

**TOWN OF TELICO PLAINS,
TENNESSEE**

**BASIC FINANCIAL STATEMENTS
WITH REQUIRED AND OTHER
SUPPLEMENTARY INFORMATION**

For the Fiscal Year Ended June 30, 2018

and

INDEPENDENT AUDITOR'S REPORT

TOWN OF TELlico PLAINS, TENNESSEE
 BASIC FINANCIAL STATEMENTS
 WITH REQUIRED AND OTHER SUPPLEMENTARY INFORMATION

For the Fiscal Year Ended June 30, 2018

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TOWN OF TELLICO PLAINS, TENNESSEE
BASIC FINANCIAL STATEMENTS
WITH REQUIRED AND OTHER SUPPLEMENTARY INFORMATION

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INTRODUCTORY SECTION



405 Veterans Memorial Drive
Tellico Plains, TN 37385

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Board of Mayor and Aldermen
Town of Tellico Plains
Tellico Plains, Tennessee

Dear Honorable Mayor and Board of Aldermen:

In accordance with the Charter of the Town of Tellico Plains, we are submitting the annual financial report for the fiscal year ended June 30, 2018. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Town. We believe the data, as presented, is accurate in all material aspects, is presented in a manner designed to fairly set forth the financial position and results of operation of the Town as measured by the financial activity of its various funds, and all disclosures necessary to enable the reader to gain maximum understanding of the Town's financial activities have been included.

The annual financial report is presented in four sections: 1) the introductory section, which contains the transmittal letter and a listing of principal officials; 2) the financial section, which consists of the independent auditor's report; the management's discussion and analysis; the government-wide financial statements; the fund financial statements; required supplementary information; and other supplementary information, which contains pertinent financial and demographic information generally presented on a multi-year basis; 3) the statistical section, which consists of other statistical schedules; and 4) the internal control and compliance section, which contains reports issued by the auditor.

This report includes all funds of the Town. The Town provides a full range of services including Police and Fire Protection, Highways and Streets, Public Improvements, Sanitation and Solid Waste, Recreational Activities, and General Administrative Services. In addition to general government activities, the Board of Mayor and Aldermen exercises oversight of the activities of the Water and Sewer Department and it is included as a business activity in the financial statements.

Management of the Town is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) The cost of control should not exceed the benefits likely to be derived; and 2) The valuation of costs and benefits requires estimates and judgments by management.

The Town is responsible for insuring that an adequate internal control structure is in place to insure compliance with applicable laws and regulations related to the operations of the Town. This internal control structure is subject to periodic evaluation by management.

In addition, the Town maintains budgetary controls. The objective of these budgetary controls is to insure compliance with legal provisions embodied in the annual appropriated budget approved by the Board of Mayor and Aldermen. Activities of the General Fund and Special Revenue Funds are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the department level. The Town also maintains an encumbrance accounting system which is one technique of accomplishing budgetary control.

The Town Charter requires an annual audit of our annual basic financial statements by independent certified public accountants. Accordingly, this year's audit was completed by Brown Jake & McDaniel, PC. In addition to meeting the requirements set forth in the Town Charter, the audit was also designed to meet State and Federal audit requirements.

Respectfully submitted,

TOWN OF TELLICO PLAINS

Debbie Burris,
Certified Municipal Finance Officer

TOWN OF TELlico PLAINS, TENNESSEE

List of Principal Officials

For the Fiscal Year Ended June 30, 2018

<u>Title/Position</u>	<u>Name</u>
Board of Mayor and Aldermen:	
Mayor	Patrick Hawkins
Alderman	Kenneth Davis
Alderman	Robert Hamilton
Alderman	Larry Harris
Alderwoman	Sherri Raby
Recorder	David Bookout, Jr.
Certified Municipal Finance Officer	Debbie Burris

FINANCIAL SECTION

BROWN JAKE & McDANIEL, PC

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MEMBERS
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 CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

Mayor and Board of Aldermen
 Town of Tellico Plains, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the budgetary comparison statements of the General Fund of the Town of Tellico Plains, Tennessee, as of and for the year ended June 30, 2018, 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 the 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 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 auditor's 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, each major fund, the aggregate remaining fund information, and the respective budgetary comparison for the General Fund of the Town of Tellico Plains, Tennessee as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 15 and the required supplementary information on pages 52 through 54 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 of Tellico Plains, Tennessee's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, other supplementary information and other statistical schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal and state awards is presented for the purposes of additional analysis and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the schedule of expenditures of federal and state awards, and the other supplementary information are the responsibility of management and were 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 combining and individual nonmajor fund financial statements, the schedule of expenditures of federal and state awards, and the other supplementary information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and other statistical schedules have 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2019, on our consideration of the Town of Tellico Plains, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of the testing of internal control over financing reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Tellico Plains, Tennessee's internal control over financial reporting and compliance.

Brown Lake & McDaniel, PC

Knoxville, Tennessee
July 2, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Town of Tellico Plains, Tennessee's (the Town) financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the Town's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Town's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2018 are as follows:

Governmental-Type Activities

The net position of the Town increased by \$22,985, a 1.19 percent increase over 2017. This was comparable to the prior year.

General revenues accounted for \$578,751 or 80.31 percent of total revenue. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$141,883 or 19.69 percent of total revenues of \$720,634.

Among major funds, the General Fund had \$657,861 in revenues, debt issues and transfers and \$657,274 in expenses and transfers. The fund balance for the General Fund increased by \$587 from 2017.

