

TOWN OF MASON, TENNESSEE

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**TOWN OF MASON, TENNESSEE
TABLE OF CONTENTS**

Introductory Section

Directory 1

Financial Section

Independent Auditor’s Report 2
Management’s Discussion and Analysis 5
Basic Financial Statements:
 Government-wide Financial Statements:
 Statement of Net Position 10
 Statement of Activities 11
 Fund Financial Statements:
 Balance Sheet - Governmental Funds 13
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position 14
 Statement of Revenues, Expenditures, and Changes in Fund Balances –
 Governmental Funds 15
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities 17
 Statement of Net Position - Proprietary Funds 18
 Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds 19
 Statement of Cash Flows - Proprietary Funds 21
 Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget and Actual - General Fund 23
 Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget and Actual - State Street Aid Fund 28
 Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget and Actual - Drug Fund 29
Notes to the Financial Statements 30

Supplementary and Other Information Section

Schedule of Changes in Property Taxes Receivable 42
Schedule of Utility Rates in Force 43
Schedule of Long-term Debt – Governmental Funds 44
Schedule of Long-term Debt – Proprietary Funds 45
Schedule of Expenditures of Federal Awards 46

Internal Control and Compliance Section

Independent Auditor’s 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* 47
Schedule of Findings 49
Schedule of Prior Year Findings 58

INTRODUCTORY SECTION

TOWN OF MASON, TENNESSEE
DIRECTORY
June 30, 2015

ELECTED OFFICIALS

William David Smith, Mayor (July 2014 – February 2015)
Gwendolyn Kilpatrick, Mayor (February 2015 – present)
Sandra Norvell, Vice Mayor
Virginia Rivers, Chairman
Frank Boyland, Alderman (July 2014 – March 2015)
Joe Nelson, Alderman (March 2015 – present)
DeWayne Gooden, Alderman
Gloria Whitley, Alderman
Linnie Waddell, Alderman

APPOINTED OFFICIALS

David Gordon, CMFO
Norma Davis, Town Recorder
Christopher Pate, Town Planner

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION

Members of:

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants



Certified Public Accountants
Offices in Tennessee & Kentucky

227 Oil Well Road
Jackson, TN 38305

Phone 731.427.8571
Fax 731.424.5701
www.atacpa.net

Independent Auditor's Report

The Mayor and Members of the Board of Aldermen
Town of Mason, Tennessee

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Mason, Tennessee (the Town), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on conducting the 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. Because of the matters described in the Basis for Disclaimer of Opinions paragraph, however, we were not able to obtain sufficient appropriate evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinions

We were unable to test and substantiate significant assets, liabilities, revenues and expenditures reported in the financial statements because the Town did not have adequate supporting documentation for various assets, liabilities, receipts and disbursements. We were unable to obtain sufficient appropriate audit evidence about these financial statement items by other auditing procedures. As a result of these matters, we were unable to determine whether any adjustments might have been necessary with respect to recorded or unrecorded receivables and the elements comprising the government-wide and fund level financial statements.

Disclaimer of Opinions

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express opinions on these financial statements.

Other Matters

Required Supplementary Information

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

Other Information

We were engaged to audit the financial statements for the purpose of forming opinions on the financial statements that collectively comprise the Town of Mason's basic financial statements. The introductory section and supplementary and other information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary and other information section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of 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 matters described in the Basis for Disclaimer of Opinions paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for audit opinions. Accordingly, we are unable to express an opinion on the supplementary and other information section in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we 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 27, 2017 on our consideration of the Town of Mason'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 Town of Mason's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Jackson, Tennessee
January 27, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Mason, we offer readers of the Town of Mason's financial statements this narrative overview and analysis of the financial activities of the Town of Mason for the fiscal year ended June 30, 2015. Comparative analyses of key elements of total governmental funds and total enterprise funds have been provided.

FINANCIAL HIGHLIGHTS

- The assets of the Town of Mason exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$2,111,630 (*net position*).
- As of the close of the current fiscal year, the Town of Mason's general fund reported an ending fund balance of (\$58,083), a decrease of \$10,597 in comparison with the prior year.
- The Town of Mason's bonds outstanding decreased by \$36,271 and capital outlay notes decreased by \$46,000 during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town of Mason's basic financial statements. The Town's basic financial statements are comprised of the following components:

1. Government-wide financial statements
2. Fund financial statements and
3. Notes to the financial statements.
4. This report also contains supplementary and other information, required supplementary information, an introductory section, and an internal control and compliance section in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town of Mason's finances, in a manner similar to a private-sector business.

- The Statement of Net Position presents information on all of the Town of Mason's assets, deferred outflows/inflows of resources, and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town of Mason is improving or deteriorating.
- The Statement of Activities presents information showing how the Town of Mason's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, compensated absences, etc.).

Both of the government-wide financial statements distinguish functions of the Town of Mason that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town of Mason include general government, public safety, public works, and debt service. The business-type activities of the Town of Mason include the water and sewer fund and natural gas fund. The government-wide financial statements can be found on pages 10 to 12 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Mason, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Mason can be divided into two categories: governmental funds and proprietary funds.

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the focus is on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources at the end of the fiscal year. Such information may be useful in evaluating the Government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town of Mason's near-term financing decisions. Both the Balance Sheet – Governmental Funds and the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The governmental fund financial statements and reconciliations can be found on pages 13 to 17 of this report.

The Town maintains three governmental funds. Information is presented separately in the Balance Sheet – Governmental Funds and in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds for each fund which is considered to be a major fund.

Proprietary funds – There are two different types of proprietary funds.

- *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Mason uses enterprise funds to account for the water and sewer fund and the natural gas fund.
- *Internal service funds* are an accounting device used to accumulate and allocate costs internally among a government's various functions. The Town of Mason currently has no internal service funds.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer fund and the natural gas fund which are both considered to be major funds of the Town of Mason. The basic proprietary fund financial statements can be found on pages 18 to 22 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30 to 41 of this report.

Other Information

Supplementary and other information is included in this report. The introductory section includes the directory and the supplementary and other information section includes supplementary schedules of selected financial and other information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position - As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town of Mason, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$2,111,630 at the close of the most recent fiscal year. The largest portion of the Town's net position 76.40% reflects its net investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. The Town of Mason uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Mason's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 205,342	\$ 171,457	\$ 611,120	\$ 620,728	\$ 816,462	\$ 792,185
Capital assets	479,900	523,034	2,370,852	2,049,228	2,850,752	2,572,262
Total assets	685,242	694,491	2,981,972	2,669,956	3,667,214	3,364,447
Long-term liabilities	357,355	378,607	880,018	941,037	1,237,373	1,319,644
Other liabilities	37,256	34,823	99,195	225,642	136,451	260,465
Total liabilities	394,611	413,430	979,213	1,166,679	1,373,824	1,580,109
Deferred inflows of resources	181,760	144,696	-	-	181,760	144,696
Net position:						
Net investment in capital assets	122,545	144,427	1,490,834	1,108,191	1,613,379	1,252,618
Restricted for:						
Drug fund	6,722	2,415	-	-	6,722	2,415
State street aid	16,451	9,298	-	-	16,451	9,298
Unrestricted	(36,847)	(19,775)	511,925	395,086	475,078	375,311
Total net position	\$ 108,871	\$ 136,365	\$ 2,002,759	\$ 1,503,277	\$ 2,111,630	\$ 1,639,642

A portion (.32%) of the net position is restricted for use by the drug fund and another portion (.78%) is restricted for the state street aid. The remaining balance of net position represents unrestricted net position (22.50%). At the end of the current fiscal year, the Town of Mason is able to report positive balances in both categories of net position, both for the Town of Mason as a whole, as well as for its total governmental and total business-type activities.

During the current fiscal year, the Town's capital assets increased by \$278 thousand which was primarily due to capital grant projects.

Statement of Activities – Expenses in governmental activities exceeded program revenues by \$421,087. In the business-type activities, program revenues exceeded expenses by \$453,147. General government revenues of \$393,593 offset a portion of the deficit leaving a net loss of \$27,494. Other business type income of \$39,592 contributed to the net income of \$492,739.

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 294,760	\$ 316,064	\$ 1,223,003	\$ 1,122,553	\$ 1,517,763	\$ 1,438,617
Operating grants and contributions	5,491	6,776	-	-	5,491	6,776
Capital grants and contributions	-	-	271,042	104,370	271,042	104,370
General revenues:						
Property taxes	159,274	165,301	-	-	159,274	165,301
Other taxes	215,801	252,221	-	-	215,801	252,221
Other sources	18,518	4,520	39,592	6,982	58,110	11,502
Total revenues	<u>\$ 693,844</u>	<u>\$ 744,882</u>	<u>\$ 1,533,637</u>	<u>\$ 1,233,905</u>	<u>\$ 2,227,481</u>	<u>\$ 1,978,787</u>
Expenses:						
General government	\$ 247,536	\$ 195,892	\$ -	\$ -	\$ 247,536	\$ 195,892
Public safety	396,651	446,463	-	-	396,651	446,463
Public works	59,752	60,943	-	-	59,752	60,943
Debt service	17,399	22,337	-	-	17,399	22,337
Water and Sewer	-	-	713,719	723,189	713,719	723,189
Natural gas	-	-	327,179	524,541	327,179	524,541
Total expenses	<u>721,338</u>	<u>725,635</u>	<u>1,040,898</u>	<u>1,247,730</u>	<u>1,762,236</u>	<u>1,973,365</u>
Change in net position	(27,494)	19,247	492,739	(13,825)	465,245	5,422
Net position - beginning	136,365	(301,013)	1,503,277	1,549,286	1,639,642	1,248,273
Prior period adjustment	-	418,131	6,743	(32,184)	6,743	385,947
Net position - beginning - restated	136,365	117,118	1,510,020	1,517,102	1,646,385	1,634,220
Net position - ending	<u>\$ 108,871</u>	<u>\$ 136,365</u>	<u>\$ 2,002,759</u>	<u>\$ 1,503,277</u>	<u>\$ 2,111,630</u>	<u>\$ 1,639,642</u>

COMMENTS ON FUND FINANCIAL STATEMENTS

Governmental funds – The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Government's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund accounts for approximately 92% of governmental fund revenues excluding other financing sources. Accordingly this discussion will focus on the general fund. General fund balance was (\$58,083) at the end of the current fiscal year with approximately \$47 thousand committed to certain plans of the Town.

