

THE PUBLIC BUILDING AUTHORITY
OF COFFEE COUNTY, TENNESSEE

(A COMPONENT UNIT OF
COFFEE COUNTY, TENNESSEE)

AUDIT REPORT

June 30, 2015



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, 2015

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 Statement – General Fund	12
Notes to Financial Statements	13-19

Other Supplementary Information

Schedule of Cash and Cash Equivalents	21
---------------------------------------	----

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 <i>Government Auditing Standards</i>	23-24
Schedule of Findings and Responses	25-33
Schedule of Prior Year Findings	34

INTRODUCTORY SECTION - UNAUDITED

**THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
INTRODUCTORY SECTION - UNAUDITED
June 30, 2015**

ROSTER OF BOARD MEMBERS AND MANAGEMENT OFFICIALS

Board Members

Patricia Pinegar, Chairman of the Board
Manchester, TN

Freda Jones, Vice Chairman
Christiana, TN

Richard Dix, Secretary/Treasurer
Manchester, TN

Pat Barton
Manchester, TN

Deborah Brown
Tullahoma, TN

David Pennington
Manchester, TN

Stan Teal
Tullahoma, TN

Management Officials

Alyce Heifer, General Manager
Manchester, TN



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, a component unit of Coffee County, as of and for the year ended June 30, 2015, 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.

Basis for Adverse Opinion on the Financial Statements as a Whole

Management has not presented the basic financial statements to accurately display the financial position and changes in financial position of its governmental activities, business-type activities, and major fund. The accurate amounts that would be reported in the financial statements of The Public Building Authority of Coffee County, Tennessee governmental activities, business-type activities, and major fund have not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on the Financial Statements as a Whole” paragraph, the financial statements referred to above do not present fairly the financial position of The Public Building Authority of Coffee County, Tennessee, as of June 30, 2015, or the changes in financial position or, 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

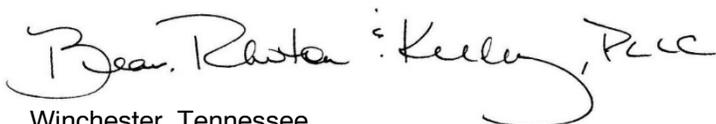
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise The Public Building Authority of Coffee County, Tennessee’s basic financial statements. The introductory section and schedule of cash and cash equivalents are presented for purposes of 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. Because of the significance of the matter discussed in the “Basis for Adverse Opinion on the Financial Statements as a Whole” paragraph, the schedule of cash and cash equivalents is not 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 December 17, 2015, 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.

A handwritten signature in black ink that reads "Bear Rosta". The signature is written in a cursive style with a large, sweeping flourish at the end.

Winchester, Tennessee
December 17, 2015

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
STATEMENT OF NET POSITION
June 30, 2015

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,728.00	\$ 87,290.55	\$ 92,018.55
Restricted cash	0.00	16,905.02	16,905.02
Receivables	3,925,000.00	40,583.99	3,965,583.99
Interfund balances	(1,720.65)	1,720.65	0.00
Prepaid expenses	0.00	5,700.00	5,700.00
Accrued interest receivable	56,179.17	0.00	56,179.17
Other assets	0.00	5,756.24	5,756.24
Inventories	0.00	10,972.06	10,972.06
Capital assets:			
Land	25,000.00	0.00	25,000.00
Buildings and improvements, net of depreciation	0.00	1,692,912.48	1,692,912.48
Furniture, machinery, and equipment net of depreciation	16,406.74	24,017.45	40,424.19
TOTAL ASSETS	<u>4,025,593.26</u>	<u>1,885,858.44</u>	<u>5,911,451.70</u>
LIABILITIES			
Accounts payable	246.00	40,366.61	40,612.61
Accrued liabilities	0.00	43,842.04	43,842.04
Accrued interest payable	56,179.17	0.00	56,179.17
Noncurrent liabilities:			
Due within one year	520,000.00	0.00	520,000.00
Due in more than one year	<u>3,405,000.00</u>	<u>0.00</u>	<u>3,405,000.00</u>
TOTAL LIABILITIES	<u>3,981,425.17</u>	<u>84,208.65</u>	<u>4,065,633.82</u>
NET POSITION			
Investment in capital assets	41,406.74	1,716,929.93	1,758,336.67
Restricted (Note 8)	0.00	16,905.02	16,905.02
Unrestricted	<u>2,761.35</u>	<u>67,814.84</u>	<u>70,576.19</u>
TOTAL NET POSITION	<u>\$ 44,168.09</u>	<u>\$ 1,801,649.79</u>	<u>\$ 1,845,817.88</u>

