

TOWN OF PARROTTSVILLE, TENNESSEE  
Financial Statements and Supplementary Information  
Year Ended June 30, 2017

TOWN OF PARROTTSVILLE, TENNESSEE  
Financial Statements and Supplementary Information  
Year Ended June 30, 2017

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TOWN OF PARROTTSVILLE, TENNESSEE  
Roster of Officials and Board Members  
Year Ended June 30, 2017

Officials

Mr. Dewayne Daniel	Mayor
Mr. Ronnie Hommel	Commissioner
Mr. Thad Balch	Commissioner
Ms. Jayne Ragan	Recorder, CMFO

- Certified Public Accountants
  - Business Advisors

## Independent Auditors' Report

To Mayor and Board of Commissioners  
Town of Parrottsville, Tennessee

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the general fund and each major fund of the Town of Parrottsville, Tennessee (the "Town"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

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

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the general fund and each major fund, of the Town, as of June 30, 2017, and the respective changes in financial position, and the respective budgetary comparison for the General Fund and the State Street Aid Fund, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

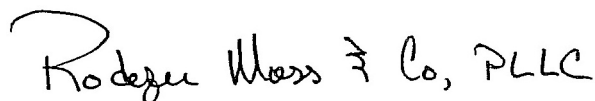
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Roster of officials and Board Members on page 1 and Schedule of State Assistance on page 25, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information on page 1 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.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2019 on our consideration of the Town'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's internal control over financial reporting and compliance.

Roderick Messer & Co, PLLC

Greeneville, Tennessee  
April 24, 2019

TOWN OF PARROTTSVILLE, TENNESSEE  
Management's Discussion and Analysis (Unaudited)  
June 30, 2017

As management of the Town of Parrottsville, Tennessee (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2017. Please note the Town presents prior comparative financial information when available.

### **Financial Highlights**

Key financial highlights for the year ended June 30, 2017 are as follows:

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$1,188,017.
- The Town's net position decreased by \$50,604.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balance of \$157,154, a decrease of \$3,019, in comparison with the prior year.

### **Overview of the Financial Statements**

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

#### **Government-Wide Financial Statements**

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

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

The Statement of Activities presents information showing how the Town'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.

Both of the government-wide financial statements distinguish functions of the Town 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 include general government, police, and street. The business-type activities of the Town include a sewer plant. The government-wide financial statements can be found on pages 8-9 of this report.

#### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, 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 can be divided into two categories: (1) governmental funds and (2) proprietary funds.

#### **Governmental Funds**

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the general fund and the state street aid fund.

The Town adopts an annual appropriated budget for its general fund and state street aid fund. A budgetary comparison statement has been provided for the general and state street aid fund to demonstrate compliance with the budgets.

The basic governmental fund financial statements can be found on pages 10-14 of this report.

**Proprietary Funds**

The Town maintains one type of proprietary fund which is an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses an enterprise fund to account for its sewer operations. The basic proprietary fund financial statements can be found on pages 15-17 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 18-24 of this report.

**Government-Wide Financial Analysis**

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, assets exceeded liabilities by \$1,188,017 at the close of the most recent fiscal year.

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

The following table provides a summary of the Town's net position at June 30, 2017 and 2016:

	Summary of Net Position			
	June 30, 2017	June 30, 2016	Increase (Decrease)	%
Current assets	\$ 240,152	\$ 221,142	\$ 19,010	8.60%
Other assets	<u>970,034</u>	<u>1,044,240</u>	<u>(74,206)</u>	-7.11%
Total assets	<u>1,210,186</u>	<u>1,265,382</u>	<u>(55,196)</u>	-4.36%
Current liabilities	17,065	21,758	(4,693)	-21.57%
Long-term liabilities	<u>5,104</u>	<u>5,004</u>	<u>100</u>	2.00%
Total liabilities	<u>22,169</u>	<u>26,762</u>	<u>(4,593)</u>	-17.16%
Net position	<u>\$ 1,188,017</u>	<u>\$ 1,238,620</u>	<u>\$ (50,603)</u>	-4.09%

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

Eighteen percent of the Town's net position is unrestricted. The unrestricted amount of \$212,596 may be used to meet the Town's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town is able to report a positive balance in the net position for all position categories.

The statement of activities presents information showing how the Town'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.

The following is a summary of the Town's changes in net position for the years ended June 30, 2017 and 2016:

	Summary of Changes in Net Position			
	June 30, 2017	June 30, 2016	Increase (Decrease)	%
Revenues				
Governmental	\$ 20,373	\$ 21,483	\$ (1,110)	-5.17%
Business-type activities	44,839	28,938	15,901	54.95%
General revenues	<u>160,503</u>	<u>171,151</u>	<u>(10,648)</u>	-6.22%
Total revenues	<u>225,715</u>	<u>221,572</u>	<u>4,143</u>	1.87%
Expenses				
Governmental	230,080	252,589	(22,509)	-8.91%
Business-type activities	<u>46,239</u>	<u>32,352</u>	<u>13,887</u>	42.92%
Total expenses and transfers	<u>276,319</u>	<u>284,941</u>	<u>(8,622)</u>	-3.03%
Change in net position	<u>\$ (50,604)</u>	<u>\$ (63,369)</u>	<u>\$ 12,765</u>	-20.14%

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

**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 Town's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$157,154, an increase of \$3,019 in comparison with the prior year.

