

TOWN OF UNICOI, TENNESSEE

Financial Statements  
With Supplementary Information

Year Ended June 30, 2013

TOWN OF UNICOI, TENNESSEE  
Financial Statements  
With Supplementary Information  
June 30, 2013

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TOWN OF UNICOI, TENNESSEE  
Roster of Officials and Board Members  
June 30, 2013

Officials

Mr. Larry B. Rea  
Mr. Johnny Lynch  
Mr. Doug Hopson

Town of Unicoi City Recorder  
Mayor  
Vice-Mayor

Board Members

Mr. Dwight Bennett  
Mr. Michael Phillips  
Mr. Mark Ramsey

- Certified Public Accountants
  - Business Advisors

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185 Serral Drive  
Greeneville, TN 37745



## Independent Auditors' Report

Board of Mayor and Aldermen  
Town of Unicoi, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the general fund of the Town of Unicoi, Tennessee, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Town, as of June 30, 2013, and the respective changes in financial position, and the respective budgetary comparison for the General Fund, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of retirement plan funding progress as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The supplementary information as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2014 on our consideration of the Town's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Town's internal control over financial reporting and compliance.

*Rodger Messer & Co, PLLC*

Greeneville, Tennessee  
September 11, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

TOWN OF UNICOI, TENNESSEE  
Management's Discussion and Analysis  
June 30, 2013

As management of the Town of Unicoi, Tennessee, we offer readers of the Town of Unicoi, Tennessee's financial statements this narrative overview and analysis of the financial activities of the Town of Unicoi for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented in conjunction with the basic financial statements.

### **Municipal Overview**

The Town of Unicoi was incorporated in 1994 and houses approximately 1,765 households and 3,700 residents (reference 2010 U.S. Census). The Town does not levy property taxes and offers minimal services. Town services are provided as follows: Unicoi County provides a waste convenience station; the Town paving and other road and right of way maintenance is contracted with the Unicoi County Highway Department; the Unicoi Volunteer Fire Department provides fire protection; and the Unicoi County Sheriff's Department provides law enforcement. The Town contributes generous public works appropriations to the Sheriff's Department and Fire Department. Utilities are provided by Erwin Utilities (electricity and sewer), Unicoi Water Utility District (water service), Johnson City Water Utility (water service), Unicoi Gas Utility (gas service) and Elizabethton Electric (electricity). The Town employs the following personnel: one full-time City Recorder / Treasurer and Code Enforcer, one full-time Program Manager, one full-time Community Development Director, one full-time Parks and Recreation Director, two full-time Grounds Maintenance employees, one part-time Building Inspector, and one part-time Office Assistant.

### **Financial Highlights**

- ❑ The assets of the Town of Unicoi exceeded its liabilities at June 30, 2013 by \$2,609,452 (net position). Of this amount, \$966,484 (unrestricted) may be used to meet the Town's ongoing obligations to citizens and creditors.
- ❑ The Town's total net assets increased by \$20,859.
- ❑ As of the close of the current fiscal year, the Town of Unicoi's governmental fund reported an ending balance of \$808,905, which is a decrease of \$359,735 in comparison with the prior year, \$690,587 of which is available for spending at the Town's discretion (unassigned fund balance).
- ❑ At the end of the current fiscal year, unassigned fund balance for the general fund was \$690,587, or 43% of the total general fund expenditures, which is 41% lower than the previous year. \$118,318 is assigned.
- ❑ The Town paid \$134,471 from its State Street Aid Fund to the Unicoi County Highway Department for street maintenance and repair.
- ❑ The Town paid \$140,747 from its General Fund to the Unicoi County Sheriff's Department and the Unicoi Volunteer Fire Department collectively.

### **Overview of Financial Statements**

The discussion and analysis is intended to serve as an introduction to the Town of Unicoi's basic financial statements. The Town of Unicoi'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 Unicoi's finances, in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position 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 are two possible examples).

TOWN OF UNICOI, TENNESSEE  
Management's Discussion and Analysis (Continued)

Both of the government-wide financial statements distinguish functions of the Town of Unicoi 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 cost through user fees and charges (business-type activities). The governmental activities of the Town of Unicoi include general government, public works - streets and donations and interest on long-term debt. The Town of Unicoi did not have any business-type activities for the fiscal year 2012-2013.

