**Fund Financial Statements** - The fund financial statements provide information about the Town's funds, including its governmental funds and enterprise funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The Town reports the following major governmental fund:

**General Fund** - This is the Town'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 Town reports the following major proprietary funds:

**Water and Sewer Fund** - This fund is used to account for the water and sewer delivery and recovery system of the Town.

**Natural Gas Fund** - This fund is used to account for the natural gas delivery system of the Town.

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

### C. Measurement Focus - Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the 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 revenue 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.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Town considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, gasoline taxes, wholesale beer taxes, income taxes, mixed drink taxes, and in-lieu of taxes are susceptible to accrual. Licenses and permits, fines and forfeitures, gross receipts taxes and excise taxes are recorded as revenue when received in cash because they are generally not measurable until actually received. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the governmental activities column in the government-wide financial statements a reconciliation is presented on the page following each statement which briefly explains the adjustments necessary to transform the fund-based financial statements into the governmental activities column of the government-wide presentation.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operation. The principal operating revenues of the Town's proprietary funds are charges to customers for sales and services. Operating expenses for proprietary 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 non-operating revenues and expenses.

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

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

All governmental and business-type activities of the Town follow FASB ASC, unless those pronouncements conflict with GASB pronouncements, in which case, GASB prevails.

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

### **D. Budgetary Data**

The Town follows these procedures in establishing the budgetary data reflected in the financial statements.

During April and May, budget requests from departments are submitted to the Town Recorder.

Budget items submitted are discussed at these regularly scheduled meetings and in special work session meetings in June. Subsequently the budget is enacted through vote of the Aldermen with an operative date of July 1.

Budgets, as adopted and amended, are adopted for the General Fund and Special Revenue Funds on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). Therefore, no adjustments are necessary to convert to the actual GAAP data from the budgetary basis. These formal budgets are adopted on a departmental basis. The Town Mayor is authorized to transfer budgeted amounts between departments within any fund. However, any revision that alters the total expenditures of any fund must be approved by the Board of Aldermen. Expenditures may not legally exceed budgeted appropriations at the fund level.

Budgets for Enterprise funds are adopted as a management tool.

During the year supplementary appropriations were necessary. The effect of the amendments increased budgeted revenues by \$61,074 and decreased budget expenditures by \$(34,003) in the governmental funds.

Budgeted amounts reflected in the accompanying final budget and actual comparison are as originally adopted in accordance with GAAP, or as amended by the Aldermen throughout the year. All appropriations that are not expended lapse at year-end.

### **E. Cash and Cash Equivalents**

Cash consists of cash-on-hand and on-deposit with financial institutions. For purposes of reporting cash on the Statement of Net Assets, the Town considers unrestricted highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash is reported on the Statement of Cash Flows as "Cash". At June 30, 2009, the Town had no cash equivalents.

### **F. Investments**

All investments are reported at fair value, which is based on quoted market prices.

The Town is authorized by State Statutes to invest in the following:

Bonds, notes or treasury bills of the United States.

Nonconvertible debt securities of the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Farm Credit Bank and the Student Loan Marketing Association.

Any obligation guaranteed by the United States or any of its agencies.

Certificates of deposit at state and federal chartered banks and savings and loan associations.

The Local Government Investment Pool created by Title 9.

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

**G. Interfund Transactions**

**Interfund Receivables and Payables**

Short-term advances between funds are not eliminated but accounted for in the appropriate interfund receivable and payable accounts classified as due to other funds or due from other funds in the fund financial statements, and are subject to elimination upon consolidation. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances”.

**Transactions between Funds**

Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from that fund which are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditures or expenses in the fund that is reimbursed. All other legally authorized transfers are not eliminated but treated as operating transfers and are included as other financing sources or uses in the governmental funds and reported after non-operating revenues or expenses in the enterprise funds.

**H. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., primary roads, secondary roads, drainage), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extended assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Buildings	5-40
Furniture, fixtures, equipment and vehicles	3-10
Infrastructure	20

Capital assets of the proprietary funds are accounted for in the proprietary fund and are stated at cost or estimated fair market value when original cost is not available. Major additions are capitalized while maintenance and repairs, including the cost of minor items of property, are expensed as incurred. Upon disposal of such assets, the accounts are relieved of the related costs and accumulated depreciation, and resulting gains or losses are reflected in income. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. The estimated useful lives are as follows:

<u>Asset Class</u>	<u>Years</u>
Land rights	39
Plant in service	5-40
Equipment	3-10

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

### **H. Capital Assets (Continued)**

Donated fixed assets are valued at their estimated fair value on the date donated. The Town's policy is to capitalize the net interest cost incurred during the year resulting from borrowings utilized to finance the construction of assets.

### **I. Compensated Absences**

Town employees are paid for vacation and absence due to sickness by prescribed formulas based on length of service. Vacation and sick leave for employees of governmental funds are recorded as an expenditure in the period they are used and considered payable from current financial resources. Sick leave does not vest for Town employees, so no liability exists at year-end. Vacation leave is based on employment date, and unused vacation leave does not carryover beyond the end of the fiscal year-end.

### **J. Long-term Obligations**

In the governmental-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Assets.

### **K. Restricted Net Assets**

The Town records restrictions of net assets, which are maintained for specific purposes.

### **L. Prepayment of Expenditures**

Governmental fund expenditures for insurance and similar services extending over more than one accounting period are not allocated between accounting periods but accounted for as expenditures of the period of acquisition.

### **M. Estimates**

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

### **N. Proprietary Accounting and Financial Reporting**

For its proprietary activities, the Town of Monteagle has applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB) as well as those Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

### **O. Events Occurring after Reporting Date**

The Town has evaluated events and transactions that occurred between June 30, 2009, and February 24, 2010, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.



**NOTE 2 - DEPOSITS AND INVESTMENTS**

**Deposits**

Custodial credit risk is the risk that in the event of a bank failure the Town’s deposits may not be returned to it. The Town does not have a deposit or investment policy for custodial credit risk, however, the State of Tennessee requires its governmental entities to either meet the deposit and collateralization regulations under TCA Title 9, Chapter 4, Parts 1 and 4, or as provided in the collateral pool. As of June 30, 2009, the carrying amount of the Town’s deposits was \$3,080,578, and the bank balance was \$3,115,615. At year-end, \$124,886 of the Town’s bank balance was exposed to custodial credit risk as uninsured and uncollateralized.

The carrying amount of the Town’s deposits is classified as follows on the Statement of Net Assets:

Cash	\$ 2,109,131
Investments	972,047
Less: petty cash	<u>( 600)</u>
Total	<u>\$ 3,080,578</u>

**Investments**

The Town’s investments are carried at fair value which is based on quoted market prices, and consist of a certificate-of-deposit totaling \$972,047. The Town’s investments are listed on the Statement of Net Assets as “Investments”.