Revenues in the general fund decreased from last year by \$25,085 primarily due to less charges for services received in the current fiscal year.

A budget comparison statement has been provided; however, budget documentation could not be obtained for the current fiscal year. Therefore these statements are shown without any budgeted amounts in any funds.

Proprietary funds – The Town of Mason's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of proprietary funds at the end of the year amounted to \$511,925. The total increase in net

position for these funds was \$492,739. The net change was primarily due to operating income in the natural gas fund and capital contributions from grants in the water and sewer fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

Final Budgeted and Actual Amounts

Budget documentation could not be located. Therefore, budgeted amounts are shown as zero.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - At the end of fiscal year 2015, the Town had invested \$2,850,752 net of accumulated depreciation in a variety of capital assets and infrastructure.

Long-term debt – At the end of the current fiscal year, the Town of Mason had total debt outstanding of \$1,237,373. Of this amount, \$1,206,355 comprises debt backed by the full faith and credit of the Town of Mason. The remaining \$31,018 is backed by a revenue source. Additional information on the Town of Mason’s long-term debt can be found in Note 4E on pages 39 through 40 of this report.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Mason's finances for citizens, taxpayers, customers, investors, creditors and all others with an interest in the Town of Mason's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Recorder, Town of Mason, 12157 Main Street, Mason, TN 38049.

BASIC FINANCIAL STATEMENTS

TOWN OF MASON, TENNESSEE
STATEMENT OF NET POSITION
June 30, 2015

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 17,521	\$ 38,541	\$ 56,062
Certificates of deposit	2,529	177,872	180,401
Receivables:			
Taxes (net of allowances)	207,225	-	207,225
Accounts - other (net of allowances)	-	46,886	46,886
Accounts - court fines (net of allowances)	67,657	-	67,657
Intergovernmental - nongrant	34,688	-	34,688
Internal balances	(221,045)	257,006	35,961
Inventories	-	28,770	28,770
Other current assets	96,767	62,045	158,812
Capital assets (not being depreciated):			
Land	-	92,708	92,708
Construction in progress	-	510,949	510,949
Other capital assets, net of depreciation	479,900	1,767,195	2,247,095
Total assets	<u>685,242</u>	<u>2,981,972</u>	<u>3,667,214</u>
Liabilities			
Accounts payable	\$ 27,984	\$ 7	\$ 27,991
Accrued expenses	9,272	11,327	20,599
Customer deposits	-	87,861	87,861
Due within one year	22,208	63,018	85,226
Due in more than one year	335,147	817,000	1,152,147
Total liabilities	<u>394,611</u>	<u>979,213</u>	<u>1,373,824</u>
Deferred Inflows of Resources			
Deferred revenue - property taxes	181,760	-	181,760
Total deferred inflows of resources	<u>181,760</u>	<u>-</u>	<u>181,760</u>
Net Position			
Net investment in capital assets	122,545	1,490,834	1,613,379
Restricted:			
Drug enforcement	6,722	-	6,722
State Street Aid	16,451	-	16,451
Unrestricted	(36,847)	511,925	475,078
Total net position	<u>\$ 108,871</u>	<u>\$ 2,002,759</u>	<u>\$ 2,111,630</u>

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

TOWN OF MASON, TENNESSEE
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:							
General government:							
Legislative	\$ 9,587	\$ -	\$ -	\$ -	\$ (9,587)	\$ -	\$ (9,587)
Judicial	3,150	-	-	-	(3,150)	-	(3,150)
Financial administration	234,799	50,826	-	-	(183,973)	-	(183,973)
Public safety:							
Police	331,474	13,303	5,491	-	(312,680)	-	(312,680)
Fire	50,441	500	-	-	(49,941)	-	(49,941)
Inspection/Planning	-	310	-	-	310	-	310
Drug court	14,736	184,058	-	-	169,322	-	169,322
Public works:							
Street department	14,160	3,282	-	-	(10,878)	-	(10,878)
State street aid	45,592	42,481	-	-	(3,111)	-	(3,111)
Debt service:							
Interest	17,399	-	-	-	(17,399)	-	(17,399)
Total governmental activities	<u>721,338</u>	<u>294,760</u>	<u>5,491</u>	<u>-</u>	<u>(421,087)</u>	<u>-</u>	<u>(421,087)</u>
Business-type activities:							
Water & sewer	713,719	611,231	-	271,042	-	168,554	168,554
Natural gas	327,179	611,772	-	-	-	284,593	284,593
Total business-type activities	<u>\$ 1,040,898</u>	<u>\$ 1,223,003</u>	<u>\$ -</u>	<u>\$ 271,042</u>	<u>\$ -</u>	<u>\$ 453,147</u>	<u>\$ 453,147</u>

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

TOWN OF MASON, TENNESSEE
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenue and Changes in Net Position</u>		<u>Total</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
General revenues:							
Property taxes - levied for general government					\$ 140,625	\$ -	\$ 140,625
In lieu of property taxes - other governments					18,649	-	18,649
Sales taxes					161,389	-	161,389
Income taxes					4,328	-	4,328
Beer taxes					46,295	-	46,295
Liquor taxes					1,500	-	1,500
Business taxes					2,289	-	2,289
Franchise fees					5,130	-	5,130
Other sources					13,288	38,154	51,442
Unrestricted interest income					100	1,438	1,538
Total general revenues					<u>393,593</u>	<u>39,592</u>	<u>433,185</u>
Changes in net position					(27,494)	492,739	465,245
Net position - beginning					136,365	1,503,277	1,639,642
Prior period adjustment					-	6,743	6,743
Total net position - beginning (restated)					<u>136,365</u>	<u>1,510,020</u>	<u>1,646,385</u>
Net position - ending					<u>\$ 108,871</u>	<u>\$ 2,002,759</u>	<u>\$ 2,111,630</u>

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

TOWN OF MASON, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

	General Fund	State Street Aid Fund	Drug Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 4,508	\$ 6,545	\$ 6,468	\$ 17,521
Certificates of deposit	2,529	-	-	2,529
Receivables:				
Taxes (net of allowance for uncollectibles of \$7,209)	207,225	-	-	207,225
Accounts - court fines	67,657	-	-	67,657
Intergovernmental	34,688	-	-	34,688
Prepaid expenses	96,767	-	-	96,767
Due from other funds	79,530	9,906	449	89,885
Total assets	\$ 492,904	\$ 16,451	\$ 6,917	\$ 516,272
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities:				
Accounts payable	\$ 27,789	\$ -	\$ 195	\$ 27,984
Accrued expenses	9,272	-	-	9,272
Due to other funds	310,930	-	-	310,930
Total liabilities	347,991	-	195	348,186
Deferred inflows of resources				
Unavailable property taxes	202,996	-	-	202,996
Total deferred inflows of resources	202,996	-	-	202,996
Fund balances:				
Nonspendable	96,767	-	-	96,767
Restricted for:				
Drug fund	-	-	6,722	6,722
State Street Aid	-	16,451	-	16,451
Committed				
Fire Dept	10,628	-	-	10,628
Parks	36,164	-	-	36,164
Unassigned	(201,642)	-	-	(201,642)
Total fund balances	(58,083)	16,451	6,722	(34,910)
Total liabilities, deferred inflows of resources, and fund balances	\$ 492,904	\$ 16,451	\$ 6,917	\$ 516,272

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

TOWN OF MASON, TENNESSEE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2015

Amounts reported for the governmental activities in the statement of net position (Page 10) are different because:

Fund balance - total governmental funds (Page 13)	\$	(34,910)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in funds		479,900
Receivables not available to pay for current expenditures and, therefore, are unavailable in the funds		21,236
Long-term liabilities, including notes and bonds payable, are not due in the current period and, therefore, are not reported in the funds		<u>(357,355)</u>
Net position of governmental activities (Page 10)	\$	<u>108,871</u>

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

TOWN OF MASON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2015

	General Fund	State Street Aid Fund	Drug Fund	Total Governmental Funds
Revenues:				
Taxes	\$ 238,784	\$ -	\$ -	\$ 238,784
Licenses and permits	2,303	-	-	2,303
Intergovernmental	156,669	42,481	-	199,150
Charges for services	49,333	-	13,303	62,636
Fines	184,058	-	-	184,058
Other	13,383	-	4	13,387
Total revenues	<u>644,530</u>	<u>42,481</u>	<u>13,307</u>	<u>700,318</u>
Expenditures:				
Current:				
General government:				
Legislative	9,587	-	-	9,587
Judicial	3,150	-	-	3,150
Financial administration	220,348	-	-	220,348
Total general government	<u>233,085</u>	<u>-</u>	<u>-</u>	<u>233,085</u>
Public safety:				
Police	321,151	-	9,000	330,151
Fire	33,344	-	-	33,344
Drug court	14,736	-	-	14,736
Total public safety	<u>369,231</u>	<u>-</u>	<u>9,000</u>	<u>378,231</u>
Public works:				
Street department	14,160	-	-	14,160
State street aid	-	35,328	-	35,328
Total public works	<u>\$ 14,160</u>	<u>\$ 35,328</u>	<u>\$ -</u>	<u>\$ 49,488</u>

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

TOWN OF MASON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2015

	General Fund	State Street Aid Fund	Drug Fund	Total Governmental Funds
Debt service:				
Principal	21,252	-	-	21,252
Interest	17,399	-	-	17,399
Total debt service	38,651	-	-	38,651
Total expenditures	655,127	35,328	9,000	699,455
Net changes in fund balance	(10,597)	7,153	4,307	863
Fund balance - beginning	(47,486)	9,298	2,415	(35,773)
Fund balance - ending	\$ (58,083)	\$ 16,451	\$ 6,722	\$ (34,910)

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

**TOWN OF MASON, TENNESSEE
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

For the Fiscal Year Ended June 30, 2015

Amounts reported for the governmental activities in the statement of activities (Pages 11 and 12) are different because:

Net change in fund balance - total governmental funds (Page 16)	\$	863
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.		(43,134)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(6,475)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. These transactions do not have any effect on net position.		<u>21,252</u>
Change in net position of governmental activities (Page 12)	\$	<u>(27,494)</u>

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

TOWN OF MASON, TENNESSEE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2015