Business-Type Activities

The Water and Sewer Fund's net utility plant decreased by \$141,169 or 2.8 percent.

The Water and Sewer Fund's net position increased by \$69,450 or 1.2 percent.

During the year, the Water and Sewer Fund's operating revenues decreased by \$2,707 or 0.3 percent.

During the year, the Water and Sewer Fund's total expenses decreased by \$19,092 or 2.2 percent.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Town as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The ***Statement of Net Position*** and ***Statement of Activities*** provide information about the activities of the Town, presenting both an aggregate view of the Town's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Town's most significant funds with all other nonmajor funds presented in one column. In the case of the Town, the General Fund is by far the most significant fund. The Town's business-type activities consist of utility distribution services for water and wastewater treatment provided by the Water and Sewer Fund.

The other required financial statement is the ***Statement of Cash Flows***. The primary purpose of this statement is to provide information about the Town's business-type activities, cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities; and provides answers to such questions as "where did cash come from?", "what was cash used for?" and "what was the change in cash balance during the reporting period?"

REPORTING THE TOWN AS A WHOLE

The *Statement of Net Position* and the *Statement of Activities*

While this document contains the funds used by the Town to provide programs and activities, the view of the Town as a whole looks at all financial transactions and asks the question, "how did we do financially during the year?" The ***Statement of Net Position*** and the ***Statement of Activities*** answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Town's net position and changes in those assets. This change in net position is important because it tells the reader that, for the Town as a whole, the financial position of the Town has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the Town's tax base, facility condition, required educational programs and other factors.

In the ***Statement of Net Position*** and the ***Statement of Activities***, the Town reports governmental activities and business-type activities. Governmental activities are the activities where most of the Town's programs and services are reported, including, but not limited to, general services, public safety, highways and streets, recreation, and education. The Town of Tellico Plains has one business-type activity, the Water and Sewer Fund. It provides water and wastewater services to the Town and adjacent areas of Monroe County.

REPORTING THE TOWN'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Fund financial reports provide detailed information about the Town's major funds. The Town uses several funds to account for a range of financial transactions. However, these fund financial statements focus on the Town's most significant funds. The Town's major governmental fund is the General Fund.

Governmental Funds

All of the Town's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending in future periods. These funds are reported using the modified accrual method of accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance Town general services. The relationship (or differences)

between governmental activities (reported in the *Statement of Net Position* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.

THE TOWN AS A WHOLE

The *Statement of Net Position* provides the perspective of the Town as a whole. Table 1 provides a summary of the Town of Tellico Plains' net position for 2018 and 2017.

Table 1
Net Position

	Governmental-Type Activities		Business-Type Activities	
	2018	2017	2018	2017
<u>Assets</u>				
Current and other assets	\$ 521,052	\$ 639,286	\$ 1,150,571	\$ 941,910
Capital assets	<u>1,616,823</u>	<u>1,625,730</u>	<u>4,872,656</u>	<u>5,013,825</u>
Total assets	<u>\$ 2,137,875</u>	<u>\$ 2,265,016</u>	<u>\$ 6,023,227</u>	<u>\$ 5,955,735</u>
<u>Deferred Outflows of Resources</u>				
Differences between expected and actual experience - pension plan	\$ 6,615	\$ 9,970	\$ 6,614	\$ 9,970
Differences between expected and actual earnings on pension plan investments	98	5,125	99	5,125
Changes in assumptions	<u>3,300</u>	<u>-</u>	<u>3,300</u>	<u>-</u>
Total deferred outflows	<u>\$ 10,013</u>	<u>\$ 15,095</u>	<u>\$ 10,013</u>	<u>\$ 15,095</u>
<u>Liabilities</u>				
Long-term liabilities	\$ 52,136	\$ 63,711	\$ 121,706	\$ 214,775
Other liabilities	<u>30,069</u>	<u>165,731</u>	<u>200,355</u>	<u>112,321</u>
Total liabilities	<u>\$ 82,205</u>	<u>\$ 229,442</u>	<u>\$ 322,061</u>	<u>\$ 327,096</u>
<u>Deferred Inflows of Resources</u>				
Rent revenue	\$ 3,200	\$ 5,600	\$ -	\$ -
Unbilled property taxes	100,507	104,073	-	-
Differences between expected and actual experience - pension plan	<u>11,522</u>	<u>13,527</u>	<u>11,522</u>	<u>13,527</u>
Total deferred inflows	<u>\$ 115,229</u>	<u>\$ 123,200</u>	<u>\$ 11,522</u>	<u>\$ 13,527</u>
<u>Net Position</u>				
Net investment in capital assets	\$ 1,567,523	\$ 1,571,740	\$ 4,681,618	\$ 4,764,534
Restricted	169,492	150,541	119,591	113,809
Unrestricted	<u>213,439</u>	<u>205,188</u>	<u>898,448</u>	<u>751,864</u>
Total net position	<u>\$ 1,950,454</u>	<u>\$ 1,927,469</u>	<u>\$ 5,699,657</u>	<u>\$ 5,630,207</u>

Table 2 provides a summary of the Town of Tellico Plains' changes in net position for 2018 and 2017.