**NOTE 3 - ACCOUNTS RECEIVABLE - NET**

Receivables at June 30, 2009, consist of the following:

	<u>General Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
Customer receivables	\$ -	\$ 267,427	\$ 267,427
Less: allowance for doubtful accounts	-	( 56,127)	( 56,127)
Local beer tax	8,316	-	8,316
Local occupancy tax	21,384	-	21,384
Local franchise tax	<u>1,376</u>	<u>-</u>	<u>1,376</u>
Total	<u>\$ 31,076</u>	<u>\$ 211,300</u>	<u>\$ 242,376</u>

**NOTE 4 - DUE FROM OTHER GOVERNMENTS**

Due from other governments at June 30, 2009, consist of the following:

	<u>General Fund</u>	<u>State Street Aid Fund</u>	<u>Total</u>
Local sales tax	\$ 71,143	\$ -	\$ 71,143
Gas and motor fuel tax	-	5,923	5,923
City streets and transportation	443	-	443
State sales tax	13,664	-	13,664
Mixed drink tax	3,227	-	3,227
State income tax	<u>30,388</u>	<u>-</u>	<u>30,388</u>
Total	<u>\$ 118,865</u>	<u>\$ 5,923</u>	<u>\$ 124,788</u>

## NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 235,573	\$ -	\$ -	\$ 235,573
Total capital assets not being depreciated	<u>235,573</u>	<u>-</u>	<u>-</u>	<u>235,573</u>
Capital assets being depreciated:				
Buildings	1,628,851	4,527	-	1,633,378
Furniture, fixtures, equipment and vehicles	924,210	6,272	5,700	924,782
Infrastructure	<u>27,620</u>	<u>-</u>	<u>-</u>	<u>27,620</u>
Total capital assets being depreciated	<u>2,580,681</u>	<u>10,799</u>	<u>5,700</u>	<u>2,585,780</u>
Less accumulated depreciation for:				
Buildings	422,511	40,170	-	462,681
Furniture, fixtures, equipment and vehicles	620,667	65,255	5,700	680,222
Infrastructure	<u>4,834</u>	<u>1,381</u>	<u>-</u>	<u>6,215</u>
Total accumulated depreciation	<u>1,048,012</u>	<u>106,806</u>	<u>5,700</u>	<u>1,149,118</u>
Total capital assets being depreciated - net	<u>1,532,669</u>	<u>( 96,007)</u>	<u>-</u>	<u>1,436,662</u>
Governmental activities capital assets - net	<u>\$ 1,768,242</u>	<u>\$( 96,007)</u>	<u>\$ -</u>	<u>\$ 1,672,235</u>

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

General government	\$ 36,362
Public safety	53,263
Public works	12,823
Public welfare and recreation	<u>4,358</u>
Total	<u>\$ 106,806</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>					
Capital assets not being depreciated:					
Land	\$ 37,500	\$ -	\$( 37,500)	\$ -	\$ -
Construction in progress	<u>214,408</u>	<u>-</u>	<u>-</u>	<u>( 214,408)</u>	<u>-</u>
Total capital assets not being depreciated	<u>251,908</u>	<u>-</u>	<u>( 37,500)</u>	<u>( 214,408)</u>	<u>-</u>
Capital assets being depreciated:					
Land rights	122,082	-	-	-	122,082
Plant in service	7,669,226	591,135	(1,550,396)	214,408	6,924,373
Equipment	<u>295,028</u>	<u>4,495</u>	<u>( 106,216)</u>	<u>-</u>	<u>193,307</u>
Total capital assets being depreciated	<u>8,086,336</u>	<u>595,630</u>	<u>(1,656,612)</u>	<u>214,408</u>	<u>7,239,762</u>
Less accumulated depreciation for:					
Land rights	25,852	3,051	-	-	28,903
Plant in service	4,821,210	171,768	(1,542,286)	-	3,450,692
Equipment	<u>227,704</u>	<u>31,826</u>	<u>( 108,409)</u>	<u>-</u>	<u>151,121</u>
Total accumulated depreciation	<u>5,074,766</u>	<u>206,645</u>	<u>(1,650,695)</u>	<u>-</u>	<u>3,630,716</u>
Total capital assets being depreciated - net	<u>3,011,570</u>	<u>388,985</u>	<u>( 5,917)</u>	<u>214,408</u>	<u>3,609,046</u>
Business-type activities capital assets - net	<u>\$ 3,263,478</u>	<u>\$ 388,985</u>	<u>\$( 43,417)</u>	<u>\$ -</u>	<u>\$ 3,609,046</u>

**NOTE 6 - LONG-TERM DEBT**

**A. Governmental Debt**

Long-term debt, payable by the Governmental Funds, which consists of a bond payable, a note payable and compensated absences is summarized as follows:

	<u>Principal Balance</u>
Town of Monteagle Taxable Public Improvement Revenue Bond, Series 2001, original amount \$692,100, payable in varying amounts at 7.1% interest, maturing 2027	\$ 598,300
Capital Outlay Note Payable - Mountain Valley Bank, Series 2003, New Town Hall, original amount \$650,000 at 2.70% interest, maturing 2013	314,282
Compensated absences	<u>18,223</u>
	930,805
Less: current portion of governmental long-term debt	<u>( 83,998)</u>
Total governmental long-term debt	<u>\$ 846,807</u>

A summary of changes in governmental long-term debt for the year ended June 30, 2009, are as follows:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2009</u>	<u>Amount Due Within One Year</u>
Public improvement bond	\$ 614,600	\$ -	\$( 16,300)	\$ 598,300	\$ 17,400
Town Hall note	379,111	-	( 64,829)	314,282	66,598
Compensated absences	<u>8,211</u>	<u>10,012</u>	<u>-</u>	<u>18,223</u>	<u>-</u>
Total	<u>\$ 1,001,922</u>	<u>\$ 10,012</u>	<u>\$( 81,129)</u>	930,805	<u>\$ 83,998</u>
Less: current portion of governmental long-term debt				<u>( 83,998)</u>	
Total governmental long-term debt				<u>\$ 846,807</u>	

Interest paid during the year ended June 30, 2009, on governmental long-term debt was \$51,725.

Governmental fund debt service requirements to maturity, including interest of \$478,632, are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	\$ 83,998	\$ 49,531	\$ 133,529
2011	87,118	46,428	133,546
2012	90,279	43,194	133,473
2013	93,610	39,793	133,403
2014	59,677	36,456	96,133
2015-2019	141,600	152,992	294,592
2020-2024	199,400	93,024	292,424
2025-2027	<u>156,900</u>	<u>17,214</u>	<u>174,114</u>
	<u>\$ 912,582</u>	<u>\$ 478,632</u>	<u>\$ 1,391,214</u>

Compensated absence debt service requirements are not included due to their nature.