	Water and Sewer Fund	Natural Gas Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 14,956	\$ 23,585	\$ 38,541
Certificates of deposit	-	177,872	177,872
Receivables:			
Accounts	9,683	37,203	46,886
Due from other funds	32,420	370,119	402,539
Inventories	-	28,770	28,770
Prepaid expenses	-	62,045	62,045
Total current assets	<u>57,059</u>	<u>699,594</u>	<u>756,653</u>
Capital assets:			
Capital assets, net	<u>1,906,131</u>	<u>464,721</u>	<u>2,370,852</u>
Total capital assets	<u>1,906,131</u>	<u>464,721</u>	<u>2,370,852</u>
Total assets	<u>\$ 1,963,190</u>	<u>\$ 1,164,315</u>	<u>\$ 3,127,505</u>
Liabilities			
Current liabilities (payable from current assets):			
Accounts payable	\$ -	\$ 7	\$ 7
Accrued expenses	2,464	8,863	11,327
Customer deposits	38,653	49,208	87,861
Due to other funds	145,533	-	145,533
Current maturities of long-term debt	<u>39,018</u>	<u>24,000</u>	<u>63,018</u>
Total current liabilities (payable from current assets)	<u>225,668</u>	<u>82,078</u>	<u>307,746</u>
Noncurrent liabilities:			
Notes payable	<u>416,500</u>	<u>400,500</u>	<u>817,000</u>
Total noncurrent liabilities	<u>416,500</u>	<u>400,500</u>	<u>817,000</u>
Total liabilities	<u>642,168</u>	<u>482,578</u>	<u>1,124,746</u>
Net position:			
Net investment in capital assets	1,450,613	40,221	1,490,834
Unrestricted	<u>(129,591)</u>	<u>641,516</u>	<u>511,925</u>
Total net position	<u>1,321,022</u>	<u>681,737</u>	<u>2,002,759</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 1,963,190</u>	<u>\$ 1,164,315</u>	<u>\$ 3,127,505</u>

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

TOWN OF MASON, TENNESSEE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2015

	Water and Sewer Fund	Natural Gas Fund	Total
Operating revenues:			
Utility sales	\$ 523,756	\$ 580,867	\$ 1,104,623
Penalties	16,481	84	16,565
Reconnection fees	7,650	1,025	8,675
Taps and lines	1,285	3,175	4,460
Returned check fees	380	260	640
Miscellaneous	61,679	26,361	88,040
Total operating revenues	611,231	611,772	1,223,003
Operating expenses:			
Natural gas purchases	-	173,243	173,243
Salaries and wages	223,090	-	223,090
Salaries and wages - temporary employees	56,141	-	56,141
Payroll taxes	24,399	-	24,399
Advertising and publications	1,576	4,776	6,352
Postage	904	81	985
Dues and fees	11,131	1,152	12,283
Legal and accounting	23,632	30,497	54,129
Repairs and maintenance	54,177	17,692	71,869
Equipment	750	-	750
Supplies	25,632	4,149	29,781
Lab expense	4,327	3,501	7,828
Gas and oil	6,275	6,245	12,520
Office expense	3,257	4,068	7,325
Insurance	51,326	34,535	85,861
Contract services	4,258	-	4,258
Internet and network	819	96	915
Utilities	44,650	749	45,399
Computer and software	6,485	5,087	11,572
Uniforms	2,153	2,377	4,530
Bank service charges	16,522	301	16,823
Travel	259	-	259
Training	-	2,069	2,069
Billing expense	3,448	3,325	6,773
Penalties and finance charges	3,332	-	3,332
Miscellaneous	19,239	1,369	20,608
Disaster storm damage	21,984	-	21,984
Depreciation	96,447	17,296	113,743
Total operating expenses	706,213	312,608	1,018,821
Operating income (loss)	(94,982)	299,164	204,182

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

TOWN OF MASON, TENNESSEE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2015

	Water and Sewer Fund	Natural Gas Fund	Total
Nonoperating revenues (expenses):			
Interest and other income	43	1,395	1,438
Insurance recoveries	38,154	-	38,154
Interest and other expense	<u>(7,506)</u>	<u>(14,571)</u>	<u>(22,077)</u>
Total nonoperating revenues (expenses)	<u>30,691</u>	<u>(13,176)</u>	<u>17,515</u>
Income (loss) before transfers and contributions	(64,291)	285,988	221,697
Transfers and capital contributions:			
Capital contributions - grant	<u>271,042</u>	<u>-</u>	<u>271,042</u>
Total transfers and capital contributions	<u>271,042</u>	<u>-</u>	<u>271,042</u>
Change in net position	<u>206,751</u>	<u>285,988</u>	<u>492,739</u>
Total net position - beginning	1,114,271	389,006	1,503,277
Prior period adjustment	<u>-</u>	<u>6,743</u>	<u>6,743</u>
Total net position - beginning (restated)	<u>1,114,271</u>	<u>395,749</u>	<u>1,510,020</u>
Total net position - ending	<u>\$ 1,321,022</u>	<u>\$ 681,737</u>	<u>\$ 2,002,759</u>

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

TOWN OF MASON, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2015

	Water and Sewer Fund	Natural Gas Fund	Total
Cash flows from operating activities:			
Cash received from consumers	\$ 666,235	\$ 590,858	\$ 1,257,093
Cash paid to suppliers of goods & services	(493,899)	(380,546)	(874,445)
Cash paid to employees for services	(247,489)	-	(247,489)
Cash received (paid) for customer deposits	566	7,541	8,107
Fluctuations in interfund balances	123,066	(268,540)	(145,474)
Net cash provided (used) by operating activities	<u>48,479</u>	<u>(50,687)</u>	<u>(2,208)</u>
Cash flows from capital and related financing activities:			
Capital contributed by consumers and grants	291,598	-	291,598
Principal paid on debt	(38,019)	(23,000)	(61,019)
Interest paid on bonds, notes and leases	(7,506)	(14,571)	(22,077)
Construction and acquisition of capital assets	(317,793)	(117,574)	(435,367)
Proceeds received from insurance recoveries	<u>38,154</u>	<u>-</u>	<u>38,154</u>
Net cash provided (used) by capital and related financing activities	<u>(33,566)</u>	<u>(155,145)</u>	<u>(188,711)</u>
Cash flows from investing activities:			
Sale of investments	-	114,407	114,407
Interest and other revenues	<u>43</u>	<u>1,395</u>	<u>1,438</u>
Net cash provided (used) by investing activities	<u>\$ 43</u>	<u>\$ 115,802</u>	<u>\$ 115,845</u>
Net increase (decrease) in cash and cash equivalents	\$ 14,956	\$ (90,030)	\$ (75,074)
Cash and cash equivalents - beginning	<u>-</u>	<u>113,615</u>	<u>113,615</u>
Cash and cash equivalents - ending	<u>14,956</u>	<u>23,585</u>	<u>38,541</u>
Cash and cash equivalents			
Unrestricted cash and cash equivalents on deposit	<u>14,956</u>	<u>23,585</u>	<u>38,541</u>
Total cash and cash equivalents	<u>\$ 14,956</u>	<u>\$ 23,585</u>	<u>\$ 38,541</u>

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

TOWN OF MASON, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2015

	Water and Sewer Fund	Natural Gas Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ (94,982)	\$ 299,164	\$ 204,182
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	96,447	17,296	113,743
Changes in assets and liabilities:			
Prior period adjustments	-	6,743	6,743
Accounts receivable	55,004	(20,914)	34,090
Inventories	-	(27,000)	(27,000)
Prepaid expenses	-	(62,045)	(62,045)
Due from other funds	(6,822)	(243,598)	(250,420)
Cash overdraft	(84,193)	-	(84,193)
Accounts payable and accrued expenses	(47,429)	(2,932)	(50,361)
Customer deposits	566	7,541	8,107
Due to other funds	<u>129,888</u>	<u>(24,942)</u>	<u>104,946</u>
Net cash provided (used) by operating activities	<u>\$ 48,479</u>	<u>\$ (50,687)</u>	<u>\$ (2,208)</u>

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

TOWN OF MASON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance-
	Original	Final		Over (Under)
Revenues:				
Taxes:				
Property tax current	\$ -	\$ -	\$ 136,072	\$ 136,072
Property taxes delinquent	-	-	10,569	10,569
Property tax penalty and interest	-	-	459	459
Local sales tax	-	-	39,372	39,372
Telecommunications sales tax	-	-	157	157
Local beer tax	-	-	45,525	45,525
Wholesale liquor tax	-	-	1,500	1,500
Cable TV franchise fee	-	-	5,130	5,130
	-	-	238,784	238,784
Licenses and permits:				
Building permits	-	-	310	310
Other licenses and permits	-	-	1,993	1,993
	-	-	2,303	2,303
Intergovernmental:				
State - TVA in lieu of tax	-	-	18,649	18,649
State - sales tax	-	-	121,860	121,860
State - income tax	-	-	4,328	4,328
State - beer tax	-	-	770	770
State - petroleum special fee	-	-	3,282	3,282
State - business tax	-	-	2,289	2,289
Police grants	-	-	1,891	1,891
State - police supplement	-	-	3,600	3,600
	-	-	156,669	156,669
Charges for services:				
Sanitation income	-	-	48,833	48,833
Fire calls	-	-	500	500
	-	-	49,333	49,333
Fines:				
Fines - city court	-	-	184,058	184,058
Other:				
Interest	-	-	95	95
Faxes and copies	-	-	694	694

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

TOWN OF MASON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Fiscal Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance-
	<u>Original</u>	<u>Final</u>		Over (Under)
Insurance checks	-	-	11,584	11,584
Miscellaneous	-	-	1,010	1,010
	-	-	13,383	13,383
Total revenues	-	-	644,530	644,530
Expenditures:				
Current:				
General government:				
Legislative:				
Salary	-	-	4,552	4,552
Aldermen	-	-	5,035	5,035
	-	-	9,587	9,587
Judicial:				
Salary	-	-	3,150	3,150
Financial administration:				
Salary	-	-	36,528	36,528
OASI	-	-	21,977	21,977
Hospital and health	-	-	6,973	6,973
Bank charges	-	-	674	674
Advertising	-	-	672	672
Local planning assistance	-	-	3,188	3,188
Postage	-	-	1,908	1,908
Professional service	-	-	28,457	28,457
Publicity, subscriptions, and dues	-	-	2,605	2,605
Computer supplies	-	-	9,897	9,897
Office equipment	-	-	12,461	12,461
Travel	-	-	2,392	2,392
Training	-	-	1,650	1,650
Miscellaneous	-	-	506	506
Office supplies	-	-	8,215	8,215
Meals and entertainment	-	-	531	531
Community outreach	-	-	544	544
Repair and maintenance	-	-	1,924	1,924
Security	-	-	506	506