**Proprietary Funds**

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

As of the end of the current fiscal year, the Town's sewer fund reported an ending net position of \$512,514, a decrease of \$1,400 in comparison with the prior year.



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

**General Fund Budgetary Highlights**

During the current year, the Town did not amend its general fund budget. Actual revenues exceeded budgeted revenues by \$20,540 while budgeted expenditures exceeded actual expenditures by \$21,716.

**Capital Assets and Debt Administration**

The Town's capital assets net of accumulated depreciation for its governmental activities as of June 30, 2017, totaled \$507,137. The Town's investment in capital assets net of accumulated depreciation for its proprietary activities as of June 30, 2017, totaled \$462,897. This investment in capital assets includes land, buildings, equipment, land improvements and idle property.

	Governmental Activities		Business-type Activities		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 98,000	\$ 98,000	\$ 10,909	\$ 10,909	\$ 108,909	\$ 108,909
Buildings	256,159	256,159	-	-	256,159	256,159
Park improvements	319,279	319,279	-	-	319,279	319,279
Equipment	247,050	234,340	1,054	1,054	248,104	235,394
Infrastructure	50,280	50,280	883,781	883,781	934,061	934,061
Less accumulated depreciation	<u>(450,920)</u>	<u>(381,870)</u>	<u>(445,558)</u>	<u>(427,692)</u>	<u>(896,478)</u>	<u>(809,562)</u>
	<u>\$ 519,848</u>	<u>\$ 576,188</u>	<u>\$ 450,186</u>	<u>\$ 468,052</u>	<u>\$ 970,034</u>	<u>\$ 1,044,240</u>

**Long-Term Debt**

At the end of the current fiscal year, the Town had no long-term debt.

**Economic Factors & Next Year's Budget & Rates**

In developing the budget, the Town's appointed and elected officials take a number of factors into consideration with the economic environment being one consideration. The Town of Parrottsville is located in Cocke County, Tennessee. The Town derives the majority of its revenues through state shared revenues, local sales tax options, and user charges for services rendered as the Town does not have a property tax.

**Requests for Information**

This financial report is designed to provide a general overview of the Town of Parrottsville's finances for all those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Town Recorder, Town of Parrottsville, P.O. Box 300, Parrottsville, TN 37843.

TOWN OF PARROTTSVILLE, TENNESSEE  
Statement of Net Position  
June 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ 157,795	\$ 62,364	\$ 220,159
Accounts receivable, net	<u>14,925</u>	<u>5,068</u>	<u>19,993</u>
Total current assets	<u>172,720</u>	<u>67,432</u>	<u>240,152</u>
Other Assets			
Capital assets, net	<u>519,848</u>	<u>450,186</u>	<u>970,034</u>
Total other assets	<u>519,848</u>	<u>450,186</u>	<u>970,034</u>
Total assets	<u>692,568</u>	<u>517,618</u>	<u>1,210,186</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	14,377	-	14,377
Accrued payroll	<u>2,688</u>	<u>-</u>	<u>2,688</u>
Total current liabilities	<u>17,065</u>	<u>-</u>	<u>17,065</u>
Long-Term Liabilities			
Customer deposit	<u>-</u>	<u>5,104</u>	<u>5,104</u>
Total long-term liabilities	<u>-</u>	<u>5,104</u>	<u>5,104</u>
Total liabilities	<u>17,065</u>	<u>5,104</u>	<u>22,169</u>
<b>NET POSITION</b>			
Investment in capital assets	519,848	450,186	970,034
Restricted for highways & streets	5,387	-	5,387
Unrestricted	<u>150,268</u>	<u>62,328</u>	<u>212,596</u>
Total net position	<u>\$ 675,503</u>	<u>\$ 512,514</u>	<u>\$ 1,188,017</u>

TOWN OF PARROTTSVILLE, TENNESSEE  
Statement of Activities  
Year Ended June 30, 2017

Function/Programs	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
<b>Primary Government</b>						
Governmental activities						
General government	\$ 162,714	\$ -	\$ -	\$ (162,714)	\$ -	\$ (162,714)
Public safety	39,562	-	-	(39,562)	-	(39,562)
Parks	23,975	4,657	7,905	(11,413)	-	(11,413)
Streets	3,829	-	7,811	3,982	-	3,982
Total governmental activities	<u>230,080</u>	<u>4,657</u>	<u>15,716</u>	<u>(209,707)</u>	<u>-</u>	<u>(209,707)</u>
Business-type activities						
Sewer	<u>46,239</u>	<u>44,839</u>	<u>-</u>	<u>-</u>	<u>(1,400)</u>	<u>(1,400)</u>
Total business-type activities	<u>46,239</u>	<u>44,839</u>	<u>-</u>	<u>-</u>	<u>(1,400)</u>	<u>(1,400)</u>
Total primary government	<u>\$ 276,319</u>	<u>\$ 49,496</u>	<u>\$ 15,716</u>	<u>(209,707)</u>	<u>(1,400)</u>	<u>(211,107)</u>
General Revenues						
Local taxes				98,109	-	98,109
Intergovernmental revenues				27,808	-	27,808
Unrestricted investment earnings				510	-	510
Court fees				14,205	-	14,205
Other revenues				<u>19,871</u>	<u>-</u>	<u>19,871</u>
Total general revenues				<u>160,503</u>	<u>-</u>	<u>160,503</u>
Change in net position				(49,204)	(1,400)	(50,604)
Net position at the beginning of the year				<u>724,707</u>	<u>513,914</u>	<u>1,238,621</u>
Net position at the end of the year				<u>\$ 675,503</u>	<u>\$ 512,514</u>	<u>\$ 1,188,017</u>

See accompanying notes to the financial statements.