**NOTE 6 - LONG-TERM DEBT (Continued)**

**B. Business-Type Debt**

**Water and Sewer Fund:**

Long-term debt, payable by the Water and Sewer Fund, which consists of revenue bonds, notes payable and compensated absences is summarized as follows:

	<u>Principal Balance</u>
<b>Water and Sewer Bond Debt</b>	
Water and Sewer Revenue and tax bonds, Series 1974, 5.0%, due 2014	\$ 122,925
Water and Sewer Revenue and tax bonds, Series 1975, 5.0%, due 2015	25,000
Water and Sewer Revenue and tax bonds, Series 1988, 6.125%, due 2021	<u>284,819</u>
	432,744
Less: current portion of water and sewer bond debt	<u>( 46,536)</u>
 Total water and sewer bond long-term debt	 <u>386,208</u>
<b>Water and Sewer Note Debt</b>	
State of Tennessee Public Health Loan	
Note SRF 88-001 - 1.458% interest, due 2012	203,558
Citizens Tri-County Bank Note - 5.68% interest, due 2012	<u>87,377</u>
	290,935
Less: current portion of water and sewer note debt	<u>( 110,860)</u>
 Total water and sewer note long-term debt	 <u>180,075</u>
 Compensated absences	 <u>8,799</u>
 Total water and sewer long-term debt	 <u>\$ 575,082</u>

A summary of changes in water and sewer long-term debt for the year ended June 30, 2009, are as follows:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2009</u>	<u>Amount Due Within One Year</u>
1974 Bond	\$ 146,925	\$ -	\$( 24,000)	\$ 122,925	\$ 26,000
1975 Bond	28,000	-	( 3,000)	25,000	4,000
1988 Bond	300,802	-	( 15,983)	284,819	16,536
Note SRF 88-001	281,484	-	( 77,926)	203,558	73,068
Citizens Tri-County Note - 2002	123,495	-	( 36,118)	87,377	37,792
Compensated absences	<u>18,909</u>	<u>-</u>	<u>( 10,110)</u>	<u>8,799</u>	<u>-</u>
 Total	 <u>\$ 899,615</u>	 <u>\$ -</u>	 <u>\$( 167,137)</u>	 732,478	 <u>\$ 157,396</u>
 Less: current portion of water and sewer long-term debt				 <u>( 157,396)</u>	
 Total water and sewer long-term debt				 <u>\$ 575,082</u>	

**NOTE 6 - LONG-TERM DEBT (Continued)**

**B. Business Type Debt (Continued)**

**Water and Sewer Fund: (Continued)**

Interest paid during the year ended June 30, 2009, on water and sewer long-term debt was \$30,051.

Water and Sewer debt service requirements to maturity, including interest of \$158,733, are as follows:

Year ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	\$ 157,396	\$ 32,292	\$ 189,688
2011	162,721	26,467	189,188
2012	116,617	20,793	137,410
2013	53,862	17,798	71,660
2014	37,038	14,847	51,885
2015-2019	133,157	41,893	175,050
2020-2021	62,888	4,643	67,531
	<u>\$ 723,679</u>	<u>\$ 158,733</u>	<u>\$ 882,412</u>

Compensated absence future requirements are not included due to their nature.

**Natural Gas Fund:**

Long-term debt, payable by the Natural Gas Fund, which consists of revenue bonds and compensated absences, is summarized as follows:

	<u>Principal Balance</u>
Natural gas revenue bond, Series 1971 matured and unrepresented	\$ -
Compensated absences	-
	<u>\$ -</u>

A summary of changes in natural gas long-term debt for the year ended June 30, 2009, are as follows:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2009</u>	<u>Amount Due Within One Year</u>
Revenue bond 1971	\$ 16,000	\$ -	\$ ( 16,000)	\$ -	\$ -
Compensated absences	3,195	-	( 3,195)	-	-
Total	<u>\$ 19,195</u>	<u>\$ -</u>	<u>\$ ( 19,195)</u>	-	<u>\$ -</u>

Less: current portion of water  
and sewer long-term debt

Total water and sewer  
long-term debt

-

\$ -

Interest paid during the year ended June 30, 2009, on natural gas long-term debt was \$0.

**NOTE 7 - NET ASSET RESTRICTIONS**

The Town can restrict net assets and designate portions of unrestricted net assets to be maintained for specific purposes. The nature and purpose of these are explained as follows:

**Net Assets - Restricted**

Restricted for non-recurring police expenditures - Drug funds in the amount of \$24,205 are legally restricted for non-recurring police expenditures.

Restricted for state street aid expenditures - State street aid funds in the amount of \$39,861 are legally restricted for state street aid expenditures.

**NOTE 8 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

Explanation of certain differences between the governmental fund Balance Sheet and the government-wide Statement of Net Assets:

The governmental fund balance includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide Statement of Net Assets. One element of that reconciliation explains that, "Long-term liabilities, including bonds payable, capital outlay notes payable, compensated absences and accrued interest are not due and payable in the current period and, therefore, are not reported in the funds". The details of this \$(948,505) difference are as follows:

Bonds payable	\$ ( 598,300)
Capital Outlay Notes payable	( 314,282)
Compensated absences	( 18,223)
Accrued interest	<u>( 17,700)</u>
Net adjustment	<u>\$ ( 948,505)</u>

**NOTE 8 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)**

Explanation of certain differences between the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances and the government-wide Statement of Activities:

The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances includes a reconciliation between net changes in fund balances for total governmental funds and changes in net assets of governmental activities as reported in the government-wide Statement of Activities. One element of that reconciliation explains that, "Governmental funds report capital outlay 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". The details of this \$(96,007) difference are as follows:

Depreciation expense	\$(106,806)
Capital outlay	<u>10,799</u>
Net adjustment	<u><u>\$( 96,007)</u></u>

Another element of that reconciliation states that, "Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets". The details of this \$81,129 difference are as follows:

Principal repayments:	
Public Improvement Bond	\$ 16,300
Town Hall note	<u>64,829</u>
Net adjustment	<u><u>\$ 81,129</u></u>

**NOTE 9 - MATERIAL COMPLIANCE WITH FINANCE RELATED LEGAL AND CONTRACTUAL PROVISIONS**

The Town has no material violations of finance related legal and contractual provisions. However, two immaterial violations were noted in the Schedule of Findings and Responses.

**NOTE 10 - PENSION PLAN**

The Town has established a SIMPLE IRA plan, which is a defined contribution plan covering substantially all employees over 21 years of age with six (6) months of service. Required monthly contributions by the Town are deposited directly into each employee's own individual retirement account. The Town matches each eligible employee's salary dollar for dollar up to 3% of the individual salary. During the year ended June 30, 2009, the town contributed \$4,271 to the plan. All accounts are vested immediately and the Town incurs no expense, nor has any residual interest in the plan.

**NOTE 11 - RISK MANAGEMENT POOL**

The Town is exposed to various risks of loss related to torts, errors and omissions, damages to assets and injuries to employees. The Town has joined the Tennessee Municipal League Risk Management Pool (TML). The membership allows the Town to share liability, motor vehicle, and employee injury risks.

The TML Risk Management Pool is a governmental entity organized by Tennessee cities as a not-for-profit corporation to provide liability and workers' compensation coverage to Tennessee cities. Emphasis is on risk management and controlling losses, as all costs are shared by the Pool member cities. An extensive program of loss prevention, employee training, and legal counsel supplements experienced claims processing for member cities.