Table 2
Change in Net Position

	Governmental-Type Activities		Business-Type Activities	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenue:				
Program revenue:				
Charges for services	\$ 103,625	\$ 118,888	\$ 837,523	\$ 840,230
Operating grants and contributions	38,258	33,504	-	-
Capital grants and contributions	-	-	85,953	487,831
General revenue:				
Taxes:				
Sales taxes	305,457	308,001	-	-
Property taxes	87,931	87,970	-	-
In-lieu of tax	14,268	14,726	-	-
Business tax	24,665	20,845	-	-
Wholesale beer tax	74,438	77,571	-	-
Income tax	-	-	-	-
Excise taxes	2,286	582	-	-
Other taxes	2,067	2,443	-	-
Interest earned	673	1,165	916	799
Gain (loss) on the sale of assets	-	12,598	-	4,210
Miscellaneous	53,995	28,003	-	-
In-lieu of tax - enterprise fund transfers	12,971	11,895	(12,971)	(11,895)
Total revenue	<u>720,634</u>	<u>718,191</u>	<u>911,421</u>	<u>1,321,175</u>
Program expenses:				
General government	206,420	229,957	-	-
Public safety	287,773	282,494	-	-
Public works	112,375	110,922	-	-
Cultural and recreational	39,385	33,810	-	-
Sanitation	42,316	41,066	-	-
Drug enforcement	2,994	-	-	-
Colonial building	4,524	4,564	-	-
Interest and fiscal charges	1,862	2,241	-	-
Utilities	-	-	841,971	865,719
Total program expenses	<u>697,649</u>	<u>705,054</u>	<u>841,971</u>	<u>865,719</u>
Change in net position	22,985	13,137	69,450	455,456
Net position, beginning	<u>1,927,469</u>	<u>1,914,332</u>	<u>5,630,207</u>	<u>5,174,751</u>
Net position, ending	<u>\$ 1,950,454</u>	<u>\$ 1,927,469</u>	<u>\$ 5,699,657</u>	<u>\$ 5,630,207</u>

Governmental-Type Activities

	Governmental-Type Activities	
	2018	2017
Revenues:		
Charges for services	14%	17%
Sales taxes	43%	43%
Property taxes	12%	12%
Other	31%	28%
	100%	100%
Expenses:		
General government	30%	33%
Public safety	41%	40%
Public works	16%	16%
Other	13%	11%
	100%	100%

Business-Type Activities

	Business-Type Activities	
	2018	2017
Revenues:		
Charges for utility services	91%	63%
Capital grants and contributions	9%	37%
	100%	100%
Expenses:		
Utility services	100%	100%

Expenses related to providing water and sewer service to customers comprise 100 percent of the Town's business-type activity expenses.

Table 3

	Total Cost of Services 2018	Net Cost of Services 2018	Total Cost of Services 2017	Net Cost of Services 2017
General government	\$ 206,420	\$ 202,740	\$ 229,957	\$ 227,447
Public safety	287,773	266,465	282,494	243,905
Public works	112,375	81,094	110,922	84,649
Cultural and recreational	39,385	32,995	33,810	27,245
Sanitation	42,316	(16,497)	41,066	(16,732)
Drug enforcement	2,994	(6,217)	-	(7,857)
Colonial building	4,524	(6,676)	4,564	(8,236)
Interest and fiscal charges	1,862	1,862	2,241	2,241
	<u>\$ 697,649</u>	<u>\$ 555,766</u>	<u>\$ 705,054</u>	<u>\$ 552,662</u>

The **Statement of Activities** shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

General government includes activities of the judicial, legislative and executive branches of the Town, as well as financial administration, legal, industrial development, municipal building operations and maintenance, and any other activity not specifically included in a separate program.

Public safety includes activities of the police, fire and codes enforcement.

Drug enforcement includes specific police activity related to the eradication of illegal drug use, production and distribution.

Highways and streets (public works) include activities related to the operation and maintenance of roads, streets, sidewalks, alleys, and all related activities.

State street aid includes the administration of gas taxes restricted for the maintenance of Town roads, sidewalks, etc.

Sanitation includes all the activities of solid waste collection and removal for the Town.

Community development includes all the activities of the HOMES grant.

Culture and recreation includes all the activities of the parks, community centers and libraries.

Colonial building includes the rent and maintenance of the Colonial Building.

Interest and fiscal charges is the activity associated with the payment of the Town's debt.

The dependence upon tax revenue is apparent. All activities supported through taxes and other general revenues amounted to 83 and 78 percent for the fiscal years ended 2018 and 2017. The community as a whole is the primary support for the Town.

CHANGES IN NET POSITION – BUSINESS-TYPE ACTIVITIES

Changes in the Water and Sewer Fund's net position can be determined by reviewing the following condensed **Statement of Revenues, Expenses, and Change in Net Position** for the years 2018 and 2017.

Table 4
Statement of Revenues, Expenses, and Change in Net Position

	Business-Type Activities	
	2018	2017
Revenues:		
Operating revenues	\$ 837,523	\$ 840,230
Non-operating revenues	916	5,009
Total revenues	<u>838,439</u>	<u>845,239</u>
Expenses:		
Operation	391,736	382,044
Administrative and general expense	158,315	189,669
Maintenance expense	42,908	50,068
Depreciation expense	238,094	228,364
Interest	10,918	15,574
Total expenses	<u>841,971</u>	<u>865,719</u>
Income (loss) before capital contributions and transfers	(3,532)	(20,480)
Capital contributions from grants	85,953	487,831
Transfers to local government in lieu of tax	(12,971)	(11,895)
Change in net position	<u>69,450</u>	<u>455,456</u>
Net position, beginning	<u>5,630,207</u>	<u>5,174,751</u>
Net position, ending	<u>\$ 5,699,657</u>	<u>\$ 5,630,207</u>

The Water and Sewer Fund revenues decreased 0.31 percent. This is comparable to the prior year.