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, 2015

	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
	Expenses	Fees, Fines and Charges for Services	Primary Government		
			Governmental Activities	Business-type Activities	Total
FUNCTIONS/PROGRAMS					
Primary government					
Governmental activities:					
General	\$ 6,695.37	\$ 0.00	\$ (6,695.37)	\$ 0.00	\$ (6,695.37)
Bond	173,337.50	0.00	(173,337.50)	0.00	(173,337.50)
Total governmental activities	<u>180,032.87</u>	<u>0.00</u>	<u>(180,032.87)</u>	<u>0.00</u>	<u>(180,032.87)</u>
Business-type activities:					
Conference center	796,249.60	494,920.59	0.00	(301,329.01)	(301,329.01)
Total business-type activities	<u>796,249.60</u>	<u>494,920.59</u>	<u>0.00</u>	<u>(301,329.01)</u>	<u>(301,329.01)</u>
Total primary government	<u>\$ 976,282.47</u>	<u>\$ 494,920.59</u>	<u>(180,032.87)</u>	<u>(301,329.01)</u>	<u>(481,361.88)</u>
General revenues					
Appropriations from Coffee County			6,220.00	70,139.41	76,359.41
Appropriations from Manchester			0.00	55,319.37	55,319.37
Other income			0.00	11,930.19	11,930.19
Interest			173,354.48	261.47	173,615.95
Total general revenues			<u>179,574.48</u>	<u>137,650.44</u>	<u>317,224.92</u>
Change in net position			(458.39)	(163,678.57)	(164,136.96)
Net position-beginning			44,626.48	1,965,328.36	2,009,954.84
Net position-ending			<u>\$ 44,168.09</u>	<u>\$ 1,801,649.79</u>	<u>\$ 1,845,817.88</u>

The accompanying notes are an integral part of this statement.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
 BALANCE SHEET - GOVERNMENTAL FUNDS
 June 30, 2015

	Governmental Fund Types		Total
	General	Bond Fund	Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 4,728.00	\$ 0.00	\$ 4,728.00
Total Assets	<u>\$ 4,728.00</u>	<u>\$ 0.00</u>	<u>\$ 4,728.00</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 246.00	\$ 0.00	\$ 246.00
Due to other funds	1,720.65	0.00	1,720.65
Total Liabilities	<u>1,966.65</u>	<u>0.00</u>	<u>1,966.65</u>
Fund balance:			
Unassigned	<u>2,761.35</u>	<u>0.00</u>	<u>2,761.35</u>
Total fund balances	<u>2,761.35</u>	<u>0.00</u>	<u>2,761.35</u>
Total liabilities and fund balances	<u>\$ 4,728.00</u>	<u>\$ 0.00</u>	<u>\$ 4,728.00</u>

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, 2015**

Fund balances - total governmental funds \$ 2,761.35

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	51,817.00
Less accumulated depreciation	(10,410.26)

Notes receivable are not due and receivable in the current period and therefore are not reported in the governmental funds.

Notes receivable	3,925,000.00
Interest receivable	56,179.17

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	(3,925,000.00)
Accrued interest payable	(56,179.17)
	(3,981,179.17)

Net position - total governmental activities	\$ 44,168.09
--	--------------

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 BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	<u>Governmental Fund Types</u>		Total
	General		Governmental
	<u>Fund</u>	<u>Bond Fund</u>	<u>Funds</u>
REVENUES:			
Interest income	\$ 16.98	\$ 173,337.50	\$ 173,354.48
Other income	6,220.00	0.00	6,220.00
Total Revenues	<u>6,236.98</u>	<u>173,337.50</u>	<u>179,574.48</u>
EXPENDITURES			
General and administrative	4,937.50	0.00	4,937.50
Debt service:			
Principal	0.00	520,000.00	520,000.00
Interest and other charges	0.00	173,337.50	173,337.50
Total Expenditures	<u>4,937.50</u>	<u>693,337.50</u>	<u>698,275.00</u>
Deficiency of revenues over expenditures	<u>1,299.48</u>	<u>(520,000.00)</u>	<u>(518,700.52)</u>
OTHER FINANCING SOURCES:			
Contributions from Coffee County, Tennessee	0.00	400,000.00	400,000.00
Contributions from the City of Manchester, Tennessee	0.00	120,000.00	120,000.00
Total Other Financing Sources	<u>0.00</u>	<u>520,000.00</u>	<u>520,000.00</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	1,299.48	0.00	1,299.48
Fund balance, beginning of year	1,461.87	0.00	1,461.87
Fund balance, end of year	<u>\$ 2,761.35</u>	<u>\$ 0.00</u>	<u>\$ 2,761.35</u>