Coverages are as follows:

Comprehensive general liability	\$1,000,000
Law enforcement liability	\$1,000,000
Automobile liability and physical damage	State Tort Limits:
Error or omissions	\$1,000,000 per occurrence
Each other non-state tort	\$1,000,000 per occurrence
Workers compensation	Coverage A TN Statutory \$300,000/\$700,000/\$300,000
Property and equipment	\$8,333,422
Deductible:	
Error and omission	\$2,500
Auto physical damage	\$1,000
Property and equipment	\$1,000

**The responsibilities of the Town are as follows:**

To pay all contributions or other sums due to TML at such times and in such amounts as shall be established by TML.

To allow TML and its agents reasonable access to all facilities of the Town and all records, including but not limited to financial records, which relate to the purposes of TML during the coverage period and up to (3) three years afterward.

To allow attorneys appointed by TML to represent the Town in investigation, settlement discussions and all levels of litigation arising out of any claim made against the Town within the scope of loss protection furnished by TML.

To assist and cooperate in the defense and settlement of claims against the Town.

To furnish full cooperation to TML's attorneys, claims adjusters, and any agent, employee, officer or independent contractor of TML relating to the purposes of TML.



**NOTE 11 - RISK MANAGEMENT POOL (Continued)**

**The responsibilities of the Town are as follows: (Continued)**

To follow all loss reduction and prevention procedures established by TML where possible.

To furnish to TML such operating and underwriting information as may be requested.

To report as promptly as possible, and in accordance with any conditions issued, all incidents which could result in TML being required to pay claim for loss or injuries to municipal property or injuries to persons or property when such loss or injury is within the scope of the protection in which the Town participates.

To allow TML to inspect and appraise any damaged property before its repair or disposition.

The Town must cooperate with the pool in any dispute resolutions with other insurance companies.

**The responsibilities of TML are as follows:**

TML will defend any suit against the Town or covered party seeking damages even if any of the allegations of the suit are groundless, false, or fraudulent.

TML's duty to pay on behalf of or to indemnify a covered party other than the Town does not apply to any act, error or omission:

- (1) That constitutes malfeasance in office;
- (2) That constitutes willful and wanton neglect of duty;
- (3) That constitutes dishonesty on the part of a covered party; or
- (4) That constitutes the willful violation of a statute or ordinance by any official, employee, or agent of the municipality.

The Town has not compiled a record of the claims paid up to the applicable deductible for the prior or current fiscal year. The Town is not aware of any claims which the Town is liable for (up to the applicable deductible) which were outstanding and unpaid at June 30, 2009. No provision has been made in the financial statements for the year ended June 30, 2009, for any estimate of potential unpaid claims.

**NOTE 12 - COMMERCIAL INSURANCE**

It is the policy of the Town to purchase commercial insurance for various risks of losses to which it is exposed. These risks include accident and employee health. Other risks of losses are covered under a risk management pool. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**NOTE 13 - LITIGATION AND CLAIMS**

Town management is not aware of any litigation or claims that would be material to the Town's combined financial statements.

**NOTE 14 - CONTINGENT LIABILITIES**

The Town is now and has been under an Administrative Order of the Tennessee Department Environment and Conservation, regarding its wastewater treatment system. The Town is subject to certain assessments and penalties contained therein, if certain deadlines are not met and other actions are not taken according to the requirements of that Order. The Order has been pending since January 20, 2005. There are deadlines that have not been met in the Order. One of the imminent, upcoming deadlines of December 31, 2009, is for a new wastewater treatment plant to be in operation. That deadline will not and cannot be met. There are provisions of various fines the Town would be subject to if this deadline is not met. The Town has asked for an extension of time of two (2) years to complete the new wastewater treatment plant and have it in operation. Therefore, how much of the fine, if any, the Town will have to pay in future years is unknown at June 30, 2009.

**NOTE 15 - RESIDUAL EQUITY TRANSFER/SALE OF GAS SYSTEM**

During the fiscal year ended June 30, 2009, the Town of Monteagle sold its Gas System to Middle Tennessee Utility District for \$680,000. The proceeds from the sale and the remaining cash balances of the fund, in the amount of \$1,320,308, were transferred to the Water and Sewer Fund.

## NONMAJOR GOVERNMENTAL FUNDS

### Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenues that are legally restricted to finance specific functions or activities of government and which, therefore, cannot be diverted to other uses.

#### **Drug Fund:**

This fund is used to account for investigation of violations of controlled substance laws and is funded primarily by the state statute from the receipt of fines and costs related to drug enforcement cases.

#### **State Street Aid Fund:**

This fund accounts for maintenance of all non-State streets in the Town. Revenues are provided from a portion of the State of Tennessee gasoline and motor fuels tax.

**TOWN OF MONTEAGLE, TENNESSEE**  
**Non-major Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2009**

	<b>Special Revenue</b>		<b>Total</b>
	<b>Drug Fund</b>	<b>State Street Aid Fund</b>	<b>Non-major Governmental Funds</b>
<b>ASSETS</b>			
Cash	\$ 24,205	\$ 36,962	\$ 61,167
Due from other governments	-	5,923	5,923
<b>TOTAL ASSETS</b>	<b>\$ 24,205</b>	<b>\$ 42,885</b>	<b>\$ 67,090</b>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ -	\$ 3,024	\$ 3,024
Total liabilities	-	3,024	3,024
<b>Fund balances</b>			
Unreserved	24,205	39,861	64,066
Total fund balances	24,205	39,861	64,066
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 24,205</b>	<b>\$ 42,885</b>	<b>\$ 67,090</b>

**TOWN OF MONTEAGLE, TENNESSEE**  
**Non-major Governmental Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Year Ended June 30, 2009**

	<u>Special Revenue</u>		
	<u>Drug Fund</u>	<u>State Street Aid Fund</u>	<u>Total Non-major Governmental Funds</u>
<b>REVENUES</b>			
Intergovernmental	\$ -	\$ 33,027	\$ 33,027
Other	<u>188</u>	<u>303</u>	<u>491</u>
<b>TOTAL REVENUES</b>	<u>188</u>	<u>33,330</u>	<u>33,518</u>
<b>EXPENDITURES</b>			
<b>Current expenditures</b>			
State street aid	<u>-</u>	<u>43,319</u>	<u>43,319</u>
<b>TOTAL EXPENDITURES</b>	<u>-</u>	<u>43,319</u>	<u>43,319</u>
Excess (deficiency) of revenues over (under) expenditures	188	(9,989)	(9,801)
<b>Fund balances - beginning</b>	<u>24,017</u>	<u>49,850</u>	<u>73,867</u>
<b>Fund balances - end</b>	<u>\$ 24,205</u>	<u>\$ 39,861</u>	<u>\$ 64,066</u>