Total expenses were up this year. Overall, there was an increase of 0.3 percent. This is comparable to the prior year.

THE TOWN'S FUNDS

Information about the Town's major funds is detailed in the financial statements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues, debt issuances and transfers in of \$737,133 and \$754,823 and expenditures and transfers out of \$719,206 and \$698,251 for the fiscal years 2018 and 2017.

As the Town completed the current year, all governmental funds had a balance of \$325,881, an increase of \$17,927 from 2017. This increase was mainly due to a decrease in expenses in the General Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Town's budget is prepared according to Tennessee law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The General Fund is the most significant budgeted fund.

The Town amended its budget during the 2018 fiscal year mainly due to minor changes in budgeted expenses.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – Governmental-Type Activities

At the end of fiscal years 2018 and 2017, the Town had \$1,616,823 and \$1,625,730 invested in land, buildings and improvements, machinery and equipment, and vehicles. Table 5 shows fiscal 2018 and 2017 balances.

Table 5
Capital Assets (Net of Depreciation) at June 30

	Governmental-Type Activities	
	2018	2017
Land	\$ 11,001	\$ 11,001
Buildings and improvements	351,871	367,417
Land improvements	55,347	57,289
Machinery and equipment	162,974	182,686
Vehicles	46,540	11,216
Furniture and fixtures	2,124	2,124
Street network	986,966	993,997
	<u>\$ 1,616,823</u>	<u>\$ 1,625,730</u>

Overall capital assets decreased by \$8,907 in fiscal year 2018 and decreased by \$53,751 in fiscal year 2017; and, depreciation expenses for these years amounted to \$49,328 and \$48,915, respectively.

At fiscal year end, the Town had no outstanding commitments for capital expenditures.

Capital Assets – Business-Type Activities

At the end of fiscal year 2018, the Water and Sewer Fund had \$4,872,656 invested in a broad range of capital assets, including its water distribution line, water treatment plant, sewer collection lines and sewer treatment plant. This amount represents a net decrease of \$141,169 or 2.8 percent.

Table 6 shows fiscal 2018 and 2017 balances.

Table 6
Capital Assets (Net of Depreciation) at June 30
(Dollars in Thousands)

Business-Type Activities		
	2018	2017
Net Capital Assets:		
Land	\$ 62,044	\$ 62,044
CWIP	96,925	-
Buildings and improvements	57,534	59,136
Water and sewer plant	4,394,118	4,604,908
Machinery and equipment	229,063	245,147
Vehicles	32,972	42,590
	<u>\$ 4,872,656</u>	<u>\$ 5,013,825</u>

Major addition is construction work in process for line extensions.

Debt Administration – Governmental-Type Activities

The Town's only debt is a capital outlay note. The Town's debt policy limits the amount of debt that can be issued to 25% of the Town's assessed valuation of property.

At June 30, 2018 and 2017, the Town had long-term debt totaling \$49,200 and \$53,990, with \$5,408 and \$5,218, respectively, due within one year. Average interest on debt is 3.58 percent.

Debt Administration - Business-Type Activities

At June 30, 2018 and 2017, the Water and Sewer Fund had outstanding revenue and tax bonds in the amount of \$191,038 and \$249,291, with \$74,695 and \$53,772, respectively, due within one year. Debt service schedules amortize through 2023. Interest rates range from 4.00 percent to 6.84 percent on the bonds. All outstanding bonds are insured and rated AAA.

CURRENT FINANCIAL ISSUES AND CONCERNS

Governmental-Type Activities

The Town continues to see steady growth in tourism, which is resulting in a steady increase in sales tax revenue. Some businesses have closed downtown. The Town is aware of this decline and its effect on revenue. The Town will only look to increase property tax as a last effort. The Town will continue to operate at current tax rate levels.

Business-Type Activities

The Water and Sewer Department remains steady and there is growth in new installation. The City Council has voted to restructure water usage rates. This should cause an increase in revenue to help cover depreciation. Management is still looking to reduce costs and operating expenses. The Town has been awarded another CDBG grant to improve existing water lines to help reduce water loss.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Town of Tellico Plains' finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional information, contact the Town of Tellico Plains, 405 Veterans Memorial Drive, Tellico Plains, Tennessee 37385.