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

**Fund Financial Statements:** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Unicoi, 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 Unicoi are governmental 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 governmental funds and governmental activities.

The Town of Unicoi adopts an annual appropriated budget for its governmental fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

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

**Notes to the Financial Statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-21 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Required supplementary information can be found on page 22 and supplementary information can be found on pages 23 and 24 of this report.

## **BUDGET VARIANCES**

### **General Fund**

The following summarizes the general fund budget:

TOWN OF UNICOI, TENNESSEE  
Management's Discussion and Analysis (Continued)

**BUDGET VARIANCES (Continued)**

**General Fund (Continued)**

	June 30, 2013		
	Original Budget	Final Budget	Actual
Revenues	\$ 1,363,790	\$ 1,363,790	\$ 1,234,607
Expenses	1,459,865	1,459,865	1,594,342
Change in fund balance	<u>\$ (96,075)</u>	<u>\$ (96,075)</u>	<u>\$ (359,735)</u>

  

	June 30, 2012		
	Original Budget	Final Budget	Actual
Revenues	\$ 1,199,565	\$ 1,199,565	\$ 1,814,866
Expenses	1,224,942	1,594,942	1,549,869
Change in fund balance	<u>\$ (25,377)</u>	<u>\$ (395,377)</u>	<u>\$ 264,997</u>

**Government-Wide Financial Analysis**

The following table provides a summary of the Town's Net Position at June 30, 2013 and 2012:

	Summary of Net Position			
	June 30, 2013	June 30, 2012	Increase (Decrease)	%
Current assets	\$ 1,041,297	\$ 1,198,602	\$ (157,305)	-13.12%
Capital assets	2,973,755	2,815,196	158,559	5.63%
Total assets	<u>\$ 4,015,052</u>	<u>\$ 4,013,798</u>	<u>\$ 1,254</u>	0.03%
Current liabilities	\$ 142,484	\$ 94,592	\$ 47,892	50.63%
Long-term liabilities	1,263,116	1,330,613	(67,497)	-5.07%
Net position	<u>2,609,452</u>	<u>2,588,593</u>	<u>20,859</u>	0.81%
Total liabilities and net position	<u>\$ 4,015,052</u>	<u>\$ 4,013,798</u>	<u>\$ 1,254</u>	0.03%

The following table provides a summary of the Town's changes in net position for the years ended June 30, 2013 and 2012:

	Summary of Changes in Net Position			
	June 30, 2013	June 30, 2012	Increase (Decrease)	%
Revenues				
Governmental activities	<u>\$ 1,392,188</u>	<u>\$ 1,444,868</u>	<u>\$ (52,680)</u>	-3.65%
Total revenues	1,392,188	1,444,868	(52,680)	-3.65%
Expenses				
Governmental activities	<u>1,371,329</u>	<u>1,225,744</u>	<u>145,585</u>	11.88%
Change in net position	<u>\$ 20,859</u>	<u>\$ 219,124</u>	<u>\$ (198,265)</u>	-90.48%

TOWN OF UNICOI, TENNESSEE  
Management's Discussion and Analysis (Continued)

**CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

This Management Discussion and Analysis is designed to provide an explanation of the town's 2012-2013 fiscal period finances for our citizenry and demonstrate town management accountability for funds received on behalf of the citizens. If you have questions about this report or need additional financial information, contact:

Town of Unicoi  
PO Box 39  
Unicoi, Tennessee 37692  
(423)743-7162

GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF UNICOI, TENNESSEE  
Statement of Net Position  
June 30, 2013

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current Assets	
Cash and cash equivalents	\$ 129,019
Certificates of deposit	479,089
Investments	152,658
Other receivables	<u>280,531</u>
Total current assets	<u>1,041,297</u>
Capital Assets	
Construction in progress	315,976
Land	797,372
Other capital assets, net	<u>1,860,407</u>
Total capital assets	<u>2,973,755</u>
Total assets	<u>4,015,052</u>
<b>LIABILITIES</b>	
Current Liabilities	
Accounts payable	70,089
Current portion of long-term debt	67,671
Customer deposits	318
Accrued expenses	<u>4,406</u>
Total current liabilities	<u>142,484</u>
Long-Term Liabilities	
Long-term debt, less current portion	<u>1,263,116</u>
Total liabilities	<u>1,405,600</u>
<b>NET POSITION</b>	
Net investment in capital assets	1,642,968
Unrestricted	<u>966,484</u>
Total net position	<u>\$ 2,609,452</u>