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, 2015**

Net change in fund balances - governmental funds \$ 1,299.48

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 by 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 520,000.00

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 (520,000.00)

Change in net position - governmental activities \$ (458.39)

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, 2015

	Manchester Coffee County Conference Center	Totals
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ 87,290.55	\$ 87,290.55
Certificates of deposits	16,905.02	16,905.02
Accounts receivable	40,583.99	40,583.99
Due from other funds	1,720.65	1,720.65
Prepaid expenses	5,700.00	5,700.00
Other assets	5,756.24	5,756.24
Inventories	10,972.06	10,972.06
Capital assets, net of depreciation	1,716,929.93	1,716,929.93
TOTAL ASSETS	<u>1,885,858.44</u>	<u>1,885,858.44</u>
 LIABILITIES		
Accounts payable	40,366.61	40,366.61
Accrued liabilities	43,842.04	43,842.04
TOTAL LIABILITIES	<u>84,208.65</u>	<u>84,208.65</u>
 NET POSITION		
Net investment in capital assets	1,716,929.93	1,716,929.93
Restricted (Note 8)	16,905.02	16,905.02
Unrestricted	67,814.84	67,814.84
TOTAL NET POSITION	<u>\$ 1,801,649.79</u>	<u>\$ 1,801,649.79</u>

The accompanying notes are an integral part of this statement.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
For the Year Ended June 30, 2015

	Budgetary Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance beginning of year	\$ 1,461.87	\$ 1,461.87	\$ 1,461.87	\$ 0.00
Resources (inflows):				
Other income	6,210.00	6,210.00	6,220.00	10.00
Interest income	10.00	10.00	16.98	6.98
Amounts available for appropriation	6,220.00	6,220.00	6,236.98	16.98
Charges to appropriations (outflows):				
Administrative services	1,800.00	1,800.00	1,095.00	705.00
Annual audit	1,500.00	1,500.00	0.00	1,500.00
Board meeting expense	1,800.00	1,800.00	2,879.40	(1,079.40)
Legal services	1,000.00	1,000.00	87.50	912.50
Licences and reports	20.00	20.00	0.00	20.00
Meeting and travel expenses	0.00	0.00	875.60	(875.60)
Miscellaneous administrative expenses	100.00	100.00	0.00	100.00
Total charges to appropriations	6,220.00	6,220.00	4,937.50	1,282.50
Budgetary fund balance, end of year	\$ <u>1,461.87</u>	\$ <u>1,461.87</u>	\$ <u>2,761.35</u>	\$ <u>1,299.48</u>

There are no differences between budgetary inflows and outflows and GAAP revenues and expenditures.

The accompanying notes are an integral part of this statement.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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, provided they are collected in the current period or within sixty days thereafter. 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 June 30, 2013 fiscal year, the Conference Center began offering a culinary arts and hospitality tech school in conjunction with the Tennessee Technology Center at McMinnville. This activity was discontinued during the current fiscal year. 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. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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. Any residual balances outstanding between the governmental and business-type activities are reported in the governmental-wide financial statements as “internal balances”.

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, 2015.

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, 2015.

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, 2015.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 assigned resources as of June 30, 2015.

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.

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 2015, 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, 2015, is \$108,923.57.

NOTE 3 – RECEIVABLES

A summary of governmental receivables for the year ended June 30, 2015, follows:

Coffee County	\$ 2,915,000.00
City of Manchester	<u>1,010,000.00</u>
	<u>\$ 3,925,000.00</u>

Of the total, the Public Building Authority expects to receive \$138,750.00 from the City of Manchester and \$416,250.00 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, 2015:

Trade receivables	<u>\$ 40,583.99</u>
	<u>\$ 40,583.99</u>

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 4 – CAPITAL ASSETS

Governmental Activities

Capital assets activity for the year ended June 30, 2015, was as follows:

Coffee County Public Authority:

	Balance <u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2015</u>
Capital assets not being depreciated:				
Land	\$ 25,000.00	\$ 0.00	\$ 0.00	\$ 25,000.00
Total capital assets not being depreciated	<u>25,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>25,000.00</u>
Other capital assets:				
Equipment	<u>26,817.00</u>	<u>0.00</u>	<u>0.00</u>	<u>26,817.00</u>
Total other capital assets	<u>26,817.00</u>	<u>0.00</u>	<u>0.00</u>	<u>26,817.00</u>
Less accumulated depreciation for:				
Equipment	<u>(8,652.39)</u>	<u>(1,757.87)</u>	<u>0.00</u>	<u>(10,410.26)</u>
Total accumulated depreciation	<u>(8,652.39)</u>	<u>(1,757.87)</u>	<u>0.00</u>	<u>(10,410.26)</u>
Other capital assets, net	<u>18,164.61</u>	<u>(1,757.87)</u>	<u>0.00</u>	<u>16,406.74</u>
Governmental activities capital assets, net	<u>\$ 43,164.61</u>	<u>\$ (1,757.87)</u>	<u>\$ 0.00</u>	<u>\$ 41,406.74</u>

Depreciation expense amounted to \$1,757.87 for the year ended June 30, 2015.

Business Type Activities

Coffee County/Manchester Conference Center:

	Balance <u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2015</u>
Business Type Activities				
Capital assets:				
Building	\$ 2,415,201.54	\$ 59,997.00	\$ 0.00	\$ 2,475,198.54
Equipment	<u>328,400.98</u>	<u>8,808.47</u>	<u>0.00</u>	<u>337,209.45</u>
Total capital assets	<u>2,743,602.52</u>	<u>68,805.47</u>	<u>0.00</u>	<u>2,812,407.99</u>
Less accumulated depreciation for:				
Building	<u>(718,566.73)</u>	<u>(63,719.33)</u>	<u>0.00</u>	<u>(782,286.06)</u>
Equipment	<u>(307,034.98)</u>	<u>(6,157.02)</u>	<u>0.00</u>	<u>(313,192.00)</u>
Total accumulated depreciation	<u>(1,025,601.71)</u>	<u>(69,876.35)</u>	<u>0.00</u>	<u>(1,095,478.06)</u>
Business type activities capital assets, net	<u>\$ 1,718,000.81</u>	<u>\$ (1,070.88)</u>	<u>\$ 0.00</u>	<u>\$ 1,716,929.93</u>

Depreciation expense amounted to \$69,876.35 for the year ended June 30, 2015.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 5 – BONDS PAYABLE

The following is a summary of the Authority’s bonded debt transactions for the year ended June 30, 2015:

Coffee County Public Authority:

	<u>Outstanding July 1, 2014</u>	<u>Additions</u>	<u>Refunding/ Retirements</u>	<u>Outstanding June 30, 2015</u>
Bonds, Series Z-4-A				
4.5% - 5.00%	\$ <u>4,445,000.00</u>	\$ <u>0.00</u>	\$ <u>520,000.00</u>	\$ <u>3,925,000.00</u>
	\$ <u>4,445,000.00</u>	\$ <u>0.00</u>	\$ <u>520,000.00</u>	\$ <u>3,925,000.00</u>

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

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 555,000.00	\$ 157,000.00
2017	590,000.00	134,800.00
2018	630,000.00	111,200.00
2019 – 2021	<u>2,150,000.00</u>	<u>175,400.00</u>
	<u>\$ 3,925,000.00</u>	<u>\$ 578,400.00</u>

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 31, 2015, for all conduit bond issues is \$27,225,000.00.

NOTE 7 – INVENTORY

Inventory is stated at cost and includes food and supplies used by the Conference Center. The cost is recorded as an expense when purchased.

NOTE 8 – RESTRICTED NET POSITION

The Government-Wide Statement of Net Position and Statement of Net Position – Proprietary Fund reports \$16,905.02 of restricted net position, which has been restricted due to liquor license requirements.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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.

The Public Building Authority's actual expenditures exceeded the amount appropriated in the final budget passed on August 11, 2014. This practice is contrary to state statutes, which require all expenditures of the general fund be authorized by the governing body.

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 2015.

NOTE 13 – SPECIAL INVESTIGATION

The office of the Comptroller of the Treasury is conducting a special investigation of selected records of the Public Building Authority of Coffee County, Tennessee. The report is not available as of the release date of the Audit Report.