TOWN OF TELlico PLAINS, TENNESSEE

Statement of Net Position

June 30, 2018

<u>ASSETS</u>	Governmental Activities	Business-Type Activities	Total
Current assets:			
Cash and cash equivalents	\$ 249,804	\$ 692,397	\$ 942,201
Receivables:			
Property taxes	15,337	-	15,337
Accounts receivable	3,200	-	3,200
Utility customers (net of allowance for doubtful accounts of \$341,300)	-	127,836	127,836
Unbilled revenue	86,000	41,631	127,631
Due from other governmental units	91,564	-	91,564
Internal balances	(131,142)	131,142	-
Other	13,212	-	13,212
Inventory	-	27,871	27,871
Prepaid expenses	30,198	10,103	40,301
Total current assets	<u>358,173</u>	<u>1,030,980</u>	<u>1,389,153</u>
Non-current assets:			
Net pension asset	<u>66,801</u>	<u>66,801</u>	<u>133,602</u>
Total non-current assets	<u>66,801</u>	<u>66,801</u>	<u>133,602</u>
Restricted assets:			
Cash and cash equivalents	<u>96,078</u>	<u>52,790</u>	<u>148,868</u>
Total restricted assets	<u>96,078</u>	<u>52,790</u>	<u>148,868</u>
Capital assets:			
Land	11,001	62,044	73,045
Construction work in progress	-	96,925	96,925
Depreciable capital assets	<u>2,724,017</u>	<u>8,674,365</u>	<u>11,398,382</u>
	2,735,018	8,833,334	11,568,352
Less: Accumulated depreciation	<u>1,118,195</u>	<u>3,960,678</u>	<u>5,078,873</u>
Total capital assets	<u>1,616,823</u>	<u>4,872,656</u>	<u>6,489,479</u>
Total assets	<u>2,137,875</u>	<u>6,023,227</u>	<u>8,161,102</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Differences between expected and actual experience - pension plan	6,615	6,614	13,229
Differences between expected and actual earnings on pension plan investments	98	99	197
Changes in Assumptions	<u>3,300</u>	<u>3,300</u>	<u>6,600</u>
Total deferred outflows of resources	<u>10,013</u>	<u>10,013</u>	<u>20,026</u>

(Continued)

TOWN OF TELICO PLAINS, TENNESSEE

Statement of Net Position
(Continued)

June 30, 2018

	Governmental Activities	Business-Type Activities	Total
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</u>			
Current liabilities:			
Accounts payable	\$ 12,952	\$ 82,349	\$ 95,301
Accrued liabilities	11,200	15,761	26,961
Funds held in a trust	509	-	
Customer deposits	-	27,550	27,550
Long-term liabilities:			
Due within one year	5,408	74,695	80,103
Total current liabilities	30,069	200,355	230,424
Long-term liabilities:			
Compensated absences	8,344	5,363	13,707
Due in more than one year	43,792	116,343	160,135
Total liabilities	82,205	322,061	404,266
Deferred inflows of resources:			
Rent revenue	3,200	-	3,200
Unbilled property taxes	100,507	-	100,507
Differences between expected and actual experience - pension	11,522	11,522	23,044
Total deferred inflows of resources	115,229	11,522	126,751
Net position:			
Net investment in capital assets	1,567,523	4,681,618	6,249,141
Restricted:			
Pension plan	66,801	66,801	133,602
Beautification fund	611	-	611
Cemetery fund	82,713	-	82,713
Drug fund	17,613	-	17,613
Toys for Tots	1,754	-	1,754
Debt service	-	52,790	52,790
Unrestricted	213,439	898,448	1,111,887
Total net position	\$ 1,950,454	\$ 5,699,657	\$ 7,650,111

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

TOWN OF TELlico PLAINS, TENNESSEE

Statement of Activities

For the Fiscal Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net Revenue/(Expense) and Change in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 206,420	\$ 3,365	\$ 315	\$ -	\$ (202,740)	\$ -	\$ (202,740)
Public safety	287,773	12,875	8,433	-	(266,465)	-	(266,465)
Public works	112,375	1,771	29,510	-	(81,094)	-	(81,094)
Cultural and recreational	39,385	6,390	-	-	(32,995)	-	(32,995)
Sanitation	42,316	58,813	-	-	16,497	-	16,497
Drug enforcement	2,994	9,211	-	-	6,217	-	6,217
Colonial Building	4,524	11,200	-	-	6,676	-	6,676
Interest and fiscal charges	1,862	-	-	-	(1,862)	-	(1,862)
Total governmental activities	697,649	103,625	38,258	-	(555,766)	-	(555,766)
Business-type activities:							
Water and Sewer Fund	841,971	837,523	-	85,953	-	81,505	81,505
Total business-type activities	841,971	837,523	-	85,953	-	81,505	81,505
Total primary government	\$ 1,539,620	\$ 941,148	\$ 38,258	\$ 85,953	(555,766)	81,505	(474,261)
General revenues:							
Taxes:							
Sales taxes					305,457	-	305,457
Property taxes					87,931	-	87,931
In-lieu of tax					14,268	-	14,268
Business tax					24,665	-	24,665
Wholesale beer tax					74,438	-	74,438
Income tax					-	-	-
Excise taxes					2,286	-	2,286
Other taxes					2,067	-	2,067
Interest earned					673	916	1,589
Gain (loss) on the sale of assets					-	-	-
Miscellaneous					53,995	-	53,995
In-lieu of tax - enterprise fund transfers					12,971	(12,971)	-
Total general revenues					578,751	(12,055)	566,696
Change in net position					22,985	69,450	92,435
Net position, beginning					1,927,469	5,630,207	7,557,676
Net position, ending					\$ 1,950,454	\$ 5,699,657	\$ 7,650,111