TOWN OF PARROTTSVILLE, TENNESSEE  
Balance Sheet and  
Reconciliation to the Statement of Net Position  
Governmental Funds  
June 30, 2017

	General	State Street Aid Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash in bank - checking	\$ 153,761	\$ 4,033	\$ 157,794
Due from other Governments	13,571	1,354	14,925
Total Assets	\$ 167,332	\$ 5,387	\$ 172,719
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 12,877	\$ -	\$ 12,877
Accrued payroll	2,688	-	2,688
Total Liabilities	15,565	-	15,565
Fund balances			
Restricted			
State Street Aid	-	5,387	5,387
Unassigned	151,767	-	151,767
Total Fund Balances	151,767	5,387	157,154
Total Liabilities and Fund Balances	\$ 167,332	\$ 5,387	\$ 172,719

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

Amounts reported for governmental activities in the statement of net position are different because:

Total Fund Balance (shown above)	\$ 157,154
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.	(1,500)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	519,849
Net position of governmental activities	\$ 675,503

TOWN OF PARROTTSVILLE, TENNESSEE  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
and Reconciliation to the Statement of Activities  
Governmental Funds  
Year Ended June 30, 2017

	General	State Street Aid Fund	Total Governmental Funds
<b>REVENUES:</b>			
Local taxes	\$ 98,109	\$ -	\$ 98,109
Intergovernmental revenue	27,808	7,811	35,619
Other revenue	31,478	-	31,478
Fines and forfeitures	14,205	-	14,205
Total revenues	171,600	7,811	179,411
<b>EXPENDITURES:</b>			
General government	135,294	-	135,294
Public safety	35,077	-	35,077
Parks and recreation	8,230	-	8,230
Street	-	3,829	3,829
Total expenditures	178,601	3,829	182,430
Net change in fund balances	(7,001)	3,982	(3,019)
Fund balance at the beginning of the year	158,768	1,405	160,173
Fund balance at the end of the year	\$ 151,767	\$ 5,387	\$ 157,154

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances of governmental funds	\$ (3,019)
Some accounts payable are not paid within 60 days, and are not expenditures in the governmental funds, but increase liabilities in the statement of net position.	1,500
Governmental funds report capital outlays as expenditures while the statement of activities reports allocates the cost of those assets over the estimated useful life of the assets as depreciation expense:	
Capital asset purchased	12,710
Depreciation expense	(60,395)
Change in net position of governmental activities	\$ (49,204)

TOWN OF PARROTTSVILLE, TENNESSEE  
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
General Fund  
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Beginning budgetary fund balance:	\$ 158,768	\$ 158,768	\$ 158,768	\$ -
Revenues				
Local taxes				
Local sales tax	65,000	65,000	72,522	7,522
Beer tax	22,000	22,000	25,587	3,587
Total Local Taxes	<u>87,000</u>	<u>87,000</u>	<u>98,109</u>	<u>11,109</u>
State of Tennessee				
Sales tax	19,000	19,000	21,797	2,797
Income tax	2,500	2,500	2,967	467
Street Maintenance	7,500	7,500	1,639	(5,861)
TVA replacement tax	1,550	1,550	1,405	(145)
Telecommunications sales tax	6,575	6,575	-	(6,575)
Total State of Tennessee	<u>37,125</u>	<u>37,125</u>	<u>27,808</u>	<u>(9,317)</u>
Other Revenues				
Fireworks sponsorships	-	-	8,300	8,300
Interest income	460	460	6,393	5,933
Permits	5,000	5,000	6,170	1,170
Grants	4,400	4,400	4,657	257
City park	6,000	6,000	4,457	(1,543)
Heritage days	200	200	991	791
Miscellaneous income	375	375	510	135
Total Other Revenues	<u>16,435</u>	<u>16,435</u>	<u>31,478</u>	<u>15,043</u>
Fines and Forfeitures				
Police Fines	10,500	10,500	14,205	3,705
Total Fines and Forfeitures	<u>10,500</u>	<u>10,500</u>	<u>14,205</u>	<u>3,705</u>
Amounts available for appropriation	<u>\$ 309,828</u>	<u>\$ 309,828</u>	<u>\$ 330,368</u>	<u>\$ 20,540</u>

TOWN OF PARROTTSVILLE, TENNESSEE  
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Continued)  
General Fund

