THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE

(A COMPONENT UNIT OF
COFFEE COUNTY, TENNESSEE)

AUDIT REPORT

June 30, 2013

BEAN, RHOTON & KELLEY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
300 S. Jefferson Street, Winchester, TN 37398
931.967.0611
www.brkcpa.com

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
TABLE OF CONTENTS
June 30, 2013

Introductory Section – Unaudited

Roster of Board Members and Management Officials	a

Financial Section

Independent Auditors' Report	1-2
Statement of Net Position	3
Statement of Activities	4
Balance Sheet - Governmental Funds	5
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	6
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Net Position - Proprietary Fund	9
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund	10
Statement of Cash Flows - Proprietary Fund	11
Budgetary Comparison Schedule – General Fund	12-13
Notes to Financial Statements	14-20

Other Supplementary Information

Schedule of Cash and Cash Equivalents	22

Internal Control and Compliance Section

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*	24-25
Schedule of Findings and Responses	26-29

INTRODUCTORY SECTION - UNAUDITED

ROSTER OF BOARD MEMBERS AND MANAGEMENT OFFICIALS

Board Members

Patricia Pinegar, Chairman of the Board
Manchester, TN

Joseph Hills, Sr., Vice Chairman
Manchester, TN

Jim Major, 1st Secretary
Tullahoma, TN

Richard Dix, Treasurer
Manchester, TN

John McCoin, 2nd Secretary
Manchester, TN

Freda Jones
Christiana, TN

Deborah Brown
Tullahoma, TN

Management Officials

Michael Osborne, General Manager
Manchester, TN

BEAN, RHOTON & KELLEY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

300 SOUTH JEFFERSON STREET, WINCHESTER, TN 37398

Office: 931-967-0611
Fax: 931-967-4784
info@brkcpa.com
www.brkcpa.com

Members of American Institute of
Certified Public Accountants,
Tennessee Society of CPA's,
Association of Government Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Public Building Authority of Coffee County, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of The Public Building Authority of Coffee County, Tennessee as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority'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 an opinion 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 auditors consider internal control relevant to the entity'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 entity'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 opinion.

Opinion

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, and each major fund of The Public Building Authority of Coffee County, Tennessee, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Account 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise The Public Building Authority of Coffee County, Tennessee's basic financial statements. The introductory section and schedule of cash and cash equivalents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of cash and cash equivalents is the responsibility of management and was derived from and relate 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 the 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 schedule of cash and cash equivalents is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2014, on our consideration of The Public Building Authority of Coffee County, 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 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 Public Building Authority of Coffee County, Tennessee's internal control over financial reporting and compliance.

Bean, Rhoton & Kelley, PLLC

Bean, Rhoton & Kelley, PLLC
January 30, 2014

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
STATEMENT OF NET POSITION
June 30, 2013

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and cash equivalents	$ 5,083.30	$ 197,308.85	$ 202,392.15
Restricted cash	0.00	16,741.75	16,741.75
Receivables	4,935,000.00	37,056.22	4,972,056.22
Accrued interest receivable	65,800.00	0.00	65,800.00
Inventories	0.00	30,187.58	30,187.58
Capital assets:			
Land	25,000.00	0.00	25,000.00
Buildings and improvements, net of depreciation	0.00	1,758,687.56	1,758,687.56
Furniture, machinery, and equipment net of depreciation	19,922.48	25,381.76	45,304.24
TOTAL ASSETS	5,050,805.78	2,065,363.72	7,116,169.50
DEFERRED OUTFLOWS OF RESOURCES			
Deferred bond costs	186,878.37	0.00	186,878.37
LIABILITIES			
Accounts payable	2,375.00	50,706.59	53,081.59
Accrued liabilities	0.00	27,208.65	27,208.65
Accrued interest payable	65,800.00	0.00	65,800.00
Bond premiums	186,878.37	0.00	186,878.37
Noncurrent liabilities:			
Due within one year	490,000.00	0.00	490,000.00
Due in more than one year	4,445,000.00	0.00	4,445,000.00
TOTAL LIABILITIES	5,190,053.37	77,915.24	5,267,968.61
NET POSITION			
Net investment in capital assets	44,922.48	1,784,069.32	1,828,991.80
Restricted for nonexpendable (Note 8)	0.00	16,741.75	16,741.75
Unrestricted	2,708.30	186,637.41	189,345.71
TOTAL NET POSITION	$ 47,630.78	$ 1,987,448.48	$ 2,035,079.26