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

TOWN OF TELlico PLAINS, TENNESSEE

Balance Sheet - Governmental Funds

June 30, 2018

<u>ASSETS</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 145,589	\$ 104,215	\$ 249,804
Receivables:			
Property taxes	15,337	-	15,337
Unbilled property taxes	86,000	-	86,000
Due from governmental units	91,564	-	91,564
Accounts receivable	-	3,200	3,200
Due from other funds	287	-	287
Other	13,211	-	13,211
Prepaid expenses	30,198	-	30,198
Restricted assets:			
Cash and cash equivalents	85,185	10,893	96,078
Receivables:			
Due from other funds	-	7,229	7,229
Total assets	<u>\$ 467,371</u>	<u>\$ 125,537</u>	<u>\$ 592,908</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>			
Liabilities:			
Payable from current assets:			
Accounts payable	\$ 12,952	\$ -	\$ 12,952
Accrued liabilities	11,201	-	11,201
Funds held in a trust		509	509
Due to other funds	138,371	287	138,658
Total liabilities	<u>162,524</u>	<u>796</u>	<u>163,320</u>
Deferred inflows of resources:			
Rent revenue	-	3,200	3,200
Property taxes	14,507	-	14,507
Unbilled property taxes	86,000	-	86,000
Total deferred inflows of resources	<u>100,507</u>	<u>3,200</u>	<u>103,707</u>
Fund balances:			
Nonspendable:			
Prepaid expenses	30,198	-	30,198
Restricted:			
Beautification fund	611	-	611
Cemetery fund	82,713	-	82,713
Toys for Tots	1,754	-	1,754
Drug enforcement fund	-	17,613	17,613
Committed:			
Colonial building fund	-	103,928	103,928
Unassigned	89,064	-	89,064
Total fund balances	<u>204,340</u>	<u>121,541</u>	<u>325,881</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 467,371</u>	<u>\$ 125,537</u>	<u>\$ 592,908</u>

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

TOWN OF TELLICO PLAINS, TENNESSEE

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

June 30, 2018

Total fund balances - governmental funds	\$ 325,881
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$2,735,018 and the accumulated depreciation is \$1,118,195	1,616,823
Pension activity not reported on the fund statements:	
Net pension asset (TCRS)	66,801
Deferred outflows/inflows (TCRS) -	
Differences between expected and actual experience - pension plan	6,615
Differences between expected and actual earnings - pension plan investments	98
Differences between expected and actual experience - pension plan	(11,522)
Changes in assumptions - pension	3,300
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Notes payable	(49,200)
Compensated absences due in more than one year	(8,344)
Rounding	<u>2</u>
Total net position - governmental activities	<u><u>\$ 1,950,454</u></u>

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

TOWN OF TELlico PLAINS, TENNESSEE

Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds

For the Fiscal Year Ended June 30, 2018

	General Fund	Other Governmental Funds	Total
Revenues:			
Local taxes	\$ 420,188	\$ -	\$ 420,188
Intergovernmental revenue	128,980	-	128,980
Charges for services	6,390	-	6,390
Fines, forfeits, and penalties	12,875	9,211	22,086
Refuse collection charges	-	58,813	58,813
Rental income	-	11,200	11,200
Interest	625	48	673
Other revenue	59,335	-	59,335
	<u>628,393</u>	<u>79,272</u>	<u>707,665</u>
Total revenues			
Expenditures:			
Current:			
General government	219,254	-	219,254
Public safety	305,837	-	305,837
Public works	103,351	-	103,351
Cultural and recreational	28,832	-	28,832
Sanitation	-	42,316	42,316
Colonial building	-	124	124
Drug enforcement	-	2,995	2,995
	<u>657,274</u>	<u>45,435</u>	<u>702,709</u>
Total expenditures			
Revenues over (under) expenditures	<u>(28,881)</u>	<u>33,837</u>	<u>4,956</u>
Other financing sources (uses):			
In lieu of tax	12,971	-	12,971
Interfund transfers - in	16,497	-	16,497
Interfund transfers - out	-	(16,497)	(16,497)
	<u>29,468</u>	<u>(16,497)</u>	<u>12,971</u>
Total other financing sources (uses)			
Net changes in fund balance	587	17,340	17,927
Fund balance, beginning	<u>203,753</u>	<u>104,201</u>	<u>307,954</u>
Fund balance, ending	<u>\$ 204,340</u>	<u>\$ 121,541</u>	<u>\$ 325,881</u>

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

TOWN OF TELLICO PLAINS, TENNESSEE

Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures, and Changes in Fund Balances to the
Statement of Activities

For the Fiscal Year Ended June 30, 2018

Total net changes in fund balances - governmental funds	\$ 17,927
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which capital outlays (\$40,421) is less than depreciation (\$49,328) in the period.	(8,907)
In the statement of activities, certain operating expenses -- compensated absences (sick pay and vacation) -- are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation leave taken exceeded the amounts earned.	6,595
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	4,791
Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in the governmental funds - Pension expense	<u>2,579</u>
Changes in net position of governmental activities	<u>\$ 22,985</u>

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

TOWN OF TELICO PLAINS, TENNESSEE

Statement of Net Position - Proprietary Fund Type

June 30, 2018

ASSETS

Cash and cash equivalents	\$ 692,397
Customers' accounts receivable (less allowance for doubtful accounts of \$353,450)	127,836
Unbilled revenue	41,631
Inventory	27,871
Prepaid insurance	10,103
Interfund notes receivable	131,142
Net pension asset	66,801
Restricted cash and cash equivalents	52,790
Utility plant, net of accumulated depreciation of \$3,960,678	<u>4,872,656</u>
Total assets	<u>6,023,227</u>

DEFERRED OUTFLOWS OF RESOURCES

Differences between expected and actual experience - pension plan	6,614
Differences between expected and actual earnings on pension plan investments	99
Changes in assumptions	<u>3,300</u>
Total deferred outflows of resources	<u>10,013</u>