	Budgeted Amounts		Actual	Variance with Final Budget - Favorable
	Original	Final		(Unfavorable)
<b>Expenditures</b>				
<b>General Government</b>				
Salaries and personnel benefits	\$ 23,800	\$ 23,800	\$ 32,113	\$ (8,313)
Maintenance	33,485	33,485	30,465	3,020
Legal and auditing	9,000	9,000	19,500	(10,500)
Heritage days	5,000	5,000	13,831	(8,831)
Insurance	9,200	9,200	10,513	(1,313)
Fireworks showcase	3,000	3,000	8,527	(5,527)
Office	5,348	5,348	8,302	(2,954)
Telephone	2,000	2,000	4,974	(2,974)
Utilities	3,900	3,900	2,560	1,340
Miscellaneous and general government	5,200	5,200	2,858	2,342
Travel	400	400	603	(203)
Dues and subscriptions	1,902	1,902	528	1,374
Donations to others	2,500	2,500	520	1,980
Museum	500	500	-	500
	<u>105,235</u>	<u>105,235</u>	<u>135,294</u>	<u>(30,059)</u>
<b>Public Safety</b>				
Salaries and personnel benefits	19,000	34,850	25,326	9,524
Police service	7,500	7,500	4,506	2,994
City judge	3,200	3,200	3,000	200
Court Fees	-	-	2,245	(2,245)
	<u>29,700</u>	<u>45,550</u>	<u>35,077</u>	<u>10,473</u>
<b>Parks and Recreation</b>				
Recreation	6,100	2,700	3,898	(1,198)
Park maintenance	7,500	3,400	4,332	(932)
	<u>13,600</u>	<u>6,100</u>	<u>8,230</u>	<u>(2,130)</u>
	<u>148,535</u>	<u>156,885</u>	<u>178,601</u>	<u>(21,716)</u>
Ending budgetary fund balance:	<u>\$ 161,293</u>	<u>\$ 152,943</u>	<u>\$ 151,767</u>	<u>\$ 42,256</u>

TOWN OF PARROTTSVILLE, TENNESSEE  
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
State Street Aid  
Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget - Favorable (Unfavorable)
Beginning budgetary fund balance:	\$ 1,405	\$ 1,405	\$ 1,405	\$ -
Revenues				
Intergovernmental revenues	<u>6,500</u>	<u>6,500</u>	<u>7,811</u>	<u>1,311</u>
Amounts available for appropriation	<u>7,905</u>	<u>7,905</u>	<u>9,216</u>	<u>1,311</u>
Expenditures				
Street paving	3,000	3,000	-	3,000
Street lights	<u>3,500</u>	<u>3,500</u>	<u>3,829</u>	<u>(329)</u>
Total charges to appropriations	<u>6,500</u>	<u>6,500</u>	<u>3,829</u>	<u>2,671</u>
Ending budgetary fund balance:	<u>\$ 1,405</u>	<u>\$ 1,405</u>	<u>\$ 5,387</u>	<u>\$ 3,982</u>



TOWN OF PARROTTSVILLE, TENNESSEE  
Statement of Net Position  
Proprietary Fund - Sewer  
June 30, 2017

ASSETS

Current Assets

Cash and cash equivalents	\$ 62,364	
Accounts receivable, net	<u>5,068</u>	
Total current assets		\$ 67,432

Noncurrent Assets

Capital assets, net		<u>450,186</u>
Total assets		<u>517,618</u>

LIABILITIES

Noncurrent Liabilities

Customer deposits	<u>5,104</u>	
Total liabilities		<u>5,104</u>

NET POSITION

Investment in capital assets	450,186	
Unrestricted	<u>62,328</u>	
Total net position		<u><u>\$ 512,514</u></u>

TOWN OF PARROTTSVILLE, TENNESSEE  
Statement of Revenues, Expenses, and Changes in Net Position  
Proprietary Funds - Sewer  
Year Ended June 30, 2017

OPERATING REVENUES		
Sewer charges	\$ 44,666	
Late fees	<u>173</u>	
Total operating revenues		\$ 44,839
OPERATING EXPENSES		
Depreciation	17,866	
Bad debts	16,384	
Plant operations	8,727	
Utilities	2,883	
State permit	350	
Maintenance	<u>29</u>	
Total operating expenses		<u>46,239</u>
Operating loss		(1,400)
Net Position - Beginning		<u>513,914</u>
Net Position - Ending		<u><u>\$ 512,514</u></u>

TOWN OF PARROTTSVILLE, TENNESSEE  
Statement of Cash Flows  
Proprietary Funds  
Year Ended June 30, 2017

Cash Flows From Operating Activities		
Receipts from customers and users	\$ 35,614	
Payments to suppliers	<u>(11,989)</u>	
Net cash flows from operating activities		\$ 23,625
Cash and cash equivalents at the beginning of the year		<u>38,739</u>
Cash and cash equivalents at the end of the year		<u><u>\$ 62,364</u></u>

Reconciliation of net operating income to net cash flows from operating activities

Cash Flows From Operating Activities		
Operating loss	\$ (1,400)	
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation Expense	17,866	
Changes in operating assets and liabilities		
(Increase) decrease in assets:		
Accounts receivable	7,059	
Increase (decrease) in liabilities:		
Customer deposits	<u>100</u>	
Net cash flows from operating activities		<u><u>\$ 23,625</u></u>

TOWN OF PARROTTSVILLE, TENNESSEE  
Notes to Financial Statements  
June 30, 2017

NOTE 1 - REPORTING ENTITY

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

The Town was incorporated in 1923 under the provisions of the State of Tennessee. It has the usual corporate powers of municipalities including taxation, entering into contracts, and issuing bonds. The following services are authorized by the Charter: Public Safety ("Police"), Highways and Streets, Sanitation, Culture-Recreation, Public Improvements, Planning and Zoning, and general administrative duties.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basic Financial Statements - Government-Wide Statements** - The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Town's public safety, highways and streets, culture-recreation, sanitation, public improvements, planning and zoning, and general administrative services are classified as governmental activities. The Town's sewer services are classified as business-type activities.

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

The government-wide Statement of Activities reports both the gross and net costs of each of the Town's functions (public safety, highways and streets, etc.) and business-type activities. The functions are also supported by general government revenues (sales and use taxes, certain inter-governmental revenues, fines, permits, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, and operating grants. Program revenues must be directly associated with the function (public safety, highways and streets, etc.) or a business-type activity.