The accompanying notes are an integral part of this statement.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

		Program Revenues	Net (Expense) Revenue and Changes in Net Position		
			Primary Government		
	Expenses	Fees, Fines and Charges for Services	Governmental Activities	Business-type Activities	Total
FUNCTIONS/PROGRAMS					
Primary government					
Governmental activities:					
General	$ 9,225.91	$ 0.00	$ (9,225.91)	$ 0.00	$ (9,225.91)
Bond	211,137.50	0.00	(211,137.50)	0.00	(211,137.50)
Total governmental activities	220,363.41	0.00	(220,363.41)	0.00	(220,363.41)
Business-type activities:					
Conference center	770,005.14	582,031.75	0.00	(187,973.39)	(187,973.39)
Total business-type activities	770,005.14	582,031.75	0.00	(187,973.39)	(187,973.39)
Total primary government	$ 990,368.55	$ 582,031.75	(220,363.41)	(187,973.39)	(408,336.80)
	General revenues				
	Appropriations from Coffee County		9,720.00	61,135.69	70,855.69
	Appropriations from Manchester		0.00	61,770.03	61,770.03
	Interest		211,166.87	503.28	211,670.15
	Total general revenues		220,886.87	123,409.00	344,295.87
	Change in net position		523.46	(64,564.39)	(64,040.93)
	Net position-beginning		47,107.32	2,052,012.87	2,099,120.19
	Net position-ending		$ 47,630.78	$ 1,987,448.48	$ 2,035,079.26

The accompanying notes are an integral part of this statement.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013

	Governmental Fund Types		Total Governmental Funds
	General	Bond Fund	
ASSETS			
Cash and cash equivalents	$ 5,083.30	$ 0.00	$ 5,083.30
Total Assets	$ 5,083.30	$ 0.00	$ 5,083.30
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 2,375.00	$ 0.00	$ 2,375.00
Total Liabilities	2,375.00	0.00	2,375.00
Fund balance:			
Unassigned	2,708.30	0.00	2,708.30
Total fund balances	2,708.30	0.00	2,708.30
Total liabilities and fund balances	$ 5,083.30	$ 0.00	$ 5,083.30

The accompanying notes are an integral part of this statement.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2013

Fund balances - total governmental funds	$	2,708.30
Amounts reported for governmental activities in the Statement of Net Position are different from amounts reported for governmental funds in the Balance Sheet because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in governmental funds.		
Capital assets		52,042.00
Less accumulated depreciation		(7,119.52)
Notes receivable are not due and receivable in the current period and therefore are not reported in the governmental funds.		
Notes receivable		4,935,000.00
Interest receivable		65,800.00
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Bonds, notes, and capital lease obligations		(4,935,000.00)
Accrued interest payable		(65,800.00)
Net position - total governmental activities	$	47,630.78

The accompanying notes are an integral part of this statement.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

	Governmental Fund Types		Total
	General Fund	Bond Fund	Governmental Funds
REVENUES:			
Interest income	$ 29.37	$ 211,137.50	$ 211,166.87
Other income	9,720.00	0.00	9,720.00
Total Revenues	9,749.37	211,137.50	220,886.87
EXPENDITURES			
General and administrative	7,468.04	0.00	7,468.04
Debt service:			
Principal	0.00	455,000.00	455,000.00
Interest and other charges	0.00	211,137.50	211,137.50
Total Expenditures	7,468.04	666,137.50	673,605.54
Excess / (Deficiency) of revenues over expenditures	2,281.33	(455,000.00)	(452,718.67)
OTHER FINANCING SOURCES:			
Principal payments from Coffee County, Tennessee	0.00	355,000.00	355,000.00
Principal payments from the City of Manchester, Tennessee	0.00	100,000.00	100,000.00
Total Other Financing Sources	0.00	455,000.00	455,000.00
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	2,281.33	0.00	2,281.33
Fund balance, beginning of year	426.97	0.00	426.97
Fund balance, end of year	$ 2,708.30	$ 0.00	$ 2,708.30