TOWN OF UNICOI, TENNESSEE  
Statement of Activities  
Year Ended June 30, 2013

Function/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary Government					
Governmental activities					
General government	\$ 788,853	\$ 64,073	\$ 4,676	\$ 159,871	\$ (560,233)
Public works - state street aid					
Gasoline and motor fuel tax	93,302	-	93,302	-	-
City streets and transportation tax	7,443	-	7,443	-	-
General government	261,206	-	-	-	(261,206)
Public works - donations	163,297	-	-	-	(163,297)
Interest on long-term debt	<u>57,228</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(57,228)</u>
Total governmental activities	<u>\$ 1,371,329</u>	<u>\$ 64,073</u>	<u>\$ 105,421</u>	<u>\$ 159,871</u>	<u>(1,041,964)</u>
General Revenues					
Taxes					
					668,088
					250,070
					84,493
					41,419
					10,717
					3,641
					310
					<u>4,085</u>
					1,062,823
					20,859
					<u>2,588,593</u>
					<u>\$ 2,609,452</u>

See accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

TOWN OF UNICOI, TENNESSEE  
Governmental Fund  
Balance Sheet  
June 30, 2013

	General Fund
<b>ASSETS</b>	
Cash and cash equivalents	\$ 129,019
Certificates of deposit	479,089
Investments	152,658
Other receivables	280,531
Total assets	\$ 1,041,297
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>	
Liabilities	
Accounts payable	70,089
Customer deposits	318
Accrued expenses	4,406
Total liabilities	74,813
Deferred Inflows of Resources	
Grants	157,579
Fund Balance	
Assigned to:	
Subsequent year's budget	118,318
Unassigned	690,587
Total fund balance	808,905
Total liabilities, deferred inflows of resources, and fund balance	\$ 1,041,297
 Reconciliation of governmental fund balance to the net position of governmental activities:	
Fund balance - governmental fund	\$ 808,905
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,973,755
Deferred revenues are not available to pay current-period expenditures and therefore are not included in the funds as revenue.	157,579
Long term debt is not reported in the funds.	(1,330,787)
Net position of governmental activities	\$ 2,609,452

TOWN OF UNICOI, TENNESSEE  
Governmental Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Year Ended June 30, 2013

	<u>General Fund</u>
Revenues	
Charges for services	\$ 64,073
Local and state taxes	1,058,735
Grants and contributions	4,283
Donations	2,686
Intergovernmental revenues restricted for state street aid	
Gasoline and motor fuel taxes	93,302
City streets and transportation	7,443
Investment earnings	<u>4,085</u>
Total revenues	<u>1,234,607</u>
Expenditures	
Current	
General government	947,410
Public works - street repairs and maintenance	
State street aid	93,302
City streets and transportation	7,443
Highway contract	261,206
Donations	163,297
Debt service	
Principal	64,456
Interest	<u>57,228</u>
Total expenditures	<u>1,594,342</u>
Excess of expenditures over revenues	(359,735)
Fund balance at the beginning of the year	<u>1,168,640</u>
Fund balance at the end of the year	<u><u>\$ 808,905</u></u>

TOWN OF UNICOI, TENNESSEE  
Governmental Fund  
Reconciliation of the Statement of Revenues, Expenditures, and  
Changes in Fund Balances of Governmental Funds to the Statement of Activities  
Year Ended June 30, 2013

Net change in fund balance - total governmental fund	\$ (359,735)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$251,136) exceeded depreciation (\$92,577) in the current period.	158,559
Some revenue will not be collected for several months after the fiscal year end therefore, they are not considered available and are deferred in the governmental funds.	157,579
Bond and note proceeds provide current financial resources to governmental funds, but this increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of principal repayments in the current period.	<u>64,456</u>
Change in net position of governmental activities	<u><u>\$ 20,859</u></u>