LIABILITIES

Liabilities:	
Current maturities of long-term debt	74,695
Accounts payable	82,349
Accrued expenses	15,761
Customer deposits	27,550
Compensated absences	5,363
Long-term debt	<u>116,343</u>
Total liabilities	<u>322,061</u>

DEFERRED INFLOWS OF RESOURCES

Differences between expected and actual experience - pension plan	<u>11,522</u>
Total deferred inflows of resources	<u>11,522</u>

NET POSITION

Net position:	
Net investment in capital assets	4,681,618
Restricted for debt service	52,790
Restricted for pension plan	66,801
Unrestricted	<u>898,448</u>
Total net position	<u>\$ 5,699,657</u>

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

TOWN OF TELICO PLAINS, TENNESSEE

Statement of Revenues, Expenses, and Change in Net Position -
Proprietary Fund Type

For the Fiscal Year Ended June 30, 2018

Operating revenues:	
Metered water sales	\$ 678,889
Sewer service charges	85,411
Water and sewer tap fees	23,270
Discounts and penalties	21,037
Miscellaneous revenues	28,916
	<u>837,523</u>
Operating expenses:	
Operation	391,736
Maintenance	42,908
General and administrative	158,315
Depreciation	238,094
	<u>831,053</u>
Operating margin	<u>6,470</u>
Non-operating revenues (expenses):	
Interest income	916
Interest expense	(10,918)
Gain on disposal	-
	<u>(10,002)</u>
Income (loss) before capital contributions and transfers	(3,532)
Capital contributions from grants	85,953
Transfers to local government in lieu of tax	<u>(12,971)</u>
Change in net position	69,450
Net position, beginning	<u>5,630,207</u>
Net position, ending	<u><u>\$ 5,699,657</u></u>

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

TOWN OF TELLICO PLAINS, TENNESSEE
Statement of Cash Flows - Proprietary Fund Type
For the Fiscal Year Ended June 30, 2018

Cash flows from operating activities:	
Cash received from customers	\$ 798,517
Cash payments to suppliers for goods and services	(319,465)
Cash payments to employees for services	<u>(216,723)</u>
Net cash provided by operating activities	<u>262,329</u>
Cash flows from noncapital and related financing activities:	
(Advances to) repayments from the Town, net	3,769
Miscellaneous income	916
Cash payment for in-lieu of taxes	<u>(12,971)</u>
Net cash used by noncapital and related financing activities	<u>(8,286)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(96,925)
Interest paid	(10,918)
Principal paid on long-term debt maturities	(58,253)
Capital contributions from grants	<u>85,953</u>
Net cash used by capital and related financing activities	<u>(80,143)</u>
Net increase in cash and cash equivalents	173,900
Cash and cash equivalents, beginning of year	<u>571,287</u>
Cash and cash equivalents, end of year	<u>\$ 745,187</u>
Cash and cash equivalents - unrestricted	\$ 692,397
Cash and cash equivalents - restricted	<u>52,790</u>
Cash and cash equivalents, end of year	<u>\$ 745,187</u>

(Continued)

TOWN OF TELLICO PLAINS, TENNESSEE
Statement of Cash Flows - Proprietary Fund Type
(Continued)

For the Fiscal Year Ended June 30, 2018

Adjustments to reconcile operating margin to net cash
provided by operating activities:

Operating margin	\$ 6,470
Adjustments to reconcile operating margin to net cash provided by operating activities:	
Depreciation	238,094
Gain on disposal	-
(Increase) decrease in assets and deferred outflows:	
Accounts receivable	(40,912)
Unbilled revenue	1,905
Inventory	1,858
Prepaid expenses	4,276
Net pension asset	(5,655)
Deferred outflows related to pension plan	5,082
Increase (decrease) in liabilities and deferred inflows:	
Accounts payable	50,620
Accrued expenses	2,597
Deferred inflows related to pension plan	(2,006)
	255,859
Net cash provided by operating activities	\$ 262,329

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

TOWN OF TELLICO PLAINS, TENNESSEE

General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2018

	2018 Original Budget	2018 Final Budget	2018 Actual	2017 Actual
Revenues:				
Local taxes:				
Property taxes	\$ 100,225	\$ 100,225	\$ 87,931	\$ 87,970
Local sales tax	215,000	215,000	228,133	234,449
Wholesale beer tax	75,000	75,000	74,438	77,571
Business and gross receipts tax	18,417	18,417	24,665	20,845
Cable T.V. franchise tax	2,018	2,018	1,656	2,018
Beer licenses	800	800	1,550	850
Permits and fees	1,470	1,470	1,815	1,625
Total local taxes	412,930	412,930	420,188	425,328
Intergovernmental revenues:				
Housing Authority in lieu of tax	4,098	4,098	4,086	4,098
Tennessee Valley Authority in lieu of tax	10,848	10,848	10,182	10,628
RTP grant	110,000	110,000	-	-
Governor's safety grant	5,000	5,000	3,444	4,999
State of Tennessee:				
Sales tax	71,760	71,760	77,324	73,551
Income tax	5,353	5,353	(3,034)	-
Alcohol beverage tax	425	425	411	425
State gasoline and motor fuel tax	24,413	24,413	29,510	24,495
State law enforcement grant	-	-	3,000	2,400
State TEMA grant	-	-	-	-
State oil burner grant	-	-	-	-
Law enforcement supplement	3,000	3,000	-	-
Corporate excise tax	1,832	1,832	2,286	581
Street maintenance - state highways	1,780	1,780	1,771	1,778
Special impact area funds	-	-	-	-
Total intergovernmental revenues	238,509	238,509	128,980	122,955
Charges for services:				
Community center rent	6,500	6,500	6,390	6,565
Fines, forfeits and penalties:				
Fines and costs	26,767	26,767	12,875	29,615
Other revenues:				
Interest on investments	450	450	625	1,126
Gifts and contributions	1,200	1,200	315	-
Police services - SRO	-	-	-	-
Other	200	200	11,526	12,677
Pilot program	11,500	11,500	-	-
Sale of equipment	70,000	70,000	45,505	47,859
Donations - Toys for Tots	-	-	1,989	1,575
Total other revenues	83,350	83,350	59,960	63,237
Total revenues	768,056	768,056	628,393	647,700
Expenditures:				
General government:				
City court:				
Legal services	3,700	3,700	-	10,246
Total city court	3,700	3,700	-	10,246