The accompanying notes are an integral part of this statement.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

Net change in fund balances - governmental funds	$	2,281.33
Amounts reported for governmental activities in the Statement of Activities are different from amounts reported for governmental funds in the Statement of Revenues, Expenditures and Changes in Fund Balances, because:		
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The amount be which capital outlays reported in the Governmental Funds ($0.00) is less than depreciation ($1,757.87) for the year.		(1,757.87)
Repayment of principal on bonds and notes payable is an expenditure in the governmental funds, but reduces long-term liabilities for governmental activities. Also governmental funds include interest paid in debt service expenditures, whereas interest is accrued and expensed as it becomes payable for governmental activities.		
Principal repayments		455,000.00
Interest payments		211,137.50
Receipt of principal on notes receivable is a revenue in the governmental funds, but decreases loans receivable for governmental activities. Also governmental funds include interest received in revenue, whereas interest receivable is accrued as it becomes receivable for governmental activities.		
Principal received		(455,000.00)
Interest received		(211,137.50)
Change in net position - governmental activities	$	523.46

The accompanying notes are an integral part of this statement.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
STATEMENT OF NET POSITION - PROPRIETARY FUND
June 30, 2013

	Manchester Coffee County Conference Center	Totals
ASSETS		
Cash and cash equivalents	$ 197,308.85	$ 197,308.85
Certificates of deposits - restricted	16,741.75	16,741.75
Accounts receivable	37,056.22	37,056.22
Inventories	30,187.58	30,187.58
Capital assets, net of depreciation	1,784,069.32	1,784,069.32
TOTAL ASSETS	2,065,363.72	2,065,363.72
LIABILITIES		
Accounts payable	50,706.59	50,706.59
Accrued liabilities	27,208.65	27,208.65
TOTAL LIABILITIES	77,915.24	77,915.24
NET POSITION		
Net investment in capital assets	1,784,069.32	1,784,069.32
Restricted for nonexpendable (Note 8)	16,741.75	16,741.75
Unrestricted	186,637.41	186,637.41
TOTAL NET POSITION	$ 1,987,448.48	$ 1,987,448.48

The accompanying notes are an integral part of this statement.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2013

	Manchester Coffee County Conference Center	Totals
OPERATING REVENUES		
Food, beverage and service sales	$ 500,419.53	$ 500,419.53
Culinary training income	39,625.44	39,625.44
Rental income	41,986.78	41,986.78
Total Operating Revenues	582,031.75	582,031.75
OPERATING EXPENSES		
Cost of food and beverage sold	147,690.17	147,690.17
Maintenance and operations	38,108.60	38,108.60
Payroll expenses	384,107.51	384,107.51
Contract labor	3,600.00	3,600.00
Advertising	4,492.41	4,492.41
Utilities	54,282.69	54,282.69
Professional services	6,125.00	6,125.00
Depreciation	66,822.70	66,822.70
Insurance	3,190.15	3,190.15
Bank charges	3,998.34	3,998.34
Culinary training expenses	15,625.44	15,625.44
Manager's discretionary account	2,250.79	2,250.79
Other	39,711.34	39,711.34
Total Operating Expenses	770,005.14	770,005.14
Operating (loss)	(187,973.39)	(187,973.39)
NONOPERATING REVENUES(EXPENSES)		
Interest income	503.28	503.28
Appropriations from governments	122,905.72	122,905.72
Total Nonoperating Revenues (Expenses)	123,409.00	123,409.00
Change in net position	(64,564.39)	(64,564.39)
Net position, beginning of year	2,052,012.87	2,052,012.87
Net position, end of year	$ 1,987,448.48	$ 1,987,448.48

The accompanying notes are an integral part of this statement.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For the Year Ended June 30, 2013