The net costs (by function or business-type activity) are normally covered by general revenue (sales and use taxes, inter-governmental revenues, interest income, etc.).

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following fund types are used by the Town:

**Governmental Funds**

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

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

**Special Revenue Funds** - Special Revenue Funds are used to account for all proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The Town maintains one special revenue fund - State Street Aid Fund.

**Proprietary Funds**

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The accounting principles generally accepted in the United States of America that are applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the Town:

**Enterprise Fund** - The accounts of the Sewer Fund are an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations that 1) are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Town has implemented Governmental Accounting Standards Board Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA pronouncements.*"

Depreciation is provided in the enterprise fund in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis. The service lives by type of asset are as follows:

<u>Assets</u>	<u>Years</u>
Infrastructure	50
Buildings and improvements	40
Sewer plant and distribution center	40-50
Land improvements	20
Equipment	15
Office equipment	5

When assets are retired or otherwise disposed of, the asset cost is removed from the asset account and the accumulated depreciation account. Removal cost less salvage value is charged or credited to the accumulated depreciation account. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

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

**Accrual** - Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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

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

**Revenue Recognition**

- (1) Sales taxes, which are collected by the State and subsequently remitted to the town, are recognized as revenues and receivables upon collection by the State, which is generally in the month proceeding receipt by the Town. Licenses, permits, fines and rents are recorded as revenues when received.
- (2) The Town distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with ongoing operations. The principal operating revenues of proprietary funds are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Revenue as billed to its customers is based on a monthly meter reading cycle.

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

**Allowance for Uncollectible Accounts** - The allowance for uncollectible taxes in the General Fund was \$0 and the allowance for uncollectible accounts receivable in the enterprise fund was \$16,866.

**Capital Assets** - The historical costs of capital assets (excluding infrastructure) are recorded in the government-wide statements. Infrastructure assets have been recorded at deflated replacement cost. Depreciation is expensed based on the estimated useful lives of the assets on a straight line basis. Assets with a cost of greater than \$500 are capitalized. Estimated useful lives range from 5-50 years.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

**Deposits** - The Town requires a deposit of \$100 from new sewer customers. When a customer moves and ceases using the sewer system, the deposit is applied to any outstanding sewer bills, and the remainder is returned to the customer. The deposits are shown on the balance sheet as customer deposits.

**Fund Balance Items** - The Town has implemented GASB Statement 54 employing the following terminology and classifications for fund balance items:

*Non-spendable* fund balance includes all amounts that cannot be spent because they are either not in spendable form (i.e. inventories and prepaids) or legally or contractually required to be maintained intact.

*Restricted fund* balances have constraints imposed by grantors, creditors, contributors, laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

*Committed fund* balances include funds that are set aside for a specific purpose by the Town's highest level of decision making authority (e.g., the Town's Board of Mayor and Commissioners passing an Ordinance). Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on funds.

*Assigned fund* balances are constrained by the Town's highest level of decision making authority or a body or official that has been given authority to assign funds (e.g., the Town's Board of Mayor and Commissioners passing a Resolution). Assigned funds cannot cause a deficit in unassigned fund balance.

*Unassigned funds* balances include any residual fund balance remaining after all other categories of fund balance have been determined.

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

**Date of Management's Review** - Management has evaluated events and transactions occurring subsequent to the statement of financial position for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date of the report, which is the date these financial statements were available to be issued.

NOTE 3 - DEPOSITS

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

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

The Town does not have a policy for interest rate risk or other credit risk other than pledging of securities for amounts in excess of FDIC coverage. The Town is exposed to concentration of credit risk by placing its deposits in financial institutions. The Town has mitigated the risks because the bank balance in excess of the FDIC limit is collateralized by the State of Tennessee bank collateral pool.

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

NOTE 3 - DEPOSITS (Continued)

At June 30, 2017, aggregated bank balances of \$219,798 were covered by federal depository insurance and through the banks' participation in the Tennessee Bank Collateral Pool.

A summary of the carrying amounts of these deposits at June 30, 2017 is as follows:

Interest and non-interest bearing	\$	219,798
Cash on hand		<u>360</u>
		<u>\$ 220,158</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the governmental activities for the year ended June 30, 2017 is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 98,000	\$ -	\$ -	\$ 98,000
Total capital assets not being depreciated	<u>98,000</u>	<u>-</u>	<u>-</u>	<u>98,000</u>
Other capital assets				
Buildings	256,159	-	-	256,159
Park improvements	319,279	-	-	319,279
Equipment	234,340	12,710	-	247,050
Infrastructure	<u>50,280</u>	<u>-</u>	<u>-</u>	<u>50,280</u>
Total other capital assets	<u>860,058</u>	<u>12,710</u>	<u>-</u>	<u>872,768</u>
Less accumulated depreciation for				
Buildings	(104,447)	(6,404)	-	(110,851)
Park improvements	(183,256)	(15,745)	-	(199,001)
Equipment	(84,284)	(45,185)	-	(129,469)
Infrastructure	<u>(9,883)</u>	<u>(1,716)</u>	<u>-</u>	<u>(11,599)</u>
Total accumulated depreciation	<u>(381,870)</u>	<u>(69,050)</u>	<u>-</u>	<u>(450,920)</u>
Other capital assets, net	<u>478,188</u>	<u>(56,340)</u>	<u>-</u>	<u>421,848</u>
Governmental activities capital assets, net	<u>\$ 576,188</u>	<u>\$ (56,340)</u>	<u>\$ -</u>	<u>\$ 519,848</u>