TOWN OF UNICOI, TENNESSEE  
Governmental Fund  
General Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Revenues				
Charges for services	\$ 24,747	\$ 24,747	\$ 64,073	\$ 39,326
Local and state taxes	1,077,210	1,077,210	1,058,735	(18,475)
Donations	4,000	4,000	2,686	(1,314)
Intergovernmental revenues restricted for state street aid				
Gasoline and motor fuel taxes	95,792	95,792	93,302	(2,490)
City streets and transportation	7,579	7,579	7,443	(136)
Grants	145,000	145,000	4,283	(140,717)
Investment earnings	9,462	9,462	4,085	(5,377)
Total revenues	1,363,790	1,363,790	1,234,607	(129,183)
Expenses				
Current				
General government	1,019,276	1,019,276	947,410	71,866
Public works - state street aid	305,400	305,400	361,951	(56,551)
Donations	26,000	26,000	163,297	(137,297)
Debt service				
Principal	65,715	65,715	64,456	1,259
Interest	43,474	43,474	57,228	(13,754)
Total expenditures	1,459,865	1,459,865	1,594,342	(134,477)
Excess of revenues over expenditures	(96,075)	(96,075)	(359,735)	(263,660)
Fund balance at the beginning of the year	1,168,640	1,168,640	1,168,640	-
Fund balance at the end of the year	\$ 1,072,565	\$ 1,072,565	\$ 808,905	\$ (263,660)

TOWN OF UNICOI, TENNESSEE  
Notes to Financial Statements  
Year Ended June 30, 2013

NOTE 1 - REPORTING ENTITY

The financial statements of the Town of Unicoi, Tennessee, (the "Town") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Town are in Note 2.

The Town of Unicoi, Tennessee was established October 13, 1994. The Town is a political subdivision of the State of Tennessee operating under the Mayor-Alderman form of government. The Town has taxing powers subject to statewide restrictions and tax limits. The Town of Unicoi provides a range of municipal services including public improvement and general administration services.

The Town, for financial statement purposes, includes all of the funds relevant to the operations of the Town of Unicoi, Tennessee. The financial statements presented herein do not include agencies which have been formed under applicable state laws as separate and distinct units of government apart from the Town of Unicoi, Tennessee.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basic Financial Statements - Government-Wide Statements** - The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major fund). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. There are no business type activities to report as of June 30, 2013.

In the government-wide statement of net position, the governmental activities are presented on a consolidated basis by column, and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position. When an expense is incurred for purposes for which both restricted and unrestricted net position are available, restricted net position is used first.

The government-wide statement of activities reports both the gross and net costs of each of the Town's functions (public improvement and general administration). The functions are also supported by general government revenues (sales and use taxes, certain intergovernmental revenues, investment earnings, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues and grants.

Program revenues must be directly associated with the function (public improvement and general administration). Grants include operating-specific and discretionary grants.

The net costs (by function) are normally covered by general revenue (sales and use taxes, intergovernmental revenues, interest income, etc).

This government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net position resulting from the current year's activities.

**Accrual** - Governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**Basic Financial Statements - Fund Financial Statements** - The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

TOWN OF UNICOI, TENNESSEE  
Notes to Financial Statements (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following fund types are used by the Town:

**Governmental Funds** - The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Town:

**General Fund** - The General Fund is the general operating fund of the Town. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.

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

**Modified Accrual** - The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

**Budgets and Budgetary Accounting** - The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

- (1) Formal budgetary integration is employed as a management control device during the year for the General Fund. This budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America.
- (2) The combined statement of revenues and expenditures - budget and actual for the General Fund present comparisons of a legally adopted budget with actual data on a budgetary basis.
- (3) The Board of Mayor and Aldermen approve, by ordinance, total budget appropriations by department for the Town. The City Recorder is authorized to transfer budget amounts within departments of any fund; however, any revisions that alter the total appropriations of any department must be approved by the Board of Mayor and Aldermen. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, it is consistent with the statement of revenues, expenditures, and changes in fund balance.
- (4) Unused appropriations for the annually budgeted funds lapse at the end of the year.