	Enterprise Fund Manchester Coffee County Conference Center	Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 599,596.29	$ 599,596.29
Payments to employees	(311,994.19)	(311,994.19)
Payments to suppliers	(190,232.93)	(190,232.93)
Other payments	(189,399.05)	(189,399.05)
Net cash (used) by operating activities	(92,029.88)	(92,029.88)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of fixed assets	(22,398.36)	(22,398.36)
Net cash (used) by capital and related financing activities	(22,398.36)	(22,398.36)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Appropriations from governments	122,905.72	122,905.72
Net cash provided by noncapital financing activities	122,905.72	122,905.72
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in restricted certificates of deposits	(122.17)	(122.17)
Interest income	503.28	503.28
Net cash provided by investing activities	381.11	381.11
Net increase in cash and cash equivalents	8,858.59	8,858.59
Cash and cash equivalents at beginning of year	188,450.26	188,450.26
Cash and cash equivalents at end of year	$ 197,308.85	$ 197,308.85
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (loss)	$ (187,973.39)	$ (187,973.39)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	66,822.70	66,822.70
Change in assets and liabilities:		
Accounts receivable	17,564.54	17,564.54
Inventories	2,956.23	2,956.23
Accounts payable	9,157.72	(12,585.41)
Accrued expenses	(557.68)	(557.68)
Net cash (used) by operating activities	$ (92,029.88)	$ (113,773.01)

The accompanying notes are an integral part of this statement.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2013

	Budgetary Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(See Note A)	Positive (Negative)
Budgetary fund balance beginning of year	$ 426.97	$ 426.97	$ 426.97	$ 0.00
Resources (inflows):				
Bond revenues	10.00	10.00	0.00	(10.00)
Other income	9,700.00	9,700.00	9,720.00	20.00
Interest income	10.00	10.00	29.37	19.37
Amounts available for appropriation	9,720.00	9,720.00	9,749.37	29.37
Charges to appropriations (outflows):				
Annual audit	2,000.00	2,000.00	1,500.00	500.00
Legal services	3,500.00	3,500.00	3,500.00	0.00
Other expenses	4,220.00	4,220.00	2,468.04	1,751.96
Total charges to appropriations	9,720.00	9,720.00	7,468.04	2,251.96
Budgetary fund balance, end of year	$ 426.97	$ 426.97	$ 2,708.30	$ 2,281.33

(continued)

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (continued)
For the Year Ended June 30, 2013

	General Fund
Note A: Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures	
Sources/Inflow of Resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	$ 9,749.37
Differences - Budget to GAAP	
There are no differences from Budget to GAAP	0.00
Total revenues as reported on the statement of revenues, expenditure, and changes in fund balances - governmental funds	9,749.37
Uses/Outflows of Resources	
Actual amounts (budgetary basis) "total charges to appropriations:" from the budgetary comparison schedule	7,468.04
Differences - Budget to GAAP	
There are no differences from Budget to GAAP	0.00
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 7,468.04

The accompanying notes are an integral part of this statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Public Building Authority of Coffee County, Tennessee (the Authority) was incorporated September 5, 2000. The purpose of the Authority is to provide the capital resources (through the sale of bonds, notes, and other obligations) necessary to acquire, construct, reconstruct, rehabilitate, or improve facilities necessary or convenient to the operation of the related entities. In accordance with Section 12-10-108, *Tennessee Code Annotated*, the Authority has seven Board of Directors that are elected by the governing body; the County Commission of Coffee County, Tennessee, and they hold office for staggered six year terms. As defined in Governmental Accounting Standards Board (GASB) 14, the Authority is a legal entity that meets the definition of a component unit of Coffee County in that a financial benefit/burden relationship exists between the County and the Authority.

The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

Reporting entity

The Authority follows the standards promulgated by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units,* to define the reporting entity. The financial statements include all operations over which the Authority is financially accountable. The Authority is not a participant in any joint venture and has not identified any entities which would be component units of the Authority.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the Authority's activities. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as *general revenues.* The effect of interfund activity has been removed from the government-wide financial statements.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements are met. Expenses are recorded when liabilities are incurred.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

Governmental Fund Financial Statements

Governmental fund financial statements (i.e., Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances) 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. Revenues susceptible to accrual are interest on investments, and intergovernmental revenues. Interest on invested funds is recognized when earned. Intergovernmental revenues that are reimbursements for specific expenditures are recognized when all eligibility requirements are met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Authority has presented the following major governmental funds:

General Fund – This fund is the main operating fund of the Authority. This fund is used to account for all financial resources not accounted for in other funds. All general revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the General Fund.