**TOWN OF MONTEAGLE, TENNESSEE**  
**Drug Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**Year Ended June 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
<b>REVENUES</b>				
Fines and forfeitures				
Drug fines	\$ 2,500	\$ -	\$ -	\$ -
Other				
Interest	<u>-</u>	<u>188</u>	<u>188</u>	<u>-</u>
<b>TOTAL REVENUES</b>	<u>2,500</u>	<u>188</u>	<u>188</u>	<u>-</u>
<b>EXPENDITURES</b>				
<b>Current expenditures</b>				
Public safety				
Supplies	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Capital outlay</b>				
Public safety	<u>500</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL EXPENDITURES</b>	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	-	188	188	-
<b>Fund balances - beginning</b>	<u>24,017</u>	<u>24,017</u>	<u>24,017</u>	<u>-</u>
<b>Fund balances - end</b>	<u>\$ 24,017</u>	<u>\$ 24,205</u>	<u>\$ 24,205</u>	<u>\$ -</u>

**TOWN OF MONTEAGLE, TENNESSEE**  
**State Street Aid Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**Year Ended June 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>		<b>Favorable (Unfavorable)</b>
<b>REVENUES</b>				
Intergovernmental				
State gas and motor fuel tax	\$ 35,000	\$ 32,919	\$ 33,027	\$ 108
Other				
Interest	<u>200</u>	<u>303</u>	<u>303</u>	<u>-</u>
<b>TOTAL REVENUES</b>	<u>35,200</u>	<u>33,222</u>	<u>33,330</u>	<u>108</u>
 <b>EXPENDITURES</b>				
<b>Current expenditures</b>				
State street aid				
Repairs and maintenance	1,200	303	-	303
Electricity - street lights	<u>34,000</u>	<u>32,919</u>	<u>43,319</u>	<u>(10,400)</u>
Total state street aid	<u>35,200</u>	<u>33,222</u>	<u>43,319</u>	<u>(10,097)</u>
<b>TOTAL EXPENDITURES</b>	<u>35,200</u>	<u>33,222</u>	<u>43,319</u>	<u>(10,097)</u>
 Excess (deficiency) of revenues over (under) expenditures	-	-	(9,989)	(9,989)
 <b>Fund balances - beginning</b>	<u>49,850</u>	<u>49,850</u>	<u>49,850</u>	<u>-</u>
 <b>Fund balances - end</b>	<u>\$ 49,850</u>	<u>\$ 49,850</u>	<u>\$ 39,861</u>	<u>\$ (9,989)</u>

**SUPPLEMENTARY INFORMATION**



**TOWN OF MONTEAGLE, TENNESSEE**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2009**

<u>Federal Grantor/Pass-through Agency/Program Title</u>	<u>Federal CFDA Number</u>	<u>State Grant/Project Number</u>	<u>Accrued (Deferred) Grant Revenues June 30, 2008</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Grant Revenues June 30, 2009</u>
<b>FEDERAL</b>						
U.S. Department of Agriculture Rural Development Emergency Community Water Assistance Grant	10.763		\$ -	\$ 285,592	\$ 285,592	\$ -
Department of Transportation/ Tennessee Department of Transportation Highway Safety Grant	20.600	Z-09-214638	-	1,500	1,500	-
Highway Safety Grant	20.600	Z-08-024042	-	3,792	3,792	-
<b>Total Federal Awards</b>			<u>\$ -</u>	<u>\$ 290,884</u>	<u>\$ 290,884</u>	<u>\$ -</u>

**TOWN OF MONTEAGLE, TENNESSEE**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2009**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Monteagle, Tennessee, and is presented on the modified accrual basis of accounting.

**TOWN OF MONTEAGLE, TENNESSEE**  
**Water and Sewer Fund**  
**Schedule of Revenues, Expenses and Changes in Net Assets -**  
**Budget and Actual (Continued)**  
**Year Ended June 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
<b>OPERATING REVENUES</b>				
Water sales and sewer charges - net	\$ 1,540,800	\$ 1,766,866	\$ 1,753,965	\$ (12,901)
Connection fees	45,000	49,275	49,275	-
Total operating revenues	<u>1,585,800</u>	<u>1,816,141</u>	<u>1,803,240</u>	<u>(12,901)</u>
<b>OPERATING EXPENSES</b>				
<b>Water transmission and treatment</b>				
Salaries	58,500	49,072	39,761	9,311
Insurance	4,260	4,193	4,192	1
Payroll tax expense	4,500	3,616	3,615	1
Repairs and maintenance	35,000	11,364	11,364	-
Utilities	1,000	655	654	1
Miscellaneous	1,500	1,427	1,426	1
Uniforms	200	568	568	-
Supplies	7,500	6,787	6,787	-
Telephone	1,500	1,334	1,334	-
Contract services	750	684	684	-
Power	31,000	33,980	33,980	-
Chemicals	25,000	32,087	32,086	1
Professional services	19,000	11,653	11,653	-
Equipment expenses	1,500	1,095	1,095	-
Total water transmission and treatment	<u>191,210</u>	<u>158,515</u>	<u>149,199</u>	<u>9,316</u>
<b>Sewer treatment</b>				
Salaries	58,000	59,004	59,003	1
Insurance	15,050	4,328	4,328	-
Payroll tax expense	4,450	1,918	1,918	-
Repairs and maintenance	60,000	15,545	35,034	(19,489)
Utilities	52,000	60,359	60,358	1
Miscellaneous expense	2,460	23,725	3,820	19,905
Uniforms	200	318	137	181
Supplies	8,000	9,927	8,005	1,922
Telephone	1,750	1,943	1,943	-
Contract services	2,500	2,607	2,606	1
Chemicals	35,000	42,632	42,631	1
Professional services	55,000	112,241	-	112,241
Equipment expenses	3,000	2,730	2,729	1
Total sewer treatment	<u>297,410</u>	<u>337,277</u>	<u>222,512</u>	<u>114,765</u>
<b>Shop and maintenance</b>				
Salaries	180,960	137,635	137,635	-
Insurance	28,645	39,909	39,908	1
Payroll tax expense	13,920	12,726	12,726	-
Uniforms	500	300	300	-
Miscellaneous	500	682	681	1
Repairs and maintenance	30,500	24,951	20,455	4,496
Vehicle expense	28,000	23,898	22,209	1,689
Supplies	5,000	4,792	4,791	1
Utilities	-	-	725	(725)
Equipment expenses	15,000	792	102	690
Total shop and maintenance	<u>303,025</u>	<u>245,685</u>	<u>239,532</u>	<u>6,153</u>

(Continued)