Depreciation expense was charged to functions of the governmental activities as follows:

Governmental Activities	
General government	\$ 48,819
Public safety	4,486
Parks and recreation	<u>15,745</u>
Total depreciation expense - governmental activities	<u>\$ 69,050</u>



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

NOTE 4 - CAPITAL ASSETS (Continued)

Capital asset activity of the business-type activities for the year ended June 30, 2017 is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
<b>Business-type Activities</b>				
Capital assets not being depreciated				
Land	\$ 10,909	\$ -	\$ -	\$ 10,909
Total capital assets not being depreciated	<u>10,909</u>	<u>-</u>	<u>-</u>	<u>10,909</u>
Other capital assets				
Equipment	1,054	-	-	1,054
Sewer disposal system	883,781	-	-	883,781
Total other capital assets	<u>884,835</u>	<u>-</u>	<u>-</u>	<u>884,835</u>
Less accumulated depreciation for				
Equipment	(158)	(70)	-	(228)
Sewer disposal system	(427,534)	(17,796)	-	(445,330)
Total accumulated depreciation	<u>(427,692)</u>	<u>(17,866)</u>	<u>-</u>	<u>(445,558)</u>
Other capital assets, net	<u>457,143</u>	<u>(17,866)</u>	<u>-</u>	<u>439,277</u>
Business-type activities capital assets, net	<u>\$ 468,052</u>	<u>\$ (17,866)</u>	<u>\$ -</u>	<u>\$ 450,186</u>

Depreciation expense was charged to functions of the business-type activities as follows:

Equipment	\$ 70
Sewer	<u>17,795</u>
Total depreciation expense - business type activities	<u>\$ 17,865</u>

NOTE 5 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Town to concentrations of credit risk consist primarily of customer accounts and taxes receivable. Management does not believe significant credit risk exists at June 30, 2017.

NOTE 6 - LEASE

The Town has a 10 year lease agreement with the Parrottsville Ruritan Club to build baseball/softball fields on land the Ruritan Club owns. Total costs for this lease was \$1,000 for the year ended June 30, 2017. The future minimum lease payments for this lease are as follows:

Fiscal Year Ending June 30,	Total
2018	\$ 1,000
2019	1,000
2020	<u>1,000</u>
Totals	<u>\$ 3,000</u>

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

NOTE 7 - RISK MANAGEMENT

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

SUPPLEMENTARY INFORMATION

TOWN OF UNICOI, PARROTTSVILLE  
Schedule of State Awards  
Year Ended June 30, 2017

Grantor Agency	Balance July 1, 2016	Receipts	Expenditures	Balance June 30, 2017	Expenditures to Subrecipients
Tennessee Department of Transportation High Visibility Law Enforcement Camp	\$ -	\$ 7,905	\$ 7,905	\$ -	\$ -
<b>Total State Grants</b>	<u>\$ -</u>	<u>\$ 7,905</u>	<u>\$ 7,905</u>	<u>\$ -</u>	<u>\$ -</u>

Note 1 - Basis of Presentation

The accompanying schedule of state award activity (the "Schedule") includes the federal and state award activity of Town of Parrottsville under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Town of Parrottsville, it is not intended to and does not present the financial position, change in net position, or cash flows of the Town of Parrottsville.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Town of Parrottsville has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

## COMPLIANCE REPORTS

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards*

To Mayor and Board of Commissioners  
Town of Parrottsville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the general fund and each major fund of the Town of Parrottsville, Tennessee (the "Town"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated April 24, 2019.

**Internal Control Over Financial Reporting**

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

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 Town's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses. (2015-001 - 2016-004)

**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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Town of Parrottsville's Response to Findings**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town'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.

Rodger Messer & Co, PLLC

Greeneville, Tennessee  
April 24, 2019



TOWN OF PARROTTSVILLE, TENNESSEE  
Schedule of Findings and Responses  
June 30, 2017

FINDINGS - Financial Statement Audit

Current Fiscal Year Audit Findings

**2016-001 Internal Control Manual** (repeated from prior year)

**Criteria:** Tennessee Code Annotated (TCA) section 9-2-102 requires all municipalities beginning June 30, 2016 to establish, document, and implement adequate internal controls.

**Condition:** The City did not comply. As of the date of the financial statements no internal control manual had been completed.

**Effect:** The City was not in compliance with TCA section 9-2-102.

**Cause of Condition:** The City maintains internal controls but failed to document a formal internal control manual.

**Recommendation:** We recommend the City implement an internal control manual in accordance with TCA section 9-2-102.

**Management Response:** The Town is in the process of designing and approving an internal control manual.

**2016-002 Proprietary Funds Not Self Supporting** (repeated from prior year)

**Criteria:** Proprietary (enterprise) funds should be self-supporting. These funds should not have negative changes in net position nor negative unrestricted net position balances.

**Condition:** The sewer utility fund incurred a negative change in net position. For the fiscal year ended June 30, 2017, the sewer utility fund change in net position was (\$1,400).

**Effect of Condition:** If the sewer fund continues to incur negative changes in net position, the State could take action. The Town could meet the criteria in Section 68-221-1010, Tennessee Code Annotated which defines a financially distressed system.