OTHER SUPPLEMENTARY INFORMATION

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
 OTHER SUPPLEMENTARY INFORMATION
 June 30, 2015

SCHEDULE OF CASH AND CASH EQUIVALENTS

	<u>Carrying Value</u>
General Fund:	
American City Bank- checking account	\$ 4,728.00
Total General Fund	<u>4,728.00</u>
Enterprise Fund:	
American City Bank- checking account	13,430.92
American City Bank- checking account	45,932.19
US Bank - golden business checking account	26,377.60
American City Bank- certificate of deposit	6,718.20
First Vision Bank - certificate of deposit	10,186.82
Petty Cash	1,549.84
Total Enterprise Fund	<u>104,195.57</u>
 Total Cash - All Funds	 <u>\$ 108,923.57</u>

INTERNAL CONTROL AND COMPLIANCE SECTION



BEAN, RHOTON & KELLEY, PLLC
Certified Public Accountants

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*

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, 2015, 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 December 17, 2015. The report was adverse due to management not presenting the basic financial statements to accurately display the financial position and changes in financial position of The Public Building Authority of Coffee County, Tennessee's governmental activities, business-type activities, and major fund.

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 [2013-001, 2013-002, 2013-004, 2015-003, 2015-004, 2015-005, 2015-008, and 2015-011].

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 [2010-001, 2011-001, 2013-003, 2014-001, 2015-002, 2015-006, 2015-009, and 2015-010].

Compliance and Other Matters

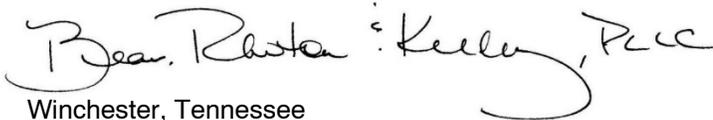
As part of obtaining reasonable assurance about whether The Public Building Authority of Coffee County, Tennessee's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 [2010-002, 2013-005, 2014-004, 2015-001, 2015-007, and 2015-012].

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.

A handwritten signature in black ink that reads "Bear Rosta". To the right of the signature, there is a smaller, less legible signature that appears to be "Keely Rice".

Winchester, Tennessee
December 17, 2015

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2015

I. Summary of Auditors' Results

- A. The June 30, 2015, Auditor's Report on the financial statements was adverse due to management not presenting the basic financial statements to accurately display the financial position and changes in financial position of The Public Building Authority of Coffee County, Tennessee's governmental activities, business-type activities, and major fund.
- B. Significant deficiencies in internal control were disclosed by the audit and are discussed below in findings 2010-001, 2011-001, 2013-003, 2014-001, 2015-002, 2015-006, 2015-009, and 2015-010.
- C. A material weakness was disclosed by the audit and is discussed below in finding 2013-001, 2013-002, 2013-004, 2015-003, 2015-004, 2015-005, 2015-008, and 2015-011.
- D. Instance of noncompliance were disclosed by the audit and are discussed below in findings 2010-002, 2013-005, 2014-004, 2015-001, 2015-007, and 2015-012.

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

(2010-001) Segregation of Duties

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

Recommendation:

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

Board's Comment:

We are aware of the problem and are working to remedy the situation.

Disposition:

As of June 30, 2015, this problem continued to exist.

(2010-002) Three Day Banking Law

Testing revealed that 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:

We are aware of the problem and are working to remedy the situation.

Disposition:

As of June 30, 2015, this problem continued to exist.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES (continued)
June 30, 2015

(2011-001) Authorized Signatures

We identified bank accounts that only require 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. Additionally, accounts were confirmed to have authorized signatures of individuals who are no longer associated with the Authority.

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:

We are aware of the problem and are working to remedy the situation.

Disposition:

As of June 30, 2015, this problem continued to exist.

(2013-001) Bank Reconciliations

In the prior fiscal year, we found instances of bank accounts not being reconciled on a timely basis. This continued to be a problem in the current fiscal year with nine months being the maximum amount of time noted between the bank statement date and reconciliation date. Testing revealed that deposit and withdrawal amounts per the reconciliations did not match amounts reported on the bank statements. Testing also revealed multiple deposits being posted as one deposit in the accounting software, outstanding items older than two years, and other unusual reconciling items. Additionally, instances were noted where the cash balance did not match the Trial Balance.

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:

We are aware of the problem and are working to remedy the situation.

Disposition:

As of June 30, 2015, this problem continued to exist.