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

TOWN OF MASON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance-
	Original	Final		Over (Under)
Janitorial services	-	-	1,036	1,036
Interest and penalties	-	-	1,284	1,284
Telephone and utilities	-	-	11,307	11,307
Sanitation expense	-	-	55,531	55,531
Insurance	-	-	9,582	9,582
	-	-	220,348	220,348
 Total general government	 -	 -	 233,085	 233,085
 Public safety:				
Police:				
Salary	-	-	199,549	199,549
Overtime	-	-	11,121	11,121
OASI	-	-	450	450
Hospital and health	-	-	14,660	14,660
Publicity, subscriptions, and dues	-	-	1,009	1,009
Utility services	-	-	10,388	10,388
Building repair and maintenance	-	-	432	432
Vehicle repair and maintenance	-	-	12,802	12,802
Travel	-	-	2,270	2,270
Training	-	-	1,201	1,201
911 expense	-	-	15,206	15,206
Forms and publications	-	-	1,322	1,322
Miscellaneous	-	-	3,110	3,110
Supplies	-	-	5,670	5,670
Equipment	-	-	2,000	2,000
Meals and entertainment	-	-	125	125
Security	-	-	657	657
Radios	-	-	6,088	6,088
Clothing and uniforms	-	-	2,954	2,954
Janitorial services	-	-	1,053	1,053
Gas, oil, diesel fuel, and grease	-	-	13,752	13,752
Insurance	-	-	15,332	15,332
	-	-	321,151	321,151

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

TOWN OF MASON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Fiscal Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance-
	<u>Original</u>	<u>Final</u>		Over (Under)
Fire:				
Volunteer wages	-	-	6,160	6,160
Publicity, subscriptions, and dues	-	-	393	393
Utility services	-	-	6,839	6,839
Building repair and maintenance	-	-	286	286
Repairs and maintenance	-	-	993	993
Operating supplies	-	-	933	933
Equipment	-	-	13,489	13,489
Insurance	-	-	4,251	4,251
	-	-	<u>33,344</u>	<u>33,344</u>
Court:				
Equipment	-	-	11,632	11,632
Operating supplies	-	-	110	110
Interest and penalties	-	-	2,994	2,994
	-	-	<u>14,736</u>	<u>14,736</u>
Total public safety	-	-	<u>369,231</u>	<u>369,231</u>
Public works:				
Street department:				
Salary	-	-	11,678	11,678
Utility services	-	-	463	463
Repairs and maintenance	-	-	872	872
Insurance	-	-	1,147	1,147
Total public works	-	-	<u>14,160</u>	<u>14,160</u>

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

TOWN OF MASON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Fiscal Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance-
	<u>Original</u>	<u>Final</u>		Over (Under)
Debt service:				
Principal	-	-	21,252	21,252
Interest	-	-	<u>17,399</u>	<u>17,399</u>
	-	-	<u>38,651</u>	<u>38,651</u>
Total expenditures	-	-	<u>655,127</u>	<u>655,127</u>
Net changes in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(10,597)</u>	<u>\$ (10,597)</u>
Fund balance - beginning			<u>(47,486)</u>	
Fund balance - ending			<u><u>\$ (58,083)</u></u>	

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

TOWN OF MASON, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
STATE STREET AID FUND

For the Fiscal Year Ended June 30, 2015

Revenues:	Budgeted Amounts		Actual	Variance-
	Original	Final		Over (Under)
Intergovernmental revenues:				
State gas and motor fuel tax	\$ -	\$ -	\$ 29,125	\$ 29,125
1989 gas tax	-	-	4,676	4,676
3 cent gas tax	-	-	8,679	8,679
	-	-	42,480	42,480
Other revenues:				
Interest	-	-	1	1
Total revenues	-	-	42,481	42,481
Expenditures:				
Street maintenance	-	-	2,603	2,603
Street lighting	-	-	30,654	30,654
Repairs and maintenance	-	-	863	863
Supplies	-	-	765	765
Bank fees	-	-	120	120
Interest and penalties	-	-	188	188
Miscellaneous	-	-	135	135
Total expenditures	-	-	35,328	35,328
Net changes in fund balance	\$ -	\$ -	7,153	\$ 7,153
Fund balance - beginning			9,298	
Fund balance - ending			\$ 16,451	

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

TOWN OF MASON, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
DRUG FUND

For the Fiscal Year Ended June 30, 2015

Revenues:	Budgeted Amounts		Actual	Variance-
	Original	Final		Over (Under)
Charges for services:				
Fines and forfeitures	\$ -	\$ -	\$ 5,508	\$ 5,508
Revenues from seizures	-	-	3,025	3,025
Storage	-	-	4,770	4,770
	-	-	13,303	13,303
Other:				
Interest	-	-	4	4
Total revenues	-	-	13,307	13,307
Expenditures:				
Towing	-	-	4,200	4,200
Repair and maintenance	-	-	50	50
Capital outlay	-	-	4,750	4,750
Total expenditures	-	-	9,000	9,000
Net changes in fund balance	\$ -	\$ -	4,307	\$ 4,307
Fund balance - beginning			2,415	
Fund balance - ending			\$ 6,722	

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

TOWN OF MASON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Mason, Tennessee (the Town) operates under a Mayor-Alderman form of government and provides the following services as authorized by its charter: public safety (police, fire, and inspection and planning), street maintenance, sanitation, water and sewerage, natural gas services, and general administrative services.

The accounting policies of the Town conform to generally accepted accounting principles applicable to a government as defined in the Statements of Governmental Accounting Standards Board (GASB). The following is a summary of the more significant accounting policies.

A. Reporting Entity

As required by generally accepted accounting principles, these financial statements present the entire reporting entity of the Town. Based on the criteria set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the Town has no component units required to be reported.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statements of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of the given function, or segment, 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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

C. Measurement Focus, Basis of Accounting, and Financial Statements Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TOWN OF MASON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. However, grant revenues are considered available if they are collected within 120 days of the end of the current fiscal period. 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.

Property taxes, gross receipt taxes, sales taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (sixty days). Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met and the amount is received during the period or within the availability period for this revenue source (120 days). An unavailable amount is recognized for the portion of those revenues that are not available within 120 days of the close of the fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental funds:

The General fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The State Street Aid fund accounts for the state gas tax revenue and the expenditures legally restricted to street maintenance.

The Police Drug fund accounts for revenues and expenditures on drug fines and enforcement costs.

The Town reports the following major proprietary funds:

The Water and Sewer fund accounts for the activities associated with the water distribution system and for the activities associated with the sewage treatment plant, sewage pumping stations, and collection system.

The Gas fund accounts for the natural gas operations of the Town.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's utility divisions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and

TOWN OF MASON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 the proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer fund and the natural gas fund are charges for sales to customers for service. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

Deposits and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and certificates of deposit and other time deposits with a term of less than three months. State statutes authorize the Town to invest in certificates of deposit, obligations of the U. S. Treasury, agencies and instrumentalities, obligations guaranteed by the U. S. Government or its agencies, repurchase agreements, and the state's investment pool.

Investments for the Town are reported at fair value and consist of certificates of deposit totaling \$180,401 as of June 30, 2015.

Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Property tax receivables are shown net of an allowance for uncollectibles. The allowance is recorded based on the past history of collections.

The Town has not estimated any allowances for uncollectible accounts receivable. Bad debts in the proprietary funds are recorded by the direct write-off method.

Property taxes are levied and the tax bills are mailed annually on October 1. The taxes are due and payable from October through February in the year succeeding the tax levy. A lien attaches by statute to property on January 1. Taxes uncollected by March 1, the year after they are due, are considered delinquent, and are submitted to the Chancery Court for collection. Tax liens become perfected at the time the court enters judgment.

Inventories and Prepaid Items

Inventories are valued at lower of average cost or market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

TOWN OF MASON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Restricted Assets

The Town's proprietary funds along with the governmental funds elect to use restricted assets before unrestricted assets when the situation arises where either can be used.

Capital Assets

Capital assets, including property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. All land, construction in progress, and works of art will be included. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Town does not have a policy specifying monetary amounts for capitalizing capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Town are depreciated using the straight line method over the following useful lives:

Buildings	10 - 40 years
Plant	10 - 40 years
Equipment	5 - 15 years
Vehicles	5 years

Compensated Absences

The employees earn vacation days on a calendar year basis without the option to carry over unused hours, unless in case of a Town emergency approved by the Mayor and Vice Mayor. Employees are reimbursed for current accrued vacation up to a maximum of 15 days in the event of termination.

All Town employees' sick leave accumulation is limited to 90 days. Employees are reimbursed for current accrued sick up to a maximum of 90 days in the event of termination.

The liability for compensated absences is not recorded at June 30, 2015.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year incurred except for the Natural Gas Fund and Water and Sewer Fund where they continue to be deferred and amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

TOWN OF MASON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town currently has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The item that qualifies for reporting as deferred inflows of resources in the fund statements is unavailable revenue and is disclosed on pages 13 and 36. In the government-wide statements, deferred revenue – property taxes as noted on pages 10 and 36 are reported as deferred inflows of resources.

Net position flow assumption

Sometimes the Town will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Equity

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

Nonspendable fund balance

This classification includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes terms that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Restricted fund balance

This classification includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted with the consent of resource providers.

Committed fund balance

This classification includes amounts that can only be used for the specific purposes determined by a formal action of the Town's highest level of decision making authority, the Board of Aldermen. Commitments may be changed or lifted only by the Town taking the same formal action that imposed the constraint originally (for example: ordinance).

Assigned fund balance

This classification includes amounts intended to be used by the Town for specific purposes that are neither restricted nor committed. The Board or its designee, the Recorder, has the authority to assign amounts to be used for specific purposes. Assigned amounts also include all residual

TOWN OF MASON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

amounts in the governmental funds (except negative amounts) that are not classified as nonspendable, restricted or committed.