**Revenue Recognition** - Sales taxes, which are collected by the State and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the State, which is generally in the month proceeding receipt by the Town. Licenses, permits, fines and rents are recorded as revenues when received.

**Cash and Cash Equivalents** - The Town considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

**Capital Assets** - Capital assets purchased in excess of \$1,000 are carried at cost and depreciated over their estimated useful lives on a straight-line basis. Buildings and improvements are depreciated over 15-40 years and other capital assets are depreciated over 5-7 years.

TOWN OF UNICOI, TENNESSEE  
Notes to Financial Statements (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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.

**Fund Balance Items** - The Town utilizes the following terminology and classifications for fund balance items.

*Nonspendable* items - This category includes items that can not be spent because they are either not in spendable form (i.e. inventories and prepaids) or legally or contractually required to be maintained intact. There was no balance in this category at year end.

*Restricted* items - This category includes fund balances that are constrained by external parties, constitutional provisions, or enabling legislation. There was no balance in this category at year end.

*Committed* items - This category includes funds that are set aside for a specific purpose by the Town's highest level of decision making authority (e.g., the Town's Mayor and Board passing an Ordinance). Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on funds. There was no balance in this category at year end.

*Assigned* items - This category includes funds that are set aside with the intent to be used for a specific purpose by the Town's highest level of decision making authority or a body or official that has been given authority to assign funds (e.g., the Town's Mayor and Board passing a Resolution). Assigned funds cannot cause a deficit in unassigned fund balance. The assignment includes \$118,318 for the 2013 - 2014 budget.

*Unassigned* items - Represents the remainder of the Town of Unicoi's fund balance that is not constrained for any particular purpose.

When both restricted and unrestricted fund balances are available for use, it is the Town of Unicoi's policy to use restricted fund balance first, then use unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

**New Accounting Pronouncements** - GASB Statement 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. GASB 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This statement is effective for periods beginning after June 15, 2012. Management implemented Statement 61 in the current year. The adoption of GASB 61 did not have any impact on the Town's financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources as defined by GASB's Concepts Statement No. 4. It also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis-for State and Local Governments*, and other pronouncements by incorporating deferred outflows and deferred inflows of resources into the definition of net assets and by renaming it as net position, rather than net assets. The requirements of this Statement will improve financial reporting by standardizing the presentation and their effects on a government's net position. Management implemented Statement 63 in the current year. The adoption of GASB 63 required mainly changes in titles for the Town.

TOWN OF UNICOI, TENNESSEE  
Notes to Financial Statements (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The Town elected to early implement Statement 65 in current fiscal year. The adoption of GASB 65 required mainly changes in titles to the Town's financial statements.

GASB 66, *Technical Corrections -2012* - an amendment of GASB Statements No. 10 and No. 62. GASB 66 improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre- November 30, 1989 FASB and AICPA Pronouncements*. The Town implemented Statement 66 in current fiscal year. The adoption of GASB 66 does not have any impact on the Town's financial statements.

**Date of Management's Review** - Management has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2013 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through September 11, 2014, the date these financial statements were available to be issued.

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105 percent of the value of the deposits, less so much of such amount as is insured by federal deposit insurance. The collateral must be held by the Town or its agent in the Town's name, or by the Federal Reserve in the Town's name.

Statutes also authorize the Town to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, state pooled investment funds, and money market mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

At June 30, 2013, bank balances aggregated \$1,028,392 of which \$750,000 was covered by federal depository insurance, and the remainder was covered by funds in the Tennessee Collateral Pool.

At June 30, 2013, cash equivalents in the state pooled investment fund were \$152,658.