Bond Fund – This fund is a special revenue fund used to account for the loans made by the Authority to the city and county for capital projects such as the joint industrial park, vocational rehab center, and water lines for the county. The collection of principal and interest on these loans is recorded in the bond fund.

Proprietary Fund Financial Statements

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenues of the Conference Center are charges for catering, space rental, and related services. During the current fiscal year, the Conference Center also began offering a culinary arts and hospitality tech school in conjunction with the Tennessee Technology Center at McMinnville. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Authority has presented the following major proprietary fund:

Manchester Conference Center – This fund is used to account for the services provided at the Conference Center.

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 a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Equipment

Plant and equipment is stated at cost, and depreciation is computed using the straight-line method based upon the estimated useful lives of the assets. The estimated useful lives vary from five to forty years. Major expenditures for plant and equipment are capitalized while maintenance and repairs are expensed when incurred.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

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

Statements of Cash Flows

For purposes of the Statement of Cash Flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

Interfund Receivables and Payables and Transactions Between Funds

Short-term amounts owed between funds are classified as "Due to/from other funds." Legally authorized transfers are treated as operating transfers and are included in the results of operations of both Governmental and Proprietary Funds.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Authority is bound to honor constraints on specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Authority did not have any nonspendable resources as of June 30, 2013.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Authority did not have any restricted resources as of June 30, 2013.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) that as employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Authority did not have any committed resources as of June 30, 2013.

Assigned: This classification includes amounts that are constrained by the Authority's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the manager through the budgetary process. The Authority did not have any committed resources as of June 30, 2013.

Unassigned: This classification includes the residual fund balance for the General Fund.

The Authority would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to deter the use of these other classified funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Conference Center

During the year ended June 30, 2002, the Authority completed construction of the Manchester-Coffee County Conference Center, located adjacent to the Holiday Inn in Manchester. The PBA is responsible for operating the Conference Center. Operations of the Conference Center are reported as an enterprise fund of the PBA. In an agreement with the Authority, the City of Manchester and Coffee County are jointly responsible for underwriting the debt and operations of the Center. Furthermore, any net profits and losses attributable to the operation of the Conference Center are born equally by the City of Manchester and Coffee County.

NOTE 2 – CASH

The Authority is authorized to invest funds in financial institutions and direct obligations of the Federal Government. During 2013, the Authority invested funds that are not immediately needed in certificates of deposit, savings accounts, and money market accounts. The Authority's deposits at year-end were entirely covered by federal depository insurance or by collateral held by the Authority's bank in the Authority's name. The carrying amount of total cash deposits (including petty cash) at June 30, 2013, is $219,133.90.

NOTE 3 – RECEIVABLES

A summary of governmental receivables for the year ended June 30, 2013, follows:

Coffee County	$ 3,695,000.00
City of Manchester	1,240,000.00
	$ 4,935,000.00

Of the total, the Public Building Authority expects to receive $110,000.00 from the City of Manchester and $380,000.00 from Coffee County for bond payment within the next twelve months.

The business type activities consist of the following receivable for the year ended June 30, 2013:

Trade receivables	$ 21,659.41
Coffee County	7,698.42
City of Manchester	7,698.39
	$ 37,056.22

NOTE 4 – CAPITAL ASSETS

Governmental Activities

Capital assets activity for the year ended June 30, 2013, was as follows:

Coffee County Public Authority:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital assets not being depreciated:				
Land	$ 25,000.00	$ 0.00	$ 0.00	$ 25,000.00
Total capital assets not being depreciated	25,000.00	0.00	0.00	25,000.00
Other capital assets:				
Equipment	27,042.00	0.00	0.00	27,042.00
Total other capital assets	27,042.00	0.00	0.00	27,042.00
Less accumulated depreciation for:				
Equipment	(5,361.65)	(1,757.87)	0.00	(7,119.52)
Total accumulated depreciation	(5,361.65)	(1,757.87)	0.00	(7,119.52)
Other capital assets, net	21,680.35	(1,757.87)	0.00	19,922.48
Governmental activities capital assets, net	$ 46,680.35	$ (1,757.87)	$ 0.00	$ 44,922.48

Depreciation expense amounted to $1,757.87 for the year ended June 30, 2013.