Unassigned fund balance

This fund balance is the residual classification for the general fund. It is also used to report negative fund balances in other governmental funds.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities includes a reconciliation between net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense in the current period." The details of this (\$43,134) difference are as follows:

Depreciation expense	\$ (43,134)
Net adjustment to reduce net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (43,134)</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. These include the general fund and the special revenue funds. The Board of Aldermen approves and appropriates the budgets for these funds annually. All annual appropriations lapse at fiscal year end.

The Town's policy is to not allow expenditures to exceed budgetary amounts at the total fund expenditure level without obtaining additional appropriation approval from the Board of Aldermen. This policy reflects the legal level of control at which expenditures may not exceed appropriations.

As an extension of the budgetary process, the Town Aldermen may transfer or appropriate additional funds for expenditures not anticipated at the time of budget adoption. These amendments are made in the form of legally adopted Board approvals.

For the year ended June 30, 2015, budget documentation could not be located.

TOWN OF MASON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 4 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Investments were made up of certificates of deposits with a maturity of greater than three months for the fiscal year ended June 30, 2015.

Custodial Credit Risk

The Town's policies limit deposits and investments to those instruments allowed by applicable state laws and described below. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the Town's agent in the Town's name or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the Town to invest in bonds, notes, or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, and the state pooled investment fund. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2015, none of the Town's deposits were exposed to custodial credit risk.

B. Receivables

Receivables as of the year end for the government's individual major funds, including the applicable allowances for uncollectible accounts are as follows:

	<u>General</u>	<u>Water and Sewer Fund</u>	<u>Natural Gas Fund</u>	<u>Total</u>
Receivables:				
Property taxes	\$ 214,434	\$ -	\$ -	\$ 214,434
Accounts	-	9,683	37,203	46,886
Accounts - court fines	67,657	-	-	67,657
Intergovernmental	34,688	-	-	34,688
Gross receivables	<u>316,779</u>	<u>9,683</u>	<u>37,203</u>	<u>363,665</u>
Less: Allowance for uncollectibles	<u>(7,209)</u>	<u>-</u>	<u>-</u>	<u>(7,209)</u>
Net total receivables	<u>\$ 309,570</u>	<u>\$ 9,683</u>	<u>\$ 37,203</u>	<u>\$ 356,456</u>

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, various components of unavailable revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unavailable/ Unearned</u>	<u>Total</u>
Delinquent property taxes receivable	\$ 21,236	\$ -	\$ 21,236
2015 property tax assessment	-	181,760	181,760
Total deferred revenue for governmental funds	<u>\$ 21,236</u>	<u>\$ 181,760</u>	<u>\$ 202,996</u>

TOWN OF MASON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

C. Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ -	\$ -	\$ -	\$ -
Total capital assets, not being depreciated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital assets, being depreciated				
Buildings	127,693	-	-	127,693
Equipment	476,800	-	-	476,800
Improvements	410,556	-	-	410,556
Total capital assets, being depreciated	<u>1,015,049</u>	<u>-</u>	<u>-</u>	<u>1,015,049</u>
Less accumulated depreciation for:				
Buildings	82,781	3,056	-	85,837
Equipment	388,706	29,814	-	418,520
Improvements	20,528	10,264	-	30,792
Total accumulated depreciation	<u>492,015</u>	<u>43,134</u>	<u>-</u>	<u>535,149</u>
Total capital assets, being depreciated, net	<u>523,034</u>	<u>(43,134)</u>	<u>-</u>	<u>479,900</u>
Governmental activities capital assets, net	<u>\$ 523,034</u>	<u>\$ (43,134)</u>	<u>\$ -</u>	<u>\$ 479,900</u>

TOWN OF MASON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 92,708	\$ -	\$ -	\$ 92,708
Construction in progress	108,022	402,927	-	510,949
Total capital assets not being depreciated	<u>200,730</u>	<u>402,927</u>	<u>-</u>	<u>603,657</u>
Capital assets, being depreciated				
Buildings	121,043	32,440	-	153,483
Equipment	24,683	-	-	24,683
Plant	4,292,756	-	-	4,292,756
Total capital assets being depreciated	<u>4,438,482</u>	<u>32,440</u>	<u>-</u>	<u>4,470,922</u>
Less accumulated depreciation for:				
Buildings	38,330	3,026	-	41,356
Equipment	15,817	3,919	-	19,736
Plant	2,535,837	106,798	-	2,642,635
Total accumulated depreciation	<u>2,589,984</u>	<u>113,743</u>	<u>-</u>	<u>2,703,727</u>
Total capital assets, being depreciated, net	<u>1,848,498</u>	<u>(81,303)</u>	<u>-</u>	<u>1,767,195</u>
Total business-type capital assets, net	<u>2,049,228</u>	<u>321,624</u>	<u>-</u>	<u>2,370,852</u>
Total capital assets, net	<u>\$ 2,572,262</u>	<u>\$ 278,490</u>	<u>\$ -</u>	<u>\$ 2,850,752</u>

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

Governmental activities:	
General government	
Financial administration	14,451
Public safety	
Police	1,322
Fire	17,097
Public works	
Street department	10,264
Total depreciation expense - governmental activities	<u>43,134</u>
Business-type activities:	
Water and sewer	
Charged to operations	96,447
Natural gas	
Charged to operations	17,296
Total depreciation expense - business-type activities	<u>113,743</u>
Total depreciation	<u>\$ 156,877</u>

TOWN OF MASON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

D. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2015, is as follows:

General Fund		
Due from Water and Sewer	\$	79,530
Due to State Street Aid		(42,193)
Due to Gas		(212,931)
Due to Water & Sewer		(48,585)
Due to Drug		(7,221)
		(231,400)
Water Fund		
Due from State Street Aid		656
Due from General		31,764
Due to General		(31,454)
Due to Gas		(114,079)
		(113,113)
Gas Fund		
Due from Water and Sewer		154,912
Due from General		215,207
		370,119
Drug Fund		
Due from General		449
Street Aid		
Due from General		9,906
		9,906
Total net balance	\$	35,961

Transactions arising from utility services are recorded in the Due from Gas Fund and Due to Water And Sewer Fund. The other amounts recorded as interfund receivables are for prior years' transactions which should have already been eliminated and for current year expenditures which were paid by the wrong funds.

E. Long-term Debt

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

General Obligation Bonds:

RUS general obligation bond, due in monthly installment of \$733, dated March 12, 2007, interest at 4.5%	\$ 54,799
RUS general obligation bond, due in annual installments of \$29,599, dated December 2, 2008, interest at 4.5%	302,556

TOWN OF MASON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Revenue Bonds:

Waterworks Improvement Revenue and Tax Deficiency Bond, Series 1975 payable in annual installments of \$8,774 through 2016, interest 5%	7,018
Water and Sewer Revenue and Tax Bond, Series 1979, payable in annual installments through 2019, interest 5%	24,000

Notes Payable:

Tennessee Municipal Bond Fund Loan, shared by enterprise funds, payable in annual installments through 2028, interest adjustable	<u>849,000</u>
-------------------------------------------------------------------------------------------------------------------------------------	----------------

Total long-term debt \$ 1,237,373

The annual requirements to amortize all long-term debt and obligations outstanding, excluding compensated absences, as of June 30, 2015, are as follows:

Year ending June 30	Principal	Interest	Total
2016	\$ 85,226	\$ 42,634	\$ 127,860
2017	81,207	40,338	121,545
2018	85,252	37,391	122,643
2019	81,343	34,507	115,850
2020	84,484	31,684	116,168
2021-2025	467,717	111,164	578,881
2026-2029	352,144	27,349	379,493
	<u>\$ 1,237,373</u>	<u>\$ 325,067</u>	<u>\$ 1,562,440</u>

The following is a summary of long-term debt transactions for the year ended June 30, 2015:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 378,607	\$ -	\$ 21,252	\$ 357,355	\$ 22,208
	<u>378,607</u>	<u>-</u>	<u>21,252</u>	<u>357,355</u>	<u>22,208</u>
Business-type activities					
General obligation bonds:					
Revenue bonds	46,037	-	15,019	31,018	15,018
Notes payable	895,000	-	46,000	849,000	48,000
	<u>941,037</u>	<u>-</u>	<u>61,019</u>	<u>880,018</u>	<u>63,018</u>
Total	<u>\$ 1,319,644</u>	<u>\$ -</u>	<u>\$ 82,271</u>	<u>\$ 1,237,373</u>	<u>\$ 85,226</u>

TOWN OF MASON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 5 - OTHER INFORMATION

A. Risk Management

The Town is exposed to various risks of loss related to torts; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Commercial insurance is carried for employees bonds and certain property destruction and employee health and accident claims. The Town also participates in the Tennessee Municipal League Risk Management Pool, a public entity risk pool, for errors and omissions, automobile liability and physical damage, workers compensation, and employees' liability. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the three past fiscal years. The Tennessee Municipal League Risk Management Pool has been self-sustaining through member premiums. Members consist of local jurisdiction municipalities and utility districts in the state. Members are responsible for a pro-rate portion of claims which exceed the Pool's reserves. No additional assessments have ever been made by the Pool to its members as a result of losses experienced.

B. Contingent Liabilities and Losses

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time; although, the Town's management expects such amounts, if any, to be immaterial.

The Town is a defendant in various lawsuits; however, the outcome of these lawsuits is not presently determinable although legal counsel expects the potential liabilities to be within the Town's limits of insurance.

C. Prior Period Adjustments

A prior period adjustment was made in the gas fund in the amount of \$6,743. This difference was to correct errors that were detected during the review of cash reconciliations.

D. Investigative Report Released July 19, 2016 – State of Tennessee Comptroller of the Treasury

An investigative report by the State of Tennessee Comptroller of the Treasury for the period January 1, 2007 through March 24, 2015 revealed the following deficiencies: 1) the former public works superintendent received unauthorized compensation of \$602,865 from the Water and Sewer Fund, 2) the former public works superintendent received unauthorized compensation of \$75,744 from the General Fund, 3) the Board of Mayor and Aldermen did not authorize the payments for a contract service provider to certify the water and wastewater operations, 4) deficiencies existed in the financial operations of the Town, 5) duties were not segregated adequately in the Town's court operations, and 6) the Board of Mayor and Aldermen did not provide adequate oversight. For further details, see the investigative report released July 19, 2016. The report can be accessed at the state of Tennessee website, <http://www.comptroller.tn.gov/Repository/IA/masonfinal.pdf>.