(2013-002) Controls over Disbursements

Testing revealed that the Authority had weak controls over disbursements. The Authority's files did not include adequate supporting documentation for some disbursements which were selected for testing. There were also instances where no supporting documentation was made available for testing. Testing revealed instances where items were indicated as being returned, but proof of credit was not provided for testing. Instances of sales tax being paid on some expenses were also noted during testing.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES (continued)
June 30, 2015

(2013-002) Controls over Disbursements (continued)

Testing also revealed instances where invoices were paid late or were altered. Checks were noted to have been signed only by the payee. Disbursements were found which had not been properly posted into the accounting software or were posted to an incorrect distribution account. Additionally, instances were found during testing of invoices not being cancelled properly. Testing also revealed debit card charges that were not indicative of a valid organizational purchase and could have been regarded as improper.

Recommendation:

Officials should ensure that adequate supporting documentation is maintained in the Authority'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 organizational 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:

We are aware of the problem and are working to remedy the situation.

Disposition:

As of June 30, 2015, this problem continued to exist.

(2013-003) Petty Cash and Change

During the prior fiscal year, we noted that there were checks written to petty cash. During the current fiscal year, management stated that the Authority does not utilize petty cash. However, a petty cash balance was noted on the Trial Balance. Further analysis revealed that the Authority appeared to use this account to record change issued for events. Our limited testing revealed at least \$1,500.00 in change disbursements which we were unable to identify as redeposited in the Authority's bank accounts after the events.

Recommendation:

Petty cash should be reconciled on a regular basis. All invoices from purchases made from petty cash should be retained and attached as supporting documentation to the check issued to reimburse petty cash. Invoices should be reviewed to ensure that all purchases were legitimate purchases applicable to the Authority's operations. There should be no instances of employee cashed checks. 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. Change should be deposited into the bank account within three days after the event.

Board's Comment:

We are aware of the problem and are working to remedy the situation.

Disposition:

As of June 30, 2015, this problem continued to exist.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES (continued)
June 30, 2015

(2013-004) 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 the transfer of funds or posting of activity.

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:

We are aware of the problem and are working to remedy the situation.

Disposition:

As of June 30, 2015, this problem continued to exist.

(2013-005) Quarterly Payroll Reports

In prior fiscal years, proper quarterly payroll reports were not filed.

During the current fiscal year, the Authority was unable to provide the 3rd Quarter 2014 Tennessee Department of Labor Unemployment Insurance Premium and Wage Report for testing. Additionally, instances were noted where wages may have been underreported on the Tennessee Department of Labor Unemployment Insurance Premium and Wage Reports.

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 and related payments are filed accurately and in a timely manner.

Board's Comment:

We are aware of the problem and are working to remedy the situation.

Disposition:

As of June 30, 2015, this problem continued to exist.

(2014-001) Checks not Voided Properly

Testing revealed instances of checks not being properly voided. Additionally, management was unable to provide all voided checks requested for testing.

Recommendation:

Voided checks should have the signature lines removed, should be marked "void", and stapled to the check stub. In addition, measures should be taken to ensure the check is properly voided in the accounting system.

Board's Comment:

We are aware of the problem and are working to remedy the situation.

Disposition:

As of June 30, 2015, this problem continued to exist.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES (continued)
June 30, 2015

(2014-002) Surplus Fixed Assets

During fixed assets testing, we were unable to verify board approval for fixed assets that were deemed as surplus during the fiscal year.

Disposition:

As of June 30, 2015, this problem no longer exists.

(2014-003) Prenumbered Receipts

Testing revealed that prenumbered receipts are not being utilized.

Disposition:

As of June 30, 2015, this problem no longer exists.

(2014-004) Budget

We noted that actual expenditures exceeded the amount appropriated in the budget in the general fund.

Recommendation:

This practice is contrary to state statutes, which require all expenditures of the general and special revenue funds to be authorized by the governing body. All expenditures should be authorized in either the original budget or an amendment to that budget or in a supplemental appropriation.

Board's Comment:

We are aware of the problem and are working to remedy the situation.

Disposition:

As of June 30, 2015, this problem continued to exist.

(2015-001) Bank Account Transfers

We were unable to establish completeness of transfers between the Authority's bank accounts. Our limited testing identified withdrawals totaling at least \$2,707.00 which were transferred out of the Authority's bank accounts. However, we were unable to identify these funds as being credited into another bank account of the Authority.

Recommendation:

The Board should approve all transfers and the transferred monies should be easily identifiable as a timely deposit in another account owned by the Authority.

Board's Comment:

We are aware of the problem and are working to remedy the situation.