**Cause of Condition:** The sewer rates were not sufficient to cover the fund's expenses.

**Recommendation:** We recommend that the Board continue to monitor rates and expenses in the sewer fund and take actions necessary to reverse the negative trend in changes in net position.

**Management's Response:** Management increased the monthly rates from \$25 to \$35 per customer in the prior year and has positive cash flow.

**2016-003 Accounting Software** (repeated from prior year)

**Criteria:** The Town has three separate funds. Each fund should be accounted for separately.

**Condition:** The Town maintains a general fund, state street aid fund, and sewer fund within the accounting software.

**Effect of Condition:** Fund financial information of the Town is not correctly accounted for or reported.

**Cause of Condition:** Transactions are not accounted for separately in each appropriate fund.

**Recommendation:** We recommend the Town establish separate accounting funds for each fund or begin using "Classes" in the accounting software the Town presently uses.



TOWN OF PARROTTSVILLE, TENNESSEE  
Schedule of Findings and Responses (continued)

**Management's Response:** The Town will use the "class" function for future transactions and has obtained outside accounting assistance to help make needed changes to the accounting system.

**2016-004 Conflict of Interest** (repeated from prior year)

**Criteria:** Tennessee Code Annotated (TCA) section 6-54-107 prohibits an individual holding office from engaging in or performing work for the Town and Section 3.11 of the Town's Charter states, "Any officer or employee of the Town shall not profit personally, directly or indirectly, from any business transacted with the Town government."

Additionally, Ordinance No. 2011-1, Section 2 defines a "personal interest" to include any financial transaction or employment of a Town official's spouse, parents, step parents, grandparents, siblings, children, or step children. Section 3 of Ordinance No. 2011-1 requires the official with a personal interest to disclose the personal interest during the public meeting at which the vote takes place. The disclosure should be made before the vote takes place and should be noted in the minutes.

**Condition:** During the fiscal year, the Mayor provided mowing services for the Town and was paid by the Town. The Town also paid the Mayor's son for miscellaneous maintenance.

**Effect of Condition:** The Town engaged in prohibited transactions and is in violation of TCA 6-54-107, Section 3.11 of the Town Charter, and Ordinance No. 2011-1.

**Cause of Condition:** The Town's Mayor performed mowing services for the Town in which he was compensated for. The Mayor's son received compensation for performing services for the Town. These transactions were not voted on or approved by the Board.

**Recommendation:** We recommend the Town comply with TCA Section 6-54-107, Section 3.11 of the Town Charter, and Ordinance No. 2011-1. We recommend the Town vote on any financial transactions involving a personal interest of Town Officials. We also recommend the Town Official of a personal interest, recuse themselves from voting on the measure.

**Management's Response:** The Mayor had previously held the position of mowing the ball park as an employee of the Town of Parrottsville for several years previous to becoming Mayor; therefore, the mowing was continued as an ongoing service. However, this will be discontinued with the next budget.

**2015-001 Bank Account Reconciliation** (repeated from prior year)

**Criteria:** Bank reconciliations should be performed to accurately record all bank activity, and reconciliations should reflect all outstanding items correctly. Any discrepancies should be researched and resolved timely. Each bank account should be reconciled timely and completely, and reconciliations should be reviewed for accuracy and completeness. Preparations and reviews should be initialed and dated.

**Condition:** As part of examining bank account reconciliations prepared by the Town's staff, it was discovered that the June 30, 2017 reconciled balance did not agree with the general ledger for one bank account. The difference included multiple unrecorded transactions.

**Effect of Condition:** The financial statements could be significantly misstated due to adjustments reflected only on the bank reconciliations. If discrepancies are not timely reported, correction of bank errors could be denied by the bank, resulting in loss of funds. Bank reconciliations could become lists of unrecorded adjustments rather than true reconciliations of the general ledger to the bank.

**Cause of Condition:** Staff is not preparing complete reconciliations for all accounts in a timely manner.

TOWN OF PARROTTSVILLE, TENNESSEE  
Schedule of Findings and Responses (continued)

**Recommendation:** We recommend that each bank account be reconciled timely for each bank statement reporting period. We also recommend that any discrepancies be researched and resolved timely. Further, we recommend that all reconciling items be recorded in the general ledger so that the general ledger balance reconciles to the bank balance.

**Management's Response:** Management concurs. The QuickBooks reconciliation feature will be implemented to perform bank reconciliations on a monthly basis.

**2015-002 Utilization of Accounting Software** (repeated from prior year)

**Criteria:** The Town's personnel should completely and accurately reconcile all accounts receivable and accounts payable control accounts and subsidiary ledgers on a monthly basis.

**Condition:** The accounting software is not being utilized properly on a daily basis to facilitate reconciliations between accounts receivable and payable control accounts and subsidiary ledgers. Before posting auditor-proposed adjusting entries, accounts receivable and accounts payable were materially misstated.

**Effect of Condition:** Before posting auditor-proposed adjustments, the financial statements were materially misstated.

**Cause of Condition:** Several transactions were incorrectly posted to accounts receivable and accounts payable during the year. Additionally, prior year accruals were not reversed and current year accruals were not recorded.

**Recommendation:** Management should accurately reconcile accounts receivable and accounts payable each month to the balance in the general ledger subsequent to completion of Town operations for that month. Any differences should be thoroughly investigated, resolved, and documented. Proper and timely reconciliations will minimize the possibility of mistakes in financial reporting. The functions built into QuickBooks software are excellent tools to accomplish this.