Business Type Activities

Coffee County/Manchester Conference Center:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Business Type Activities				
Capital assets:				
Building	$ 2,403,605.69	$ 11,595.85	$ 0.00	$ 2,415,201.54
Equipment	323,644.47	10,802.51	0.00	334,446.98
Total capital assets	2,727,250.16	22,398.36	0.00	2,749,648.52
Less accumulated depreciation for:				
Building	(594,938.15)	(61,575.83)	0.00	(656,513.98)
Equipment	(303,818.35)	(5,246.87)	0.00	(309,065.22)
Total accumulated depreciation	(898,756.50)	(66,822.70)	0.00	(965,579.20)
Business type activities capital assets, net	$ 1,828,493.66	$ (44,424.34)	$ 0.00	$ 1,784,069.32

Depreciation expense amounted to $66,822.70 for the year ended June 30, 2013.

NOTE 5 – BONDS PAYABLE

The following is a summary of the Authority's bonded debt transactions for the year ended June 30, 2013:

Coffee County Public Authority:

	Outstanding July 1, 2012	Additions	Refunding/ Retirements	Outstanding June 30, 2013
Bonds, Series Z-4-A 4.5% - 5.00%	$ 5,390,000.00	$ 0.00	$ 455,000.00	$ 4,935,000.00
	$ 5,390,000.00	$ 0.00	$ 455,000.00	$ 4,935,000.00

Annual debt service requirements for bonds, Series Z-4-A outstanding to maturity are as follows:

June 30	Principal	Interest
2014	$ 490,000.00	$ 197,400.00
2015	520,000.00	177,800.00
2016	555,000.00	157,000.00
2017	590,000.00	134,800.00
2018	630,000.00	111,200.00
2019 – 2021	2,150,000.00	175,400.00
	$ 4,935,000.00	$ 953,600.00

The City of Manchester and Coffee County are jointly responsible for the bonds payable.

NOTE 6 – CONDUIT DEBT

The Authority is an unauthorized conduit debt issuer under the Tennessee Local Government Alternative Loan Program (TN-LOANS Program). The Authority has issued bonds as conduit debt on behalf of the Cities of Manchester, TN, Winchester, TN, Fayetteville, TN, White House, TN, Lawrenceburg, TN, Harrison County, TN, and Coffee County, Tennessee. The borrowers have guaranteed, insured, and pledged certain revenues for repayments of these bond issues. The bonds do not constitute a debt or pledge of faith and credit of the Authority and, accordingly, have not been reported in the accompanying financial statements. The total conduit debt outstanding as of June 30, 2013, for all conduit bond issues is $43,085,000.00.

NOTE 7 – INVENTORY

Inventory is stated at cost and includes food and supplies used by the Conference Center.

NOTE 8 – RESTRICTED NET POSITION

The Government-Wide Statement of Net Position and Statement of Net Position – Proprietary Fund reports $16,741.75 of restricted net position, which has been restricted due to liquor license requirements.

NOTE 9 – BUDGETARY DATA

Formal budgetary accounting is employed as a management control for all funds of the Authority. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required, and the same basis of accounting is used to reflect actual revenues and expenditures/expenses recognized on a generally accepted accounting principles basis. Budgetary control is exercised at the departmental level.

NOTE 10 – RISK FINANCING ACTIVITIES

It is the policy of the Authority to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, worker's compensation, and environmental. Settled claims have not exceeded commercial coverage in the past four fiscal years, and there are currently no pending lawsuits.

NOTE 11 – RETIREMENT PLAN

The employees of the Authority are covered under the plan covering employees of Coffee County. The Coffee County Government unit pays for this plan.

NOTE 12 – ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Authority has adopted the direct write-off method to account for bad debt expense. Receivables are reviewed annually and uncollectable accounts are currently expensed. There was no bad debt expense in 2013.