(2015-002) Cash Withdrawals

Testing revealed instances of cash withdrawals from the Authority's bank accounts. Our limited testing revealed three withdrawals totaling \$3,258.00. Supporting documentation for these withdrawals was not able to be located in the documentation provided for testing. Additionally, we were unable to verify dual signatures for these transactions.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES (continued)
June 30, 2015

(2015-002) Cash Withdrawals (continued)

Recommendation:

Cash withdrawals directly out of the bank accounts are not in the best interest of the Authority and require the Authority to accept a certain level of risk. This practice also circumvents the 2 authorized signatures control. To avoid taking additional unnecessary risks, the Authority should not engage in such practices.

Board's Comment:

We are aware of the problem and are working to remedy the situation.

(2015-003) Accounts Receivable

Our testing revealed that the Authority had weak controls over accounts receivable procedures. Testing revealed inconsistencies in the balance reported for accounts receivable. Numerous accounts were listed as being receivable for greater than 90 days. Finally, some receivables selected for testing could not be traced to an event listed on the event calendar provided for testing.

Recommendation:

Responsibilities for each step of the revenue process should be recorded and clearly established. Policies and procedures should be in place to ensure proper controls over the accounts receivable function. The accounts receivable listing should be current to ensure proper reporting of the financial statements and should be reviewed to ensure accuracy of the listing on a timely basis. Receivables should be posted into the accounting software in a manner that maintains individual customer transaction details to support the total balance reported and reconciled on a monthly basis.

Board's Comment:

We are aware of the problem and are working to remedy the situation.

(2015-004) Inventory

Our testing revealed that the Authority had weak controls over inventory procedures. Testing revealed inconsistencies in the balances reported for inventories. Inventory records were not provided for testing for all balances reported on the Trial Balance. Additionally, mathematical errors were noted on the records that were provided for testing.

Recommendation:

Because of the susceptible nature of the Authority's inventory items, a physical inventory should be performed and documented on a monthly basis. Adjustments should be posted in the accounting software to report the necessary changes in value to applicable asset and expense accounts.

Board's Comment:

We are aware of the problem and are working to remedy the situation.

(2015-005) Fixed Asset Records

Our testing revealed that the Authority had weak controls over fixed asset procedures. The Authority was unable to provide a current record of fixed assets in their possession.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES (continued)
June 30, 2015

(2015-005) Fixed Asset Records (continued)

Recommendation:

According to Title 5, Chapter 24, Section 1 of the Internal Control and Compliance Manual for Tennessee Municipalities, "officials should require that all capital assets be identified (tagged or marked), and recorded immediately following the purchase of such items. Vehicles and equipment (backhoes, mowers, etc.) should have the Authority's name or seal clearly displayed. The asset record should be retained at the Authority and should include up-to-date purchase and disposal information. An annual physical inventory should be performed, documented, and reconciled to the property records.

Board's Comment:

We are aware of the problem and are working to remedy the situation.

(2015-006) Accounts Payable

Our testing revealed that the Authority had weak controls over accounts payable procedures. Testing revealed inconsistencies between the balance reported for accounts payable and the detailed listing provided for testing. Invoices were also noted on the detailed listing as being past due for greater than 90 days.

Recommendation:

Responsibilities for each step of the purchasing process should be recorded and clearly established. Policies and procedures should be in place to ensure proper controls over the accounts payable function. The accounts payable listing should be current to ensure proper reporting of the financial statements and should be reviewed to ensure accuracy of the listing on a timely basis. Payables should be posted into the accounting software in a manner that maintains purchase transaction details to support the total balance reported.

Board's Comment:

We are aware of the problem and are working to remedy the situation.

(2015-007) Sales Tax and Liquor Tax Returns

While complete reports for the liquor sales tax returns were not made available for testing, instances were noted where sales tax returns and liquor sales tax returns appeared to be inaccurately prepared.

Recommendation:

Sales tax returns and liquor tax returns should be filled out accurately in order to ensure that the correct amount of related taxes are remitted to the state each month. The Authority may want to consider amending prior returns.

Board's Comment:

We are aware of the problem and are working to remedy the situation.