SUPPLEMENTARY AND OTHER INFORMATION SECTION

TOWN OF MASON, TENNESSEE
SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE
For the Fiscal Year Ended June 30, 2015

Tax Levy for Year	Tax Rate	Tax Levy	Beginning Outstanding Taxes	Additions and Adjustments	Collections	Ending Outstanding Taxes
2014	\$ 0.97	\$ 144,696	\$ -	\$ 144,546	\$ 130,126	\$ 14,420
2013	0.97	144,243	21,267	-	14,596	6,671
2012	0.97	145,194	2,120	-	179	1,941
2011	0.97	155,795	5,337	-	412	4,925
2010	0.97	145,577	1,221	-	78	1,143
2009	0.97	154,570	1,438	-	91	1,347
2008	0.97	155,674	1,248	-	73	1,175
2007	1.10	149,000	786	-	42	744
2006	1.10	129,147	61	-	1	60
2005	1.10	134,717	259	-	11	248
			<u>\$ 33,737</u>	<u>\$ 144,546</u>	<u>\$ 145,609</u>	<u>\$ 32,674</u>

Above balances represented as follows:

Considered current receivables	4,229
Allowance for uncollectible accounts	7,209
Unavailable revenue	<u>21,236</u>
	32,674
2015 tax levy not collectible until 10/1/2015	<u>181,760</u>
	214,434
Less allowance for uncollectibles	<u>(7,209)</u>
	<u>\$ 207,225</u>

See independent auditor's report.

TOWN OF MASON, TENNESSEE
SCHEDULE OF UTILITY RATES IN FORCE
June 30, 2015

Water - Inside City Limits

First 2,000 gallons	\$14.00	minimum
Over 2,000 gallons	2.50	per thousand

Water - Outside City Limits

First 2,000 gallons	\$24.00	minimum
Over 2,000 gallons	3.25	per thousand

Water - Institutional

First 480,000 gallons	\$3,360.00	minimum
Over 480,000 gallons	2.50	per thousand

Number of water customers at year end: 939

Sewer Rates

Residential	100%	of water usage
Commercial	100%	of water usage

Number of sewer customers at year end: 332

Gas Rates - Residential

First 400 cubic feet	\$5.00	minimum
Over 400 cubic feet	1.43	per hundred

Number of gas customers at year end: 442

See independent auditor's report.

TOWN OF MASON, TENNESSEE
SCHEDULE OF LONG-TERM DEBT
June 30, 2015

Governmental Funds

Year Ended June 30,	General Obligation Bonds RUS-Police Cars		General Obligation Bonds RUS		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2016	\$ 6,224	\$ 2,840	\$ 15,984	\$ 13,615	\$ 22,208	\$ 16,455	\$ 38,663
2017	6,504	2,572	16,703	12,896	23,207	15,468	38,675
2018	6,797	2,292	17,455	12,144	24,252	14,436	38,688
2019	7,103	1,999	18,240	11,359	25,343	13,358	38,701
2020	7,423	1,693	19,061	10,538	26,484	12,231	38,715
2021	7,757	1,373	19,919	9,680	27,676	11,053	38,729
2022	8,061	1,039	20,815	8,784	28,876	9,823	38,699
2023	4,930	735	21,752	7,847	26,682	8,582	35,264
2024	-	-	22,730	6,868	22,730	6,868	29,598
2025	-	-	23,753	5,845	23,753	5,845	29,598
2026	-	-	24,823	4,776	24,823	4,776	29,599
2027	-	-	25,940	3,659	25,940	3,659	29,599
2028	-	-	27,107	2,492	27,107	2,492	29,599
2029	-	-	28,274	1,272	28,274	1,272	29,546
	<u>\$ 54,799</u>	<u>\$ 14,543</u>	<u>\$ 302,556</u>	<u>\$ 111,775</u>	<u>\$ 357,355</u>	<u>\$ 126,318</u>	<u>\$ 483,673</u>

See independent auditor's report.

TOWN OF MASON, TENNESSEE
SCHEDULE OF LONG-TERM DEBT
June 30, 2015

Proprietary Funds

Year Ended June 30,	Water and Sewer Fund Revenue Bond-Series 1975		Water and Sewer Fund Revenue Bond-Series 1979		Enterprise Funds TMBF Note		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2016	\$ 7,018	\$ 354	\$ 8,000	\$ 100	\$ 48,000	\$ 25,725	\$ 63,018	\$ 26,179	\$ 89,197
2017	-	-	8,000	600	50,000	24,270	58,000	24,870	82,870
2018	-	-	8,000	200	53,000	22,755	61,000	22,955	83,955
2019	-	-	-	-	56,000	21,149	56,000	21,149	77,149
2020	-	-	-	-	58,000	19,453	58,000	19,453	77,453
2021	-	-	-	-	61,000	17,695	61,000	17,695	78,695
2022	-	-	-	-	64,000	15,847	64,000	15,847	79,847
2023	-	-	-	-	68,000	13,908	68,000	13,908	81,908
2024	-	-	-	-	71,000	11,847	71,000	11,847	82,847
2025	-	-	-	-	74,000	9,696	74,000	9,696	83,696
2026	-	-	-	-	78,000	7,454	78,000	7,454	85,454
2027	-	-	-	-	82,000	5,090	82,000	5,090	87,090
2028	-	-	-	-	86,000	2,606	86,000	2,606	88,606
	<u>\$ 7,018</u>	<u>\$ 354</u>	<u>\$ 24,000</u>	<u>\$ 900</u>	<u>\$ 849,000</u>	<u>\$ 197,495</u>	<u>\$ 880,018</u>	<u>\$ 198,749</u>	<u>\$ 1,078,767</u>

See independent auditor's report.

TOWN OF MASON, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2015

	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
United States Department of Transportation			
Passed through State of Tennessee Department of Transportation			
State and Community Highway Safety	20.607	Z14GHS220	<u>1,891</u>
United States Department of Housing and Urban Development			
Passed through State of Tennessee Department of Economic and Community Development			
Community Development Block Grants	14.228	Edison ID 32121	75,275
Community Development Block Grants	14.228	Edison ID 35309	<u>195,767</u>
Total Community Development Block Grants			<u>271,042</u>
 Total Federal Awards			 <u>\$ 272,933</u>

All expenditures reported under the modified accrual basis of accounting; whereby, revenues are recorded when measurable and expenditures are recorded when the related liability is incurred.

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

Members of:

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants



Certified Public Accountants
Offices in Tennessee & Kentucky

227 Oil Well Rd.
Jackson, TN 38305

Phone 731.427.8571
Fax 731.424.5701
www.atacpa.net

Independent Auditor's 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

The Mayor and Board of Aldermen
Town of Mason, Tennessee

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America and the standard 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 Town of Mason, Tennessee as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town of Mason's basic financial statements as listed in the table of contents and have issued our report thereon dated January 27, 2017. Our report disclaims an opinion on such financial statements because we were unable to test and substantiate significant assets, liabilities, revenues and expenditures reported in the financial statements, since the Town did not have adequate supporting documentation for various assets, liabilities, receipts and disbursements.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section 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, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as 2015-001, 2015-002, 2015-004, 2015-006, 2015-008, 2015-011, 2015-017, 2015-020, 2015-021, 2015-022, 2015-023, and 2015-024 in the accompanying schedule of findings to be material weaknesses.

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 as 2015-003, 2015-005, 2015-007, 2015-009, 2015-010, 2015-012, 2015-013, 2015-014, and 2015-018 in the accompanying schedule of findings to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2015-001, 2015-003, 2015-008, 2015-015, 2015-016, 2015-017, 2015-018, 2015-019, 2015-020, and 2015-021.

Town of Mason's Response to Findings

Town of Mason's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result 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.

Alexander Thompson Arnold PLLC

Jackson, Tennessee
January 27, 2017

TOWN OF MASON, TENNESSEE
SCHEDULE OF FINDINGS
For the Fiscal Year Ended June 30, 2015

FINANCIAL STATEMENT FINDINGS

2015-001 Investigative Report – State of Tennessee Comptroller of the Treasury – Released July 19, 2016 (Material Weakness and Noncompliance)

The full Investigative report by the State of Tennessee Comptroller of the Treasury released July 19, 2016, including additional details related to the conditions, recommendations, and responses can be accessed at the State of Tennessee website, <http://www.comptroller.tn.gov/Repository/IA/masonfinal.pdf>.

Condition: The State of Tennessee Comptroller of the Treasury performed an investigative audit of selected records of the Town of Mason, Tennessee, specifically related to the former public works superintendent's activity for the period of January 1, 2007 through March 24, 2015. The investigative report revealed the following findings:

1. The former public works superintendent received unauthorized compensation of \$602,865 from the Town's Water Fund. Of this amount, \$549,998 was unauthorized overtime; \$32,411 was the unauthorized sale of vacation time; \$11,620 was the unauthorized sale of sick leave; and \$8,836 was unauthorized holiday pay.
2. The former public works superintendent received questionable overtime compensation of \$75,744 from the Town's General Fund.
3. The Town of Mason did not authorize the payments for a contract service provider to certify the water and wastewater operations. An individual was paid for certifying the water and wastewater operation and was paid a salary of \$6,000 per year; however, the Town did not authorize the hiring of the outside consultant for the certification of the drinking water and wastewater operations. Additionally, there was no invoice or other documentation on file for the billings or payments to the individual.
4. Deficiencies existed in the financial operations of the Town of Mason. The city recorder failed to prepare financial records in a timely manner, and bank statements were not reconciled with general ledger accounts for several months during the period of investigation. The investigation also noted the following items: the office did not deposit collections intact; collections were not deposited promptly; the Town recorder did not prepare daily collection reports the last week of her employment; the Town consistently filed delinquent payroll taxes and employees' tax information with the Internal Revenue Service (IRS), which resulted in the IRS assessing penalties and interest against the Town of \$13,343 for the calendar year 2009, \$51,922 for the calendar year 2010, and \$8,982 for the calendar year 2011; the Town did not reconcile the 2013 and 2014 property taxes billed with the property tax collections and unpaid tax accounts; and the Town did not ensure that an individual, independent of the collection process, periodically reconciled utility billings with payments, adjustments, and unpaid accounts.
5. Duties were not segregated adequately in the Town of Mason's court operations. The same individual prepares the court docket, collects court funds, records court collections, and reports unpaid tickets with no compensating controls.
6. The Board of Mayor and Aldermen did not provide adequate oversight and did not establish internal controls to ensure accountability of the Town's funds.