OTHER SUPPLEMENTARY INFORMATION

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
OTHER SUPPLEMENTARY INFORMATION
June 30, 2013

SCHEDULE OF CASH AND CASH EQUIVALENTS

	Carrying Value
General Fund:	
American City Bank- checking account	$ 5,083.30
Total General Fund	5,083.30
Enterprise Fund:	
American City Bank- checking account	(617.01)
American City Bank- checking account	197,675.86
American City Bank- certificate of deposit	6,656.39
First Vision Bank - certificate of deposit	10,085.36
Petty Cash	250.00
Total Enterprise Fund	214,050.60
Total Cash - All Funds	$ 219,133.90

See Accompanying Independent Auditors' Report.

INTERNAL CONTROL AND COMPLIANCE SECTION

BEAN, RHOTON & KELLEY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
300 SOUTH JEFFERSON STREET, WINCHESTER, TN 37398

Office: 931-967-0611
Fax: 931-967-4784

www.brkcpa.com

Members of American Institute of
Certified Public Accountants,
Tennessee Society of CPA's,
Association of Government Accountants

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

To the Board of Directors
The Public Building Authority of Coffee County, 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, the business-type activities, and each major fund of The Public Building Authority of Coffee County, Tennessee, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise The Public Building Authority of Coffee County, Tennessee's basic financial statements and have issued our report thereon dated January 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Public Building Authority of Coffee County, Tennessee'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 Public Building Authority of Coffee County, Tennessee's internal control. Accordingly, we do not express an opinion on the effectiveness of The Public Building Authority of Coffee County, Tennessee'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 in the accompanying schedule of findings and responses, 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 deficiency described in the accompanying schedule of findings and responses to be a material weakness [13-01].

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 in the accompany schedule of findings and responses to be significant deficiencies [10-01, 11-01, 13-01, 13-02, 13-03, and 13-04].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Public Building Authority of Coffee County, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items [10-02 and 13-05].

The Public Building Authority of Coffee County, Tennessee's Responses to Findings

The Public Building Authority of Coffee County, Tennessee's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Public Building Authority of Coffee County, Tennessee's responses were not subjected to the auditing procedures applied in the audit of the financial statements 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 *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bean, Rhoton & Kelley, PLLC

Bean, Rhoton & Kelley, PLLC
January 30, 2014

I. Summary of Auditors' Results

A. The June 30, 2013, Auditor's Report on the financial statements was unqualified.

B. Significant deficiencies in internal control were disclosed by the audit and are discussed below in findings 10-01, 11-01, 13-01, 13-02, 13-03, and 13-04.

C. A material weakness was disclosed by the audit and is discussed below in finding 13-01.

D. Instance of noncompliance were disclosed by the audit and are discussed below in findings 10-02 and 13-05.

II. Findings Related to the Financial Statements, which are required to be reported in accordance with *Government Auditing Standards*.

(10-01) Segregation of Duties

In our review of the overall accounting controls of the Center's accounting system, we found several areas where proper segregation of duties might be obtained. The Center's inability to properly segregate the control of funds from record-keeping duties is a significant weakness in controls. It is understood that due to the lack of available personnel, this situation does and will continue to exist. The Board should realize the additional responsibilities imposed.

Recommendation:
Because of the number of office staff working for the Center, we do not believe a complete segregation of duties is possible that would eliminate all weaknesses in the Center's accounting system. However, a thorough study of the internal control aspect of the accounting system should be considered by the Center. Certain additional procedures and segregation of proper duties could increase the control over the assets.

Board's Comment:
Because of the size and nature of the Center's operation, there is no practical way to remedy this situation. We will work on these issues to mitigate the risks.

Disposition:
As of June 30, 2013, this problem still exists.

(10-02) Three Day Banking Law

Deposits are not always made within three days of receipt.

Recommendation:
All collections of cash must be deposited to an official bank within three days of collection. One purpose of this rule is to minimize losses from theft, resulting from break-ins or misplaced cash.

Board's Comment:
With only one employee assigned to the accounting section of the facility, a new process for depositing funds in the absence of that employee is being implemented.

Disposition:
As of June 30, 2013, this problem still exists.

(11-01) Authorized Signatures

During our testing, we identified a bank account that only requires one signature to withdraw funds. While the Authority's purchasing policy does allow one signature on checks under $1,000.00, we noted instances of checks above the limit with one signature.