**Management's Response:** Management concurs. Management will complete the implementation of the receivables and payables software functions to the general ledger within 30 days of receipt of the bank statements.

**2015-004 Material Auditor-proposed Adjusting Entries** (repeated from prior year)

**Criteria:** Before the auditors receive the financial records to begin audit procedures, year-end adjustments should be made to the financial records, and the trial balance should be reviewed after the adjustments are made to determine if any corrections need to be made or if any account balances still require adjustment.

**Condition:** Before posting auditor-proposed adjusting entries, the financial statements were materially misstated.

**Effect of Condition:** Before posting auditor-proposed adjustments, the financial statements were materially misstated.

**Cause of Condition:** Prior year accruals had not been reversed and current year accruals had not been recorded. Prior auditor adjustments had not been posted to the accounting software. Some account balances had not been cleared. Accounts payable and accounts receivable were not properly reconciled.

**Recommendation:** We recommend year-end adjustments be made to the financial statements before audit procedures begin. We recommend the trial balance be reviewed after year-end adjustments are made to determine if any additional work is required.

**Management's Response:** Management concurs. Controls will be implemented to avoid significant errors in the underlying accounting records.

TOWN OF PARROTTSVILLE, TENNESSEE  
Schedule of Findings and Responses (continued)

**2015-005 Supporting Documentation for Transactions** (repeated from prior year)

**Criteria:** Invoices, receipts, and other supporting documentation should be retained to verify items and services for which the Town has been billed have actually been received.

**Condition:** Supporting documentations for expenditures were not retained and it could not be determined that expenditures were for municipal purposes.

**Effect of Condition:** The Town's financial reporting system does not provide adequate support for the business nature of expenditures.

**Cause of Condition:** Several invoices were unable to be located. The only support for these transactions was copies of checks.

**Recommendation:** The Town should ensure that all invoices and supporting documentation are retained.

**Management's Response:** Management concurs. Controls will be implemented to properly support purchases.

**2015-006 Segregation of Duties** (repeated from prior year)

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

**Condition:** Due to the small size of the bookkeeping staff, segregation of duties is inadequate.

**Effect of Condition:** One person being in control of all aspects of accounting leaves greater potential for error or fraud to occur.

**Cause of Condition:** The Town only employs one individual in the accounting department.

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

**Management's Response:** Management acknowledges that there is insufficient depth and breadth in accounting and reporting function but believes that the benefits of adding staff would not justify the added costs. Management will continue to monitor and discuss ways that the Mayor and Commissioner can be involved in this process.

**2015-007 Completeness of Revenue** (repeated from prior year)

**Criteria:** Monthly billings and late fee revenues should be recorded in the accounting records.

**Condition:** Controls monitoring the Sewer revenues were not effective for this revenue source to ensure complete recording of revenue. Sewer monthly billings were not consistent for the Town's customer base.

**Effect of Condition:** The Town's financial reporting system did not prevent, detect, or correct potential misstatements in the accounting records. Amounts were not recorded and resulted in a loss of revenue and understated accounts receivable and revenue.

**Cause of Condition:** Monthly billings were understated due to error.

**Recommendation:** The Town should develop a documented method to track each type of revenue and periodically review for possible unrecorded or misclassified amounts.

TOWN OF PARROTTSVILLE, TENNESSEE  
Schedule of Findings and Responses (continued)

**Management's Response:** Management concurs. Controls will be implemented to avoid significant errors in the underlying accounting records.

**2015-008 Financial Statement Preparation** (repeated from prior year)

**Criteria:** The Town is responsible for the accounting and reporting function. The Town must have the skills and knowledge to apply generally accepted accounting principles in the preparation of the Town's financial statements.

**Condition:** The Town is responsible for establishing and maintaining internal control and for the fair presentation of the financial position, changes in financial position and disclosures in the annual audited financial statements in conformity with U.S. generally accepted accounting principles (GAAP). The town does not have a system of internal control that provides reasonable assurance that its audited financial statements and related disclosures are complete and presented in accordance with GAAP. As such, the Town requested the auditors to prepare a draft of its annual audited financial statements, including related disclosures.

**Effect of Condition:** There is a lack of internal control over the preparation of the Town's financial statements.

**Cause of Condition:** The Town did not prepare the financial statements and therefore, we, as the auditor, drafted the financial statements in accordance with generally accepted accounting principles.

**Recommendation:** We recommend that for future years, the client obtain the training required to prepare the Town's financial statements in accordance with generally accepted accounting principles or contract that function with someone outside the entity that is capable of preparing the financial statements and is not employed by the audit firm.

**Management's Response:** Management believes the cost to correct the deficiency would exceed the benefits to be derived. However, management believes our knowledge and expertise enable us to review the annual audited financial statements and understand them fully.

TOWN OF PARROTTSVILLE, TENNESSEE  
Schedule of the Disposition of Prior Year Findings  
June 30, 2017

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2016-001	Internal Control Manual	Repeated
2016-002	Proprietary Funds Not self-Supporting	Repeated
2016-003	Accounting Software	Repeated
2016-004	Conflict of Interest	Repeated
2015-001	Bank Account Reconciliation	Repeated
2015-002	Utilization of Accounting Software	Repeated
2015-004	Material Auditor Proposed Adjusting Entries	Repeated
2015-005	Supporting Documentation for Transactions	Repeated
2015-006	Segregation of Duties	Repeated
2015-007	Completeness of Revenue	Repeated
2015-008	Financial Statement Preparation	Repeated