(2015-008) Receipts

During testing, instances were noted where receipt carbons were not intact in the receipt book. As a result, we were unable to locate receipts for testing. Additionally, it was noted during testing that deposits were not being posted correctly to the accounting software or were being posted to incorrect revenue accounts. We were unable to trace revenues selected for testing to the accounting software, which included, but was not limited to, general operating revenues and contributions from other governmental entities.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES (continued)
June 30, 2015

(2015-008) Receipts (continued)

Recommendation:

Receipt books should remain intact to ensure proper control of all receipts, issued or voided. All pre-numbered receipts must identify the purpose for the payment and the corresponding amount or other documentations must be attached to the receipt. All receipts should be prepared and signed by the individual who is collecting the monies. Voided receipts should be retained and stapled to the carbon. Deposit slips should be complete and itemized. Amounts should be consistent from the receipt, to the deposit slip, and then to the general ledger. Dates should also be consistent from the deposit slip to the general ledger.

Board's Comment:

We are aware of the problem and are working to remedy the situation.

(2015-009) Payroll Controls

During testing, instances were noted of timecards not being signed by the supervisor or employee. Not all requested employee pay rates and timecards were provided for testing. Additionally, we noted instances of discrepancies between the amount of time worked as reported on the timesheet and the amount of time paid on the paycheck. Additionally, supporting documentation was not provided for accrued vacation activity.

Recommendation:

Management should implement adequate controls to ensure that payroll liabilities, timecards, timesheets, and employee leave are reconciled each pay period.

Board's Comment:

We are aware of the problem and are working to remedy the situation.

(2015-010) Bonuses

Limited testing revealed that bonus amounts were not paid as approved per the proposed holiday bonus structure provided in the Board Minutes. Bonuses in the amount of at least \$3,000.00 were also found to be paid using gift cards. Additionally, instances were noted of unapproved employees receiving a bonus.

Recommendation:

Management should take steps to ensure amounts are paid as approved by the Board. Additionally, bonuses should be paid through a payroll method to ensure that proper taxes are withheld.

Board's Comment:

We are aware of the problem and are working to remedy the situation.

(2015-011) Failure to Establish and Follow Policies Regarding Credit Cards

Our testing indicated a significant lack of oversight in regards to credit card charges. While some credit card statements were available, documentation, including original invoices and charge slips, were not always on file. As a result, records were insufficient to determine if the Authority received the benefit of all purchases tested. Credit card charges were noted during testing that were not indicative of a valid organizational purpose and could have been regarded as improper. Additionally, limited testing revealed at least 13 instances of payments that were made to a Capital One credit card totaling \$11,456.00. We were unable to identify a Capital One credit card in the Authority's name.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES (continued)
June 30, 2015

(2015-011) Failure to Establish and Follow Policies Regarding Credit Cards (continued)

Recommendation:

To ensure only authorized, permissible charges are made on city credit cards, Authority officials should formulate clear, comprehensive credit card policies and procedures. The Internal Control and Compliance Manual for Tennessee Municipalities, page 61, states the policy should: "...designate individuals who are authorized to make purchases with the Authority's debit or credit cards. Clearly define the types of purchases permitted to be made using debit or credit cards. Such purchases must be approved in the same manner as any other purchase. If Authority officials authorize the use of credit and/or debit cards, the number of cards maintained should be kept to a minimum and should be properly accounted for. A record of the current holder(s)/user(s) should be maintained in the Authority's files and kept current. Personal charges should be strictly prohibited."

Board's Comment:

We are aware of the problem and are working to remedy the situation.

(2015-012) Supplemental Pay

Testing revealed 26 instances of supplemental pay totaling at least \$3,600.00.

Recommendation:

Any wage-like payments, other than reimbursements, to employees of the Authority should be paid through the payroll process and applicable taxes should be withheld.

Board's Comment:

We are aware of the problem and are working to remedy the situation.

THE PUBLIC BUILDING AUTHORITY OF COFFEE COUNTY, TENNESSEE
 SCHEDULE OF PRIOR YEAR FINDINGS
 June 30, 2015

Financial Statement Findings

Finding Numbers	Finding Title	Status
2010-001	Segregation of Duties	Repeated
2010-002	Three Day Banking Law	Repeated
2011-001	Authorized Signatures	Repeated
2013-001	Bank Reconciliations	Repeated
2013-002	Controls over Disbursements	Repeated
2013-003	Petty Cash	Repeated
2013-004	Journal Entries	Repeated
2013-005	Quarterly Payroll Reports	Repeated
2014-001	Checks not Voided Properly	Repeated
2014-002	Surplus Fixed Assets	Corrected
2014-003	Prenumbered Receipts	Corrected
2014-004	Budget	Repeated