**TOWN OF MONTEAGLE, TENNESSEE**  
**Water and Sewer Fund**  
**Schedule of Revenues, Expenses and Changes in Net Assets -**  
**Budget and Actual (Continued)**  
**Year Ended June 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
<b>OPERATING EXPENSES (Continued)</b>				
<b>Administration</b>				
Salaries	\$ 25,585	\$ 54,059	\$ 54,058	\$ 1
Travel	1,000	874	873	1
Office supplies	6,970	6,080	6,079	1
Insurance	39,530	36,183	36,181	2
Payroll tax expense	1,965	4,040	4,040	-
Repairs and maintenance	3,000	606	606	-
Advertising	500	159	158	1
Miscellaneous expense	2,750	3,470	3,470	-
Supplies	5,000	4,295	4,294	1
Dues and subscriptions	1,200	1,520	1,520	-
Telephone	2,500	2,730	2,729	1
Purchased water	40,000	29,404	29,404	-
Professional services	30,000	33,183	23,476	9,707
Equipment expense	444,555	-	-	-
Rent	18,600	9,300	9,300	-
Total administration	<u>623,155</u>	<u>185,903</u>	<u>176,188</u>	<u>9,715</u>
<b>Depreciation</b>	<u>75,000</u>	<u>75,000</u>	<u>198,818</u>	<u>(123,818)</u>
Total operating expenses	<u>1,489,800</u>	<u>1,002,380</u>	<u>986,249</u>	<u>16,131</u>
Operating income (loss)	<u>96,000</u>	<u>813,761</u>	<u>816,991</u>	<u>3,230</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest revenue	2,500	6,060	6,060	-
Miscellaneous revenue	1,500	48,935	19,471	(29,464)
Grant revenue	-	-	285,592	285,592
Interest expense	(100,000)	(63,722)	(30,051)	33,671
Total non-operating revenues (expenses)	<u>(96,000)</u>	<u>(8,727)</u>	<u>281,072</u>	<u>289,799</u>
Income before transfers	-	805,034	1,098,063	293,029
Residual equity transfer	-	-	<u>1,320,308</u>	<u>1,320,308</u>
Changes in net assets	-	805,034	2,418,371	1,613,337
<b>Net assets - beginning</b>	<u>2,713,749</u>	<u>2,713,749</u>	<u>2,713,749</u>	<u>-</u>
<b>Net assets - end</b>	<u>\$ 2,713,749</u>	<u>\$ 3,518,783</u>	<u>\$ 5,132,120</u>	<u>\$ 1,613,337</u>

**TOWN OF MONTEAGLE, TENNESSEE**  
**Natural Gas Fund**  
**Schedule of Revenues, Expenses and Changes in Net Assets - Budget and Actual**  
**Year Ended June 30, 2009**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>		<b>Favorable (Unfavorable)</b>
<b>OPERATING REVENUES</b>				
Gas sales - net	\$ 617,790	\$ 117,956	\$ 125,057	\$ 7,101
Connection fees	1,500	1,341	1,341	-
Total operating revenues	<u>619,290</u>	<u>119,297</u>	<u>126,398</u>	<u>7,101</u>
<b>OPERATING EXPENSES</b>				
<b>Purchased gas</b>	<u>425,000</u>	<u>53,843</u>	<u>53,842</u>	<u>1</u>
<b>Gas operating and maintenance</b>				
Salaries	38,600	10,618	10,618	-
Insurance	40,030	28,599	28,597	2
Payroll tax expense	3,060	813	812	1
Repairs and maintenance	7,500	200	199	1
Utilities	600	177	176	1
Miscellaneous expense	2,700	45,038	393	44,645
Supplies	1,000	-	-	-
Equipment expenses	35,000	-	-	-
Rent	21,000	18,600	18,600	-
Total gas operating and maintenance	<u>149,490</u>	<u>104,045</u>	<u>59,395</u>	<u>44,650</u>
<b>Administration</b>				
Dues and subscriptions	2,000	762	761	1
Professional services	12,000	4,288	4,288	-
Total administration	<u>14,000</u>	<u>5,050</u>	<u>5,049</u>	<u>1</u>
<b>Depreciation</b>	<u>35,000</u>	<u>35,000</u>	<u>7,827</u>	<u>27,173</u>
Total operating expenses	<u>623,490</u>	<u>197,938</u>	<u>126,113</u>	<u>71,825</u>
Operating income (loss)	<u>(4,200)</u>	<u>(78,641)</u>	<u>285</u>	<u>78,926</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest revenue	4,000	20,031	20,031	-
Gain on sale of fixed assets	200	680,000	570,212	(109,788)
Total non-operating revenues (expenses)	<u>4,200</u>	<u>700,031</u>	<u>590,243</u>	<u>(109,788)</u>
Income before transfer	-	621,390	590,528	(30,862)
Residual equity transfer	-	-	(1,320,308)	(1,320,308)
Changes in net assets	-	621,390	(729,780)	(1,351,170)
Net assets - beginning	<u>729,780</u>	<u>729,780</u>	<u>729,780</u>	<u>-</u>
Net assets - end	<u>\$ 729,780</u>	<u>\$ 1,351,170</u>	<u>\$ -</u>	<u>\$ (1,351,170)</u>

**TOWN OF MONTEAGLE, TENNESSEE**  
**Schedule of Debt Service Requirements**  
**Year Ended June 30, 2009**

**Public Improvement Revenue Bond**  
**Series 2001 - Bearing interest at an annual rate of 7.10%**  
**Original loan of \$692,100**

<u>Maturing</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
2010	\$ 17,400	\$ 41,862	\$ 59,262
2011	18,700	40,580	59,280
2012	20,000	39,206	59,206
2013	21,400	37,736	59,136
2014	22,900	36,164	59,064
2015	24,600	34,478	59,078
2016	26,300	32,671	58,971
2017	28,200	30,736	58,936
2018	30,200	28,663	58,863
2019	32,300	26,444	58,744
2020	34,600	24,069	58,669
2021	37,100	21,524	58,624
2022	39,700	18,797	58,497
2023	42,500	15,879	58,379
2024	45,500	12,755	58,255
2025	48,800	9,407	58,207
2026	52,200	5,822	58,022
2027	55,900	1,985	57,885
<b>Total</b>	<b><u>\$ 598,300</u></b>	<b><u>\$ 458,778</u></b>	<b><u>\$ 1,057,078</u></b>

**TOWN OF MONTEAGLE, TENNESSEE**  
**Schedule of Debt Service Requirements**  
**Year Ended June 30, 2009**

**Note Payable - Mountain Valley Bank**  
**2003 New Town Hall Note**  
**Bearing interest at an annual rate of 2.70%**  
**Original loan of \$650,000**

Maturing June 30,	Principal	Interest	Total Requirements
2010	\$ 66,598	\$ 7,669	\$ 74,267
2011	68,418	5,848	74,266
2012	70,279	3,988	74,267
2013	72,210	2,057	74,267
2014	<u>36,777</u>	<u>292</u>	<u>37,069</u>
Total	<u>\$ 314,282</u>	<u>\$ 19,854</u>	<u>\$ 334,136</u>

**TOWN OF MONTEAGLE, TENNESSEE**  
**Schedule of Debt Service Requirements**  
**Year Ended June 30, 2009**

**Water and Sewer Revenue and Tax Bonds**  
**Series 1974 - Bearing interest at an annual rate of 5.00%**  
**Original loan of \$550,000**