TOWN OF UNICOI, TENNESSEE  
Notes to Financial Statements (Continued)

NOTE 4 - CAPITAL ASSETS

Primary Government capital asset activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 797,372	\$ -	\$ -	\$ 797,372
Construction in progress	64,840	251,136	-	315,976
Total capital assets not being depreciated	862,212	251,136	-	1,113,348
Capital assets being depreciated				
Buildings and improvements	2,233,492	-	-	2,233,492
Infrastructure	20,499,748	-	-	20,499,748
Other fixed assets	78,293	-	-	78,293
Total other capital assets	22,811,533	-	-	22,811,533
Less accumulated depreciation				
Buildings and improvements	(303,217)	(70,510)	-	(373,727)
Infrastructure	(20,499,748)	-	-	(20,499,748)
Other fixed assets	(55,584)	(22,067)	-	(77,651)
Total accumulated depreciation	(20,858,549)	(92,577)	-	(20,951,126)
Capital assets being depreciated, net	1,952,984	(92,577)	-	1,860,407
Governmental activities capital assets, net	\$ 2,815,196	\$ 158,559	\$ -	\$ 2,973,755

NOTE 5 - LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2013:

\$986,700 Sewer Revenue and Tax Bond, Series 2006 due in monthly installments of \$4,451 beginning September 2008 through 2045; interest rate 4.375%.	\$ 918,768
\$55,076 bank note due in monthly installments of \$1,041 beginning June 2010 through May 2015; interest rate 5.00%.	22,672
\$370,000 bank note due in monthly installments of \$3,151 beginning April 2012 through March 2024; interest rate 3.45%.	338,347
\$80,000 Tennessee Municipal Bond Fund, due in various annual installments beginning January 2012 through 2016; interest rate 4.5%.	51,000
Less amounts due within one year	(67,671)
Long-term debt	\$ 1,263,116

TOWN OF UNICOI, TENNESSEE  
Notes to Financial Statements (Continued)

NOTE 5 - LONG-TERM DEBT (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long Term Debt					
Bank note	\$ 33,732	\$ -	\$ (11,060)	\$ 22,672	\$ 11,626
Bank note	363,835	-	(25,488)	338,347	26,561
Sewer bond	931,676	-	(12,908)	918,768	13,484
Tennessee Municipal Bond	66,000	-	(15,000)	51,000	16,000
	<u>\$ 1,395,243</u>	<u>\$ -</u>	<u>\$ (64,456)</u>	<u>\$ 1,330,787</u>	<u>\$ 67,671</u>

Governmental Activities future debt maturities at June 30, 2013 consisted of the following:

Year Ended June 30	Bank Note		Bank Note		Sewer Bond	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 11,626	\$ 870	\$ 26,561	\$ 11,246	\$ 13,484	\$ 39,928
2015	11,046	275	27,493	10,315	14,086	39,326
2016	-	-	28,456	9,351	14,715	38,697
2017	-	-	29,454	8,354	15,372	38,040
2018	-	-	30,486	7,321	16,058	37,354
2019-2023	-	-	169,228	19,810	91,703	175,357
2024-2028	-	-	26,669	362	114,081	152,979
2029-2033	-	-	-	-	141,920	125,141
2034-2038	-	-	-	-	176,551	90,509
2039-2043	-	-	-	-	219,634	47,426
2044-2045	-	-	-	-	101,164	4,608
Total	<u>\$ 22,672</u>	<u>\$ 1,145</u>	<u>\$ 338,347</u>	<u>\$ 66,759</u>	<u>\$ 918,768</u>	<u>\$ 789,365</u>

Year Ended June 30	Municipal Bond		Total	
	Principal	Interest	Principal	Interest
2014	\$ 16,000	\$ 2,295	\$ 67,671	\$ 54,339
2015	17,000	1,575	69,625	51,491
2016	18,000	810	61,171	48,858
2017	-	-	44,826	46,394
2018	-	-	46,544	44,675
2019-2023	-	-	260,931	195,167
2024-2028	-	-	140,750	153,341
2029-2033	-	-	141,920	125,141
2034-2038	-	-	176,551	90,509
2039-2043	-	-	219,634	47,426
2044-2045	-	-	101,164	4,608
Total	<u>\$ 51,000</u>	<u>\$ 4,680</u>	<u>\$ 1,330,787</u>	<u>\$ 861,949</u>

Debt payments are made from the General Fund.

TOWN OF UNICOI, TENNESSEE  
Notes to Financial Statements (Continued)

NOTE 6 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town's risks of loss are covered by its commercial package insurance policies. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 7 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Town to concentrations of credit risk consist primarily of accounts receivable. Management does not believe significant credit risk exists at June 30, 2013.