Criteria: The *Internal Control and Compliance Manual for Tennessee Municipalities* as noted in the State of Tennessee Comptroller of the Treasury investigative report.

Effect: The lack of policies and procedures and management oversight allowed for the opportunity for and the act of fraudulent activities to occur.

TOWN OF MASON, TENNESSEE
SCHEDULE OF FINDINGS
For the Fiscal Year Ended June 30, 2015

Recommendation: We recommend that the Town comply with all of the recommendations that were noted in the State of Tennessee Comptroller of the Treasury's investigative report and comply with the *Internal Control and Compliance Manual for Tennessee Municipalities*. Proper policies and procedures should be established as outlined in the *Internal Control and Compliance Manual for Tennessee Municipalities*. All payroll records should be adequately maintained, and all compensation should be properly reviewed and approved by an appropriate and authorized individual. All funds should be promptly receipted and deposited in accordance with State statutes. Due to the size of the entity, it is imperative that the Town officials provide adequate management oversight.

Management's Response: We are making efforts to implement necessary controls to be in compliance.

2015-002 Inadequate segregation of duties (Material Weakness)

Condition: There is not sufficient segregation of duties to accomplish an adequate internal control structure.

Criteria: Generally accepted accounting principles require that accounting functions be adequately segregated to ensure that the internal accounting controls are effective.

Effect: The risk of errors and irregularities occurring and not being detected in a timely manner increases when accounting functions are not adequately segregated.

Recommendation: Management should try to compensate for this by requiring preparation of monthly reports in key areas. These reports should be reviewed and maintained by management.

Management's Response: We are making efforts to implement necessary controls to resolve this matter.

2015-003: Purchasing policy (Significant Deficiency and Compliance and Other Matters)

Condition: The Town does not have a written purchasing policy. Neither receiving reports nor purchase orders are being used properly.

Criteria: The *Internal Control and Compliance Manual for Tennessee Municipalities* outlines that the governing body, by ordinance, should establish a purchasing policy. The policy should comply with the requirements of the Municipal Purchasing Law of 1983, Sections 6-56-301 through 6-56-306, *Tennessee Code Annotated*, or applicable charter provisions or private act requirements governing competitive bidding and purchasing.

Effect: Generally accepting accounting principles outline the proper vouching system for purchasing which includes purchase orders, receiving reports and proper approvals of each step. Failure to follow each of these steps increases the risk of loss of funds, loss of products, improper billing by vendors and unapproved expenditures.

Recommendation: The Town should follow the procedure as outlined in the *Internal Control and Compliance Manual for Tennessee Municipalities* in establishing a purchasing policy.

Management's Response: We are making efforts to implement necessary controls to be in compliance.

TOWN OF MASON, TENNESSEE
SCHEDULE OF FINDINGS
For the Fiscal Year Ended June 30, 2015

2015-004: Disbursements (Material Weakness)

Condition: The Town did not have adequate supporting documentation and approval for many of the disbursements, including reimbursements to employees.

Criteria: Generally accepting accounting principles require that all disbursements be substantiated with proper documentation which has been fully approved.

Effect: Failing to maintain full documentation for all disbursements created greatly increased risk of errors, irregularities and misappropriation of funds.

Recommendation: Obtain adequate approved support for all disbursements before payment is made.

Management's Response: We are making efforts to implement necessary controls to resolve this matter.

2015-005: Customer Deposits (Significant Deficiency)

Condition: The Town did not maintain a proper subsidiary ledger for customer deposits.

Criteria: Customer deposits are liabilities held by the Town for possible repayment to the corresponding customer. All liabilities should have a corresponding subsidiary ledger.

Effect: Lack of a customer deposit subsidiary ledger may result in funds paid out to customers as a deposit held when the customer has no such funds.

Recommendation: A subsidiary ledger for customer deposits should be maintained and reconciled on a monthly basis to the general ledger.

Management's Response: We are making efforts to implement necessary controls to resolve this matter.

2015-006: Accounts Receivable (Material Weakness)

Condition: The Town did not maintain an accounts receivable subsidiary ledger. The Town also did not obtain written approval for adjustments made to utility bills.

Criteria: Generally accepted accounting principles require all subsidiary ledgers to be reconciled to the corresponding general ledger account. Also all adjustments to accounts receivable must be presented and approved in writing to those charged with governance.

Effect: Failing to reconcile subsidiary ledgers to the corresponding general ledger account creates increased risk for inappropriate customer balances and disconnects between the general ledger accounting system and the billing systems. Failing to obtain proper approvals for accounts receivable adjustments creates greater risk of error or inappropriate adjustments.

Recommendation: The Town should maintain an accounts receivable ledger. This subsidiary ledger should be reconciled to the general ledger on a monthly basis. Also, a report should be maintained detailing all utility adjustments and should be approved by appropriate personnel.

Management's Response: We are making efforts to implement necessary controls to resolve this matter.

TOWN OF MASON, TENNESSEE
SCHEDULE OF FINDINGS
For the Fiscal Year Ended June 30, 2015

2015-007: Allowance for Uncollectible Accounts (Significant Deficiency)

Condition: The Town does not maintain an allowance for uncollectible accounts.

Criteria: Generally accepted accounting principles requires an allowance for uncollectible accounts be maintained as a contra-asset account to the accounts receivable balance so that the matching principle is followed as the bad debt expense is matched to the same time period as the corresponding sale or aging of accounts receivable.

Effect: Lack of an allowance for uncollectible accounts creates an overstated accounts receivable asset and may create a disproportionate expense as the accounts are written off.

Recommendation: The Town should maintain an allowance account for estimated uncollectible accounts.

Management's Response: We are making efforts to implement necessary controls to resolve this matter.

2015-008: Accrued Leave (Material Weakness and Compliance and Other Matters)

Condition: The Town has not recorded amounts for accrued leave on the various funds. The Town does not maintain a subsidiary ledger detailing accrued leave amounts.

Criteria: The *Internal Control and Compliance Manual for Tennessee Municipalities* states that a cumulative employee leave record should be maintained for each employee including salaried employees who earn any kind of leave. The record should clearly show all leave of any type earned and taken for each pay period, all paid and unpaid absences, and the current leave balance. The Town should also record the appropriate amounts on the general ledger.

Effect: Failure to maintain accrued leave amounts in the general ledger with corresponding detailed records causes inappropriate leave taken and paid for. It also creates disproportion in the various period financial statements.

Recommendation: A cumulative employee leave record should be maintained for each employee including salaried employees who earn any kind of leave. The record should clearly show all leave of any type earned and taken for each pay period, all paid and unpaid absences, and the current leave balance. The Town should also record the appropriate amounts on the general ledger.

Management's Response: We are making efforts to implement necessary controls to be in compliance.

2015-009: Capital Work Orders (Significant Deficiency)

Condition: The Town does not maintain an adequate work order system to properly account for new taps, repairs and main line extensions.

Criteria: Work order systems are necessary to properly account for those items which should be expenses and those items which are capital improvements.

Effect: Inadequate accounting for expensed work performed as compared to capital improvements may result in excess expenses to the Town when the work performed should be capitalized and expensed over an extended period of time.

TOWN OF MASON, TENNESSEE
SCHEDULE OF FINDINGS
For the Fiscal Year Ended June 30, 2015

Recommendation: The Town should implement procedures to ensure that all work orders are maintained properly to support amounts on the general ledger, which represent both expenses and capital improvements.

Management's Response: We are making efforts to implement necessary controls to resolve this matter.

2015-010: Checks (Significant Deficiency)

Condition: The Town issued checks out of numerical sequence.

Criteria: The Town should maintain proper controls of check stock. This includes issuing checks in numerical sequence to ensure proper reconciliation of outstanding checks.

Effect: Issuing checks out of numerical sequence creates inadequate controls over access to funds.

Recommendation: The Town should always issue checks in numerical sequence.

Management's Response: We are making efforts to implement necessary controls to resolve this matter.

2015-011: Payroll Journals (Material Weakness)

Condition: The Town did not maintain payroll documentation.

Criteria: All payroll must be properly supported with corresponding documentation which has been approved by the proper supervisor.

Effect: Incomplete payroll records prevent proper reconciliations with payroll tax returns and increase risk of ghost employees or other improper use of funds.

Recommendation: The Town should have adequate documentation for all payroll transactions.

Management's Response: We are making efforts to implement necessary controls to resolve this matter.

2015-012: Permit Fees (Significant Deficiency)

Condition: The Town did not have support for permit fees.

Criteria: All revenues should have corresponding documentation as substantiation.

Effect: Unsupported revenues increase the risk of loss, improper revenue recognition and inadequate controls.

Recommendation: The Town should have adequate supporting documentation for permit fees.

Management's Response: We are making efforts to implement necessary controls to resolve this matter.

TOWN OF MASON, TENNESSEE
SCHEDULE OF FINDINGS
For the Fiscal Year Ended June 30, 2015

2015-013: Daily Collection Logs (Significant Deficiency)

Condition: Daily collection logs are not regularly balanced to the corresponding deposits.

Criteria: Daily collection logs should be reconciled and balanced to the funds comprising the corresponding deposit documentation.

Effect: Failure to balance daily collection logs increases the risk of loss of funds.

Recommendation: All daily collection logs should be balanced to the cash drawers and corresponding deposit documentation.

Management's Response: We are making efforts to implement necessary controls to resolve this matter.

2015-014: Fuel Card (Significant Deficiency)

Condition: The Town has a fuel account which is paid by statement without any detailed invoices or receipts. The statements are paid with no documentation of who purchased the fuel or for what purpose.

Criteria: All expenditures must be properly documented and approved.

Effect: Failure to properly document and approve all fuel purchases may result in misappropriation of funds or inappropriate billing by vendors.

Recommendation: All charges to the Town must be properly documented and approved.

Management's Response: We are making efforts to implement necessary controls to resolve this matter.

2015-015: Budget (Compliance and Other Matters)

Condition: Budgets were not prepared and approved for the current year.