Recommendation:
The use of dual signatures for check writing is recommended in the Internal Control and Compliance Manual for Tennessee Municipalities. Dual signatures ensure a review of disbursements and additional examination of invoices before they are paid. Proper controls should be in place to ensure that the Authority's purchasing policies are followed.

Board's Comment:
Public Building Authority policy for dual signatures over $1,000.00 will be reviewed. Management has corrected the conditions that lead to the violations.

Disposition:
As of June 30, 2013, this problem still exists.

(13-01) Bank Reconciliations

We found that some bank accounts were not reconciled on a timely basis, which resulted in a small overdraft.

Recommendation:
Bank accounts should be reconciled within thirty days of receipt to ensure that they are accurate and all activity is properly recorded in the accounting software. Significant outstanding items should be written off so that obsolete transactions are no longer included. All items for the period of reconciliation should be included so that a correct reconciliation is performed. After the reconciliation is completed, posting should not be altered.

Board's Comment:
Conditions that caused the finding were corrected at the time of audit. Current fiscal period records are being updated to prevent this finding from reoccurring.

(13-02) Controls over Disbursements

Testing revealed that the Authority had weak controls over disbursements.

The Authority's files did not include adequate supporting documentation for each disbursement. There were also instances where no supporting documentation was available for testing. It was noted that sales tax was being paid on some expenditures. Testing also revealed instances where invoices were paid late. Additionally, instances were found during testing of invoices not being cancelled properly and expenses were posted to the wrong distribution account.

(13-02) Controls over Disbursements (continued)

Recommendation:
Officials should ensure that adequate supporting documentation is maintained in the municipality's files in accordance with the Internal Control and Compliance Manual for Tennessee Municipalities. To avoid unnecessary expenditure of funds, the Authority should review all invoices and deduct any sales tax before making payment to the vendor. Invoices, receiving reports (signed), and other documentation should be obtained for all purchases. They should be attached together and filed in such a way that they can be easily found for future reference and audit. Each invoice should be stamped, perforated, or otherwise marked as paid when each check is written. Measures should be taken to ensure that all activity is posted to the correct account. Before signing a check, authorized individuals should review adequate supporting documentation to determine that the disbursement is for a valid municipal purpose. Invoices should be paid in a timely manner in order to not incur any late fees. Vendors should be notified of the Authority's exempt status relative to sales and use tax.

Board's Comment:
Proper documentation and filing procedures have been changed that will enable timely retrieval of supporting documentation for all disbursements. A proper cancellation method for identifying paid invoices has been implemented.

(13-03) Petty Cash

During our review of disbursements, we noted that there were checks written to petty cash.

Recommendation:
Proper internal accounting controls dictate that no checks should be written to petty cash. Instead they should be made payable to the individual receiving such monies. This individual then becomes accountable for these monies.

Board's Comment:
The identified process for establishing a temporary increase to the change fund for purposes of cash sales was established with assistance of a prior accounting professional. The current process has been in place since 2003 and has not been identified as a finding by previous audit. The Public Building Authority will address the finding as well as the recommendations of the auditor to determine what steps to take in addressing this finding.

(13-04) Journal Entries

Testing revealed a lack of controls over the journal entry process. Supporting documentation was not made available during testing. Additionally, there was no indication of approval prior to posting.

Recommendation:
Management should review and approve all journal entries before they are posted. Additionally, supporting documentation should be provided for each journal entry submitted for approval.

Board's Comment:
A new process for filing Journal Entries has been implemented.

(13-05) Quarterly Payroll Reports

Proper quarterly payroll reports were not filed during the fiscal year.

Recommendation:
Precise maintenance and control of payroll records is essential, because of social and labor legislation and the complex accounting and reporting problems involved. Authority officials should note that local governmental units are required to report total salaries and make payment of income taxes withheld in the same manner as other employers. Additionally, officials should ensure that all required payroll reports are filed accurately and in a timely manner.

Board's Comment:
A recent change in personnel in the account manager's position lead to incomplete filing of the required Quarterly Reports. Funds associated with the reports were disbursed, but the forms that accompany the disbursement were not linked to the automated payment action. The problem has been corrected. Training for the new accounts manager will continue and the corrected filing process will be made.