NOTE 8 - PENSION PLAN

**Plan Description**

Employees of the Town of Unicoi are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service, and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established by state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Town of Unicoi, participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

**Funding Policy**

The Town of Unicoi requires employees to contribute 5.0 percent of earnable compensation.

The Town of Unicoi is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2013 was 3.54% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Town of Unicoi is established and may be amended by the TCRS Board of Trustees.

**Annual Pension Cost**

For the year ending June 30, 2013, the Town of Unicoi's annual pension cost of \$3,764 to TCRS was equal to the Town of Unicoi's required and actual contributions. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. Town of Unicoi's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 20 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

TOWN OF UNICOI, TENNESSEE  
Notes to Financial Statements (Continued)

NOTE 8 - PENSION PLAN (Continued)

**Trend Information**

Fiscal Year <u>Ending</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
June 30, 2013	\$3,764	100.00%	\$0.00
June 30, 2012	\$0	100.00%	\$0.00
June 30, 2011	\$0	100.00%	\$0.00

**Funded Status and Funding Progress**

As of July 1, 2011, the most recent actuarial valuation date, the plan was 50.88% percent funded. The actuarial accrued liability for benefits was \$0.04 million, and the actuarial value of assets was \$0.02 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.02 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.05 million, and the ratio of the UAAL to the covered payroll was 36.23 percent.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plans assets are increasing or decreasing over time relative to the AALs for benefits.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF UNICOI, TENNESSEE  
Schedule of Retirement Plan Funding Progress  
Year Ended June 30, 2013

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
_____	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/c)
July 1, 2011	\$ 21	\$ 40	\$ 20	50.88%	\$ 55	36.23%
July 1, 2009	\$ 10	\$ 10	\$ -	100.00%	\$ -	0.00%
July 1, 2007	\$ 6	\$ 6	\$ -	100.00%	\$ 32	0.00%

SUPPLEMENTARY INFORMATION

TOWN OF UNICOI, TENNESSEE  
Schedule of Federal Awards  
Year Ended June 30, 2013

Pass-through Grantor/Program Title	CFDA	Balance July 1, 2012	Receipts	Expenditures	Balance June 30, 2013
<b>United States Department of Transportation Grant Passed Through Tennessee Department of Environment and Conservation -</b>					
Recreation Educational Trail Program	20.219	\$ -	\$ -	\$ 105,000	\$ 105,000
Tennessee Recreation Initiative Program	20.219	-	-	52,579	52,579
<b>Total</b>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 157,579</u>	<u>\$ 157,579</u>

TOWN OF UNICOI, TENNESSEE  
Schedule of Insurance Coverage  
June 30, 2013

<u>Town of Unicoi, Tennessee</u>	<u>Coverage Amount</u>
Comprehensive General Liability: General liability	\$300,000/700,000/300,000
Errors and omissions	\$300,000/700,000/300,000
Automotive liability	\$300,000/700,000/300,000
Each other loss per occurrence	\$1,000,000
Property - blanket limit per occurrence	\$1,152,538
Workers' Compensation	\$300,000/700,000/300,000

TOWN OF UNICOI, TENNESSEE  
Schedule of Cash Shortages  
Year Ended June 30, 2013

City Office or Department	Fiscal Year First Reported	Beginning Report Cash Shortage	Increase in Shortage	Reduction of Shortage	Ending Report Cash Shortage	(1) Fieldwork Through
1. Recorder	6/30/2013	\$ -	\$ 14 <sup>(2)</sup>	\$ -	\$ 14	6/30/2013
2. Board and Management	6/30/2013	-	657 <sup>(3)</sup>	-	657	6/30/2013
Total		<u>\$ -</u>	<u>\$ 671</u>	<u>\$ -</u>	<u>\$ 671</u>	

**Footnote:**

1. The fieldwork was done through 6/30/13 only and expenses after that day were not tested.
2. Recorder reimbursed mileage was over stated by \$14 on one reimbursement form tested.
3. The Town paid for board member, management, an accompanying spouses meals on a retreat. The amount noted above is an estimate as there was no way to determine the amount allocated to the spouses. The total meals were \$1,969 for members of the Town and Spouses. One third is used as an estimated amount for spouses.