<u>Maturing</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
2010	\$ 26,000	\$ 7,100	\$ 33,100
2011	27,000	5,800	32,800
2012	28,000	4,450	32,450
2013	30,000	3,050	33,050
2014	<u>11,925</u>	<u>1,550</u>	<u>13,475</u>
Total	<u>\$ 122,925</u>	<u>\$ 21,950</u>	<u>\$ 144,875</u>



**TOWN OF MONTEAGLE, TENNESSEE**  
**Schedule of Debt Service Requirements**  
**Year Ended June 30, 2009**

**Water and Sewer Revenue and Tax Bonds**  
**Series 1975 - Bearing interest at an annual rate of 5.00%**  
**Original loan of \$550,000**

<u>Maturing June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	\$ 4,000	\$ 1,250	\$ 5,250
2011	4,000	1,050	5,050
2012	4,000	850	4,850
2013	4,000	650	4,650
2014	4,000	450	4,450
2015	<u>5,000</u>	<u>250</u>	<u>5,250</u>
 Total	 <u>\$ 25,000</u>	 <u>\$ 4,500</u>	 <u>\$ 29,500</u>

**TOWN OF MONTEAGLE, TENNESSEE**  
**Schedule of Debt Service Requirements**  
**Year Ended June 30, 2009**

**Water and Sewer Revenue and Tax Bonds**  
**Series 1988 - Bearing interest at an annual rate of 6.125%**  
**Original loan of \$500,000**

Maturing June 30,	Principal	Interest	Total Requirements
2010	\$ 16,536	\$ 17,424	\$ 33,960
2011	17,578	16,382	33,960
2012	18,685	15,275	33,960
2013	19,862	14,098	33,960
2014	21,113	12,847	33,960
2015	22,599	11,361	33,960
2016	24,022	9,938	33,960
2017	25,536	8,424	33,960
2018	27,145	6,815	33,960
2019	28,855	5,105	33,960
2020	30,672	3,288	33,960
2021	32,216	1,355	33,571
Total	<u>\$ 284,819</u>	<u>\$ 122,312</u>	<u>\$ 407,131</u>

**TOWN OF MONTEAGLE, TENNESSEE**  
**Schedule of Debt Service Requirements**  
**Year Ended June 30, 2009**

**State Revolving Loan**  
**Bearing interest at an annual rate of 1.458%**  
**Original loan of \$1,310,000**

<u>Maturing June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	\$ 73,068	\$ 2,484	\$ 75,552
2011	74,148	1,404	75,552
2012	<u>56,342</u>	<u>120</u>	<u>56,462</u>
Total	<u>\$ 203,558</u>	<u>\$ 4,008</u>	<u>\$ 207,566</u>

**TOWN OF MONTEAGLE, TENNESSEE**  
**Schedule of Debt Service Requirements**  
**Year Ended June 30, 2009**

**Note Payable - Citizens Tri-County**  
**Bearing interest at an annual rate of 5.68%**  
**Original loan of \$318,519**

<u>Maturing June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	\$ 37,792	\$ 4,034	\$ 41,826
2011	39,995	1,831	41,826
2012	<u>9,590</u>	<u>98</u>	<u>9,688</u>
Total	<u>\$ 87,377</u>	<u>\$ 5,963</u>	<u>\$ 93,340</u>

**TOWN OF MONTEAGLE, TENNESSEE**  
**Schedule of Municipal Utility Rates and Number of Customers**  
**June 30, 2009**

**WATERWORKS**

Number of customers

1,209

	<u>Residential Inside Town</u>	<u>Residential Outside Town</u>
0 - 2,000 gallons (minimum bill)	\$ 16.60	\$ 22.10
Over - 2,000 gallons	\$ 9.00 per/1,000	\$ 11.00 per/1,000

**SEWER SYSTEM**

Number of customers

273

0 - 2,000 gallons	\$ 20.75	\$ 27.50
Over - 2,000 gallons	\$ 12.00 per/1,000	\$ 16.00 per/1,000

**TOWN OF MONTEAGLE, TENNESSEE**  
**Schedule of Insurance**  
**June 30, 2009**

**FIRE, EXTENDED COVERAGE, VANDALISM AND MALICIOUS MISCHIEF**

Buildings and personal property	\$ 8,333,422
Deductibles	
Each occurrence	\$ 1,000

**COMPREHENSIVE LIABILITY**

Automobiles owned by Town of Monteagle, Tennessee	
Combined single limit	\$ 1,000,000
Comprehensive coverage	ACV
General - each occurrence/aggregate	\$ 1,000,000
Bodily injury/per occurrence/property damage	\$ 250,000/\$600,000/\$85,000

**WORKER'S COMPENSATION**

Coverage A - Tennessee	Statutory
Coverage B - Employer's liability	\$ 300,000/\$700,000/\$300,000

**ERROR OR OMISSIONS LIABILITY** \$ 1,000,000

**LAW ENFORCEMENT OFFICERS' LIABILITY**  
Each occurrence/aggregate \$ 1,000,000

**TOWN OF MONTEAGLE, TENNESSEE**  
**Schedule of Unaccounted for Water**  
**June 30, 2009**

(All amounts in gallons)

**Water Treated and Purchased:**

Water pumped (potable)	94,999,000	
Water purchased	18,042,510	
<b>Total Water Treated and Purchased</b>		113,041,510

**Accounted for Water:**

Water sold	99,634,790	
Metered for consumption (in house usage)	0	
Fire Department usage	0	
Flushing	0	
Tank cleaning/filling	0	
Street cleaning	0	
Bulk sales	0	
Water bill adjustments	0	
<b>Total Accounted for Water</b>		99,634,790

**Unaccounted for Water** 13,406,720

**Percent Unaccounted for Water** 11.86%

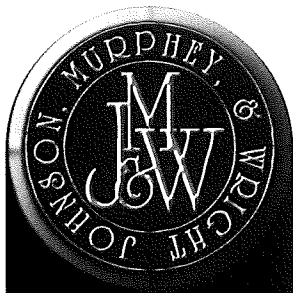
**Other (explain)** 0

Explain other: n/a

All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

### **III. INTERNAL CONTROL & COMPLIANCE SECTION**





Certified Public  
Accountants

301 N. Market  
Chattanooga, TN  
37405

Office: 423-756-1170  
Fax: 423-756-1436  
www.jmw-cpa.com

Members  
American Institute  
of Certified  
Public Accountants

Paul Johnson, III, CPA

Brian T. Wright, CPA

Karen Hutcherson, CPA

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

Mayor and Aldermen  
Town of Monteagle, Tennessee  
Monteagle, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Monteagle, Tennessee, as of and for the year ended June 30, 2009, and have issued our report thereon dated February 24, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as 09-1 through 09-3 to be material weaknesses.

Mayor and Aldermen  
Town of Monteagle, Tennessee  
Page Two

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Monteagle, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Responses as items 09-4 through 09-6.

The Town of Monteagle, Tennessee's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Town of Monteagle, Tennessee's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Mayor and Aldermen, federal and state awarding agencies and the Comptroller of the Treasury of the State of Tennessee, and is not intended to be and should not be used by anyone other than these specified parties.