Criteria: As indicated in *Tennessee Code Annotated 6-56-202*, a budget is required for governmental funds. A municipality may not expend money from any source, including bond and note proceeds, grants and loans, and special assessments, except in accordance with at budget ordinance.

Effect: Failure to prepare a budget could result in negative fund balances and create going concern issues.

Recommendation: All funds should have an approved budget and all funds should operate within their budget.

Management's Response: We are making efforts to implement necessary controls to be in compliance.

2015-016: Water Loss Calculations (Compliance and Other Matters)

Condition: The Town is not reporting water loss amounts due to the information not being available.

Criteria: The water loss amounts are required to be reported annually to the Water and Wastewater Financing Board and the Utility Management Review Board.

TOWN OF MASON, TENNESSEE
SCHEDULE OF FINDINGS
For the Fiscal Year Ended June 30, 2015

Effect: Failure to report water loss amounts constitutes excessive water loss and results in reporting to the Water and Wastewater Financing Board and the Utility Management Review Board for further oversight by the state.

Recommendation: The Town should have an appropriate employee calculate water loss amounts and prepare the required report.

Management's Response: We are making efforts to implement necessary controls to be in compliance.

2015-017: Interfund Receivables/Payables (Material Weakness and Compliance and Other Matters)

Condition: All interfund receivables and payables were not appropriately balanced and reconciled during the year. Additionally, the balances were not fully cleared by the year end date of June 30, 2014.

Criteria: All interfund receivables and payables should be balanced and reconciled monthly. Additionally, they must be fully cleared each year or must be deemed as a loan and appropriately approved by the State of Tennessee, Office of State and Local Finance.

Effect: Interfund receivables and payables not being balanced and reconciled results in incorrect revenues, expenses, assets and liabilities for each fund thereby creating incorrect fund balances. If they are not fully cleared each year, they are considered long-term debt that requires approval.

Recommendation: We recommend that all interfund receivables and payables be balanced and reconciled each month. We also recommend that the balances be paid in full before the end of the year or approved as loans by the State Comptroller's Office.

Management's Response: We are making efforts to implement necessary controls to be in compliance.

2015-018: Deficit Fund Balance (Significant Deficiency and Compliance and Other Matters)

Condition: The Town had a deficit fund balance in the General Fund.

Criteria: Fund balances should not be operated in a deficit.

Effect: Deficit fund balances indicate a going concern for the entity.

Recommendation: Those charged with governance of the Town should take steps to eliminate all fund deficits and ensure they do not occur.

Management's Response: We are making efforts to implement necessary controls to be in compliance.

2015-019: Sale of Seized Vehicles (Compliance and Other Matters)

Condition: The Town failed to document and remit to the Tennessee Department of Mental Health and Substance Abuse Services applicable amounts owed per state statutes.

Criteria: *Tennessee Code Annotated* section 40-33-211 direct a procedure for proceeds from seized or forfeited vehicles. This procedure indicates that applicable proceeds should be remitted to the Tennessee Department of Mental Health and Substance Abuse Services.

TOWN OF MASON, TENNESSEE
SCHEDULE OF FINDINGS
For the Fiscal Year Ended June 30, 2015

Effect: Failure to comply with State laws regarding disposition of seized or forfeited vehicles indicates an increased risk of inappropriate use of funds and Town assets.

Recommendation: The Town should comply with all state statutes.

Management's Response: We are making efforts to implement necessary controls to be in compliance.

2015-020: Credit Card Transactions (Material Weakness and Compliance)

Condition: The Town could not provide supporting documentation for credit card statements.

Criteria: The *Internal Control and Compliance Manual for Tennessee Municipalities* requires that all disbursements be substantiated with proper documentation which has been fully approved.

Effects: The Town had expenditures that did not have proper supporting documentation or approval as required.

Recommendation: The Town should maintain all supporting documentation for disbursements and should require proper approval prior to payment.

Management's Response: We are making efforts to implement necessary controls to be in compliance.

2015-021: Lack of Accurate and Timely Reconciliations of Cash, Accounts Payables, and Accounts Receivables (Material Weakness and Compliance)

Condition: We noted that cash accounts were not reconciled timely and accurately. We noted several reconciling items that did not appear to be appropriate. In addition, the accounts payable and accounts receivable accounts were not reconciled at year end and information could not be provided for all items requested. Also, the provided trial balance did not balance by a net difference of \$60,479 across four funds.

Criteria: According to the *Internal Control and Compliance Manual for Tennessee Municipalities*, cash balances should be reconciled within 30 days after the bank statements are received from the bank. Accounts payable and accounts receivable balances should be reconciled periodically but not less than once a year.

Effects: Unreconciled balances could result in incorrect revenues, expenses, assets and liabilities for each fund thereby creating incorrect fund balances.

Recommendation: The Town should timely and accurately reconcile cash, accounts payable and accounts receivable balances so as to detect errors and ensure that financial statements are not materially misstated.

Management's Response: We are making efforts to implement necessary controls to be in compliance.

2015-022: Incomplete Documentation for Utility Sales (Material Weakness)

Condition: The Town did not have support for utility sales.

Criteria: All revenues should have corresponding documentation as substantiation.

TOWN OF MASON, TENNESSEE
SCHEDULE OF FINDINGS
For the Fiscal Year Ended June 30, 2015

Effect: Unsupported revenues increase the risk of loss, improper revenue recognition and inadequate controls.

Recommendation: The Town should have adequate supporting documentation for utility revenues.

Management's Response: We are making efforts to implement necessary controls to resolve this matter.

2015-023: Journal Entries (Material Weakness)

Condition: Supporting documentation could not be located for journal entries that were made during the year. Additionally, numerous entries were made to fund balances, and we were unable to determine if those entries were accurate and necessary.

Criteria: Supporting documentation should be prepared and maintained for all journal entries. Also, journal entries should not be posted to fund balances unless they are to correct errors from a previous year.

Effects: Due to the lack of supporting documentation for the journal entries made during the year, we were unable to determine if those entries were appropriate.

Recommendation: We recommend that the Town prepare and maintain supporting documentation for all journal entries made in the future. If you feel that an entry needs to be made to correct an error, we recommend that you discuss with your auditor before posting to fund balances.

Management's Response: We are making efforts to implement necessary controls to resolve this matter.

2015-024: Grant Accounting (Material Weakness)

Condition: Grant revenues and expenses were not recorded properly. CDBG grant items were recorded in the General Fund, the CDBG Fund, and the Water and Sewer Fund.

Criteria: All grant related accounts should be recorded in the appropriate fund to ensure that annual reporting is accurate.

Effects: If grant expenses and revenues are not recorded in the proper account, it would create incorrect fund balances as well as the possibility of inaccurate capital asset amounts.

Recommendation: We recommend that the Town record all grant related items in the appropriate fund.

Management's Response: We are making efforts to implement necessary controls to resolve this matter.

TOWN OF MASON, TENNESSEE
SCHEDULE OF PRIOR YEAR FINDINGS
June 30, 2015

FINANCIAL STATEMENT FINDINGS

Finding Number	Finding Title	Status
2014-001	Investigative Report - State of Tennessee Comptroller of the Treasury - Released July 19, 2016 (Material Weakness and Noncompliance) (original finding # 2014-001)	Repeated
2014-002	Inadequate segregation of duties (Material Weakness) (original finding # 2004-001)	Repeated
2014-003	Purchasing policy (Significant Deficiency and Compliance and Other Matters) (original finding # 2004-002)	Repeated
2014-004	Disbursements (Material Weakness) (original finding # 2004-003)	Repeated
2014-005	Customer Deposits (Significant Deficiency) (original finding # 2004-005)	Repeated
2014-006	Accounts Receivable (Material Weakness) (original finding # 2004-006)	Repeated
2014-007	Allowance for Uncollectible Accounts (Significant Deficiency) (original finding # 2004-007)	Repeated
2014-008	Accrued Leave (Material Weakness and Compliance and Other Matters) (original finding # 2004-009)	Repeated
2014-009	Capital Work Orders (Significant Deficiency) (original finding # 2004-013)	Repeated
2014-010	Checks (Significant Deficiency) (original finding # 2012-003)	Repeated
2014-011	Payroll Journals (Material Weakness) (original finding # 2012-004)	Repeated
2014-012	Permit Fees (Significant Deficiency) (original finding # 2012-007)	Repeated
2014-013	Prior Period Adjustments (Material Weakness) (original finding # 2013-001)	Corrected
2014-014	Daily Collection Logs (Significant Deficiency) (original finding # 2013-003)	Repeated
2014-015	Fuel Card (Significant Deficiency) (original finding # 2013-007)	Repeated
2014-016	Budget (Compliance and Other Matters) (original finding # 2004-014)	Repeated
2014-017	Water Loss Calculations (Compliance and Other Matters) (original finding # 2004-016)	Repeated
2014-018	Interfund Receivables/Payables (Material Weakness and Compliance and Other Matters) (original finding # 2008-003)	Repeated
2014-019	Custodial Credit Risk (Compliance and Other Matters) (original finding # 2012-008)	Corrected
2014-020	Deficit Fund Balance (Significant Deficiency and Compliance and Other Matters) (original finding # 2013-004)	Repeated
2014-021	Appropriations in Excess of Available Funds (Compliance and Other Matters) (original finding # 2013-005)	Corrected
2014-022	Alderman Number (Compliance and Other Matters) (original finding # 2013-006)	Corrected

TOWN OF MASON, TENNESSEE
SCHEDULE OF PRIOR YEAR FINDINGS
June 30, 2015

Finding Number	Finding Title	Status
2014-023	Sale of Seized Vehicles (Compliance and Other Matters) (original finding # 2013-008)	Repeated
2014-024	Credit Card Transactions (Material Weakness and Compliance) (original finding # 2014-024)	Repeated
2014-025	Lack of Accurate and Timely Reconciliations of Cash, Accounts Payables, and Accounts Receivables (Material Weakness and Compliance) (original finding # 2014-025)	Repeated
2014-026	Incomplete Documentation for Utility Sales (Material Weakness) (original finding # 2014-026)	Repeated
2014-027	Journal Entries (Material Weakness) (original finding # 2014-027)	Repeated
2014-028	Grant Accounting (Material Weakness) (original finding # 2014-028)	Repeated

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Single Audit in accordance with OMB A-133 was not applicable; therefore, no findings reported.