Independent Auditors' 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*

Board of Mayor and Aldermen  
Town of Unicoi, Tennessee

We have audited, in accordance with the 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 the financial statements of the governmental activities, and the general fund of the Town of Unicoi, Tennessee, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated September 11, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material weaknesses.

1. 13-01 - Condition

Several balance sheet accounts were closed to fund balance in the prior year including a material amount of cash. These accounts were set up in the accounting software as income statement accounts and therefore, the balances did not roll. These were not corrected in the accounting software until the audit.

Criteria

Balance sheet accounts should be set up properly and not closed to fund balance at year end.

Effect

Financial statements are not properly recorded and presented if the accounts are not properly coded and closed.

Recommendation

Care should be taken to make sure accounts are set up properly and reconciled each month in the system in order to provide accurate financial information.

2. 13-02 - Observation

Supporting documentation for expenditures was not found during testing.

Criteria

Support for all expenditures should be maintained and should be available for the audit.

### Effect

Without proper support for expenditures there is no way to determine appropriateness, amount, or procedures followed.

### Recommendation

The recorder should maintain a copy of source documents including invoices for expenses to be reviewed at a later date.

## 3. 13-03- Observation

There is insufficient depth and breadth in accounting and reporting function. During the course of our audit we noted the lack of a review process with regard to the recording of journal entries. Additionally, we were not given an accurate trial balance which resulted in significant entries in the areas of cash, accounts receivable, accounts payable, fund balance, and the related income statement accounts. This was also a finding in the prior year.

### Criteria

Adequate review is considered a significant control against management's ability to implement unwarranted entries. It is important that financial information is accurate and available to the board and outside parties.

### Effect

The result of these conditions was that the Town's financial statements were not presented to us correct in their original form.

### Recommendation

Accounting records should be reviewed and properly recorded. A process should be in place to make sure financial information is accurate and intact.

## 4. 13-04 – Observation

Board member and employee spouses accompanied them on a trip. Meals were paid for by the Town for the members, employees, and their spouses.

### Criteria

Meals can be provided for board members and employees on business outings, however meals for spouses is abuse of Town funds.

### Effect

Paying for spouses meals is abuse of governmental funds.

### Recommendation

A Per Diem amount in line with IRS or other Government amounts should be set for business trips or retreats and should only be paid to employees or board members. Additionally carpooling should be considered when possible to save the town money and should be considered in the policy.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described below to be significant deficiencies.

5. 13-05-Observation

Due to the small size of the bookkeeping staff, segregation of duties is inadequate. This was also a finding in the prior year

Criteria

Ideally, duties should be segregated so that one person is performing only one of the following functions in relation to a specific aspect of the organization.

- 1) Custody
- 2) Recording
- 3) Authorization

Effect

One person being in control of all aspects of accounting leaves room for error and fraud to occur.

Recommendation

Internal control procedures should be in place to segregate the duties of custody, recording, and authorization of the accounting records to prevent error and fraud.

6. 13-06-Observation

Salaries were not reported on 941's in the proper period. Instead of amending the returns, the salaries were added to the next 941 prepared. Penalties and interest would have been charged had an amended return been prepared and should have been paid.

Criteria

Payroll should be reported on the 941's in the period it is paid. If not, an amended return should be filed to correct any errors.

Effect

Payroll was not properly reported to the state and penalty and interest was not paid where applicable.

Recommendation

Payroll should be reported on the 941's in the period it is paid. If not, an amended return should be filed to correct any errors.

Management's Response

Management acknowledges that there is insufficient depth and breadth in accounting and reporting function but believes that the benefits of adding staff would not justify the added costs. However, management will explore other avenues to determine if other steps could be taken. Management will reflect on the recommendations and take steps to make corrections throughout the year.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Unicoi, Tennessee's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Town of Unicoi's Response to Findings**

The Town of Unicoi, Tennessee's responses to the findings identified in our audit are described above. We did not audit the Town of Unicoi, Tennessee's responses and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rodger Moss & Co, PLLC

Greeneville, Tennessee  
September 11, 2014

Tennessee | Kentucky | Indiana