Chattanooga, Tennessee  
February 24, 2010

*Johnson, Murphree & Wright, P.C.*

**TOWN OF MONTEAGLE, TENNESSEE**  
**Schedule of Findings and Responses**  
**June 30, 2009**

**SUMMARY OF AUDIT RESULTS**

**Opinion:**

Unqualified opinion issued on the financial statements in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Deficiencies:**

During the audit of the financial statements three significant deficiencies in internal controls were disclosed, which also were considered in the aggregate to be material weaknesses.

**Material Noncompliance:**

Three instances of noncompliance or other matters were disclosed.

**FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS**

**INTERNAL CONTROL:**

**Finding 09-1 - Non-segregation of duties (Repeat 08-1)**

**Criteria:**

The Internal Control and Compliance Manual for Tennessee Municipalities (ICCMTM) Title 5, Chapter 1, Section 1, states that, "Municipal officials should separate duties of employees so that no one person has control over a complete transaction..."

**Condition Found:**

The Town of Monteagle, Tennessee has one office employee that is responsible for the majority of the financial transactions, and the posting and recording of the general ledger. A proper division of duties should provide a system of checks and balances so that no one person has control over a complete transaction from beginning to end.

**Recommendation:**

To guard against undetected errors, the Board of Mayor and Aldermen or additional employees should be used to divide duties.

**Management's Response:**

We concur. However, the benefits of the additional controls are not justified by the cost to the Town at this time.

(Continued)

**FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS** (Continued)

**INTERNAL CONTROL:** (Continued)

**Finding 09-2 - Approvals and documentation** (Repeat 08-2)

**Criteria:**

Government Auditing Standards Chapter A.04(g) states that, "inadequate controls for the safeguarding of assets...." is a control deficiency.

**Condition Found:**

Upon review, the following condition was found:

1. Not all invoices were found for the cash disbursements test.

**Recommendation:**

1. Care needs to be made to save and file all invoices where they can be found if needed.

**Management's Response:**

We concur. We will take steps to correct the above condition.

**Finding 09-3 - Accounting expertise** (Repeat 08-3)

**Criteria:**

SAS 112 and Government Auditing Standards A.04(m), state in part that the lack of accounting personnel with "sufficient expertise" to properly select and implement proper accounting principals and controls, anti-fraud programs and controls, and controls over the year-end financial reporting process, including the actual preparation of year-end adjustments and financial statements is a "significant deficiency" and a strong indication of a "material weakness".

**Condition Found:**

The Town did not have accounting personnel on staff that had sufficient expertise as to the selection and implementation of proper accounting principals, anti-fraud programs or controls, and they also did not have any accounting personnel on staff who were capable of preparing their own year-end adjustments and financial statements.

**Recommendation:**

The Town should consider the risk benefits of continuing to allow the outside auditors to perform these services for them, versus hiring an internal auditor/CPA to perform the year-end financial reporting process and provide sufficient expertise in the selection of proper accounting principals and controls.

**Management's Response:**

We concur. However, even though we are aware that we cannot theoretically rely on our outside CPA as a part of our system of internal control anymore, we feel that this is a very important and very reliable way to safeguard our assets and report the transactions of the Town. In addition, we do not have the funds available at this time to hire a complete accounting staff.

(Continued)

**FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS** (Continued)

**COMPLIANCE:**

**Finding 09-4 - Expenditures exceeded budget (Repeat 08-4)**

**Criteria:**

Tennessee Code Annotated (TCA) Section 6-56-203 states that no municipality may expend any moneys regardless of their source . . . except in accordance with a budget ordinance . . .”

**Condition Found:**

Expenditures in the State Street Aid Fund exceeded the amount budgeted by \$10,097.

**Recommendation:**

The Town should authorize all expenditures in the original budget ordinance or an amendment to the budget before the end of the fiscal year.

**Management’s Response:**

We concur. We will make every effort in the future to provide for all expenditures in our budget.

**Finding 09-5 - Cash collateral (Repeat 08-5)**

**Criteria:**

The Internal Control and Compliance Manual for Tennessee Municipalities (ICCMTM) Title 5, Chapter 10, Section 11 states that, “Municipal officials should ... require collateralization of 105% on all deposits above the FDIC insured amounts”.

**Condition Found:**

The Town had deposits in excess of insurance and collateral as of June 30, 2009, in the amount of \$124,886.

**Recommendation:**

The Town should implement controls to verify that the proper amount of collateral is in place on a periodic basis.

**Management’s Response:**

We concur.

(Continued)

**FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS** (Continued)

**COMPLIANCE:** (Continued)

**Finding 09-6 - Town officials failed to recover inappropriate reimbursement of court costs and restitution paid to Town employee (Repeat 08-6)**

**Criteria:**

Section 6-56-112, *Tennessee Code Annotated*, requires that, "All expenditures of money made by a municipality must be made for a lawful municipal purpose."

**Condition Found:**

As a result of a special investigation by the Division of Municipal Audit of the State of Tennessee Comptroller of the Treasury, a letter was sent to the Town on August 26, 2003, urging the Town to seek legal advice regarding the recovery of money from an employee that was reimbursed for court costs and restitution in a case with the Town. The Town Attorney in a letter to the District Attorney General stated in part that, "1. The Town thinks that its actions are completely legal under the Tennessee Constitution .... provided the employee is not found guilty of any criminal conduct. .... 3. I agree with you that the court costs and restitution amounts cannot be reimbursed by the Town. The Town acknowledges this and will take steps to recover this money."

As of June 30, 2009, the Town has not taken any steps to recover the money.

**Recommendation:**

To ensure that all Town money is used only for a valid municipal purpose, we recommend the Town "take steps to recover this money" as promised by the Town Attorney.

**Management's Response:**

The Town Aldermen passed a motion (3/1) that, while the expenditure may not have been valid, it is not in the best interest of the Town to attempt to recover these funds.

**TOWN OF MONTEAGLE, TENNESSEE**  
**Schedule of Prior Audit Findings**  
**June 30, 2009**

**INTERNAL CONTROL**

**Finding 08-1** - Non-segregation of duties.  
Still in effect.

**Finding 08-2** - Approvals and documentation.  
Still in effect.

**Finding 08-3** - Accounting expertise.  
Still in effect.

**COMPLIANCE**

**Finding 08-4** - Expenditures exceeded budget.  
Still in effect.

**Finding 08-5** - Cash collateral.  
Still in effect.

**Finding 08-6** - Town officials failed to recover inappropriate reimbursement of court costs and restitution paid to Town employee.  
Still in effect.

**Finding 08-7** - Apparently conflicting provisions in vacation leave policy.  
Corrected.

**Finding 08-8** - Apparently unclear provisions in sick leave policy.  
Corrected.

**Finding 08-9** - Failure to document necessity and approval of vacation leave accrual in excess of amount allowed by Town policy.  
Corrected.

**Finding 08-10** - Inadequate leave records.  
Corrected.

**Finding 08-11** - Failure to retain adequate supporting documentation.  
Corrected.