(Continued)

TOWN OF TELLICO PLAINS, TENNESSEE

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

For the Fiscal Year Ended June 30, 2018

	2018 Original Budget	2018 Final Budget	2018 Actual	2017 Actual
Expenditures (continued):				
General government (continued):				
City election:				
Contract services	\$ -	\$ -	\$ -	\$ -
Total city election	-	-	-	-
Financial administration:				
Wages	31,000	31,000	31,363	30,674
Employee education and training	750	750	586	453
Fees of Officials	2,460	2,460	2,460	-
Publicity and subscriptions	3,000	3,000	3,224	2,561
Telephone	3,000	3,000	3,041	3,049
Legal services	3,700	3,700	3,100	2,835
Accounting and auditing services	16,000	16,000	15,472	17,350
Other professional services	9,659	9,659	10,421	11,275
Supplies	3,000	3,000	3,470	3,133
Insurance	8,383	8,383	7,625	11,526
Other	-	-	710	915
Total financial administration	80,952	80,952	81,472	83,771
City hall buildings:				
Utilities	3,500	3,500	1,027	2,246
Other contractual services	3,515	3,515	3,554	3,515
Repairs and maintenance - building	2,600	2,600	2,102	2,558
Insurance	943	943	997	943
Principal on notes	5,218	5,218	5,220	5,050
Interest on notes	1,863	1,863	1,862	2,031
Other	-	-	15	2,031
Total city hall buildings	17,639	17,639	14,777	16,343
Other general government:				
Christmas bonus	750	750	520	654
OASI	20,000	20,000	22,772	18,191
Hospital and health insurance	49,067	47,300	54,901	47,409
Worker's compensation	14,000	14,000	10,625	11,969
Unemployment insurance	3,300	3,300	2,566	3,163
Public relations	500	500	45	785
Utilities	-	-	957	1,017
Professional services	3,831	3,831	3,831	3,831
Insurance	1,749	1,749	3,188	3,542
Contractual services	21,400	21,400	21,400	21,400
Capital outlay	500	500	-	500
Grants to local organizations	2,200	2,200	2,200	2,600
Total other general government	117,297	115,530	123,005	115,061
Total general government	219,588	217,821	219,254	225,421
Public safety:				
Police administration:				
Wages	160,000	160,000	177,905	168,811
Employee education and training	600	600	813	163
Telephone	2,600	2,600	3,275	2,469
Medical, dental, and veterinarian	500	500	170	399
Supplies	10,000	10,000	24,833	27,297
Police contributions	500	500	-	-
Clothing and uniforms	2,000	2,000	2,370	8,975
Gas, oil and diesel fuel	18,000	18,000	19,588	17,588

(Continued)

TOWN OF TELLICO PLAINS, TENNESSEE

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

For the Fiscal Year Ended June 30, 2018

	2018 Original Budget	2018 Final Budget	2018 Actual	2017 Actual
Expenditures (continued):				
Public safety (continued):				
Police administration (continued):				
Vehicle parts	\$ 8,000	\$ 12,000	\$ 11,440	\$ 8,769
Insurance	15,495	15,495	16,616	15,495
Capital outlay	2,500	2,500	40,421	2,500
Governor's safety grant	5,000	5,000	-	-
Vehicle Purchase	-	34,500	-	1,724
	<u>225,195</u>	<u>263,695</u>	<u>297,431</u>	<u>254,190</u>
Total police administration				
Fire administration:				
Employee education and training	100	100	-	-
Utilities	3,000	3,000	1,918	1,853
Telephone	1,400	1,400	1,099	1,096
Truck certification	1,750	-	997	1,042
Supplies	1,000	1,000	26	102
Gas, oil and diesel fuel	1,500	1,500	433	98
Vehicle parts	300	300	-	-
Building repair and maintenance	2,000	2,000	94	974
Safety supplies	500	500	-	-
Insurance	3,315	3,315	3,495	3,314
Capital outlay	-	-	-	9,280
	<u>14,865</u>	<u>13,115</u>	<u>8,062</u>	<u>17,759</u>
Total fire administration				
Ambulance service administration:				
Utilities	350	350	344	354
	<u>350</u>	<u>350</u>	<u>344</u>	<u>354</u>
Total ambulance service administration				
Total public safety				
	<u>240,410</u>	<u>277,160</u>	<u>305,837</u>	<u>272,303</u>
Public works:				
Highway and street administration:				
Wages	49,000	43,000	40,480	38,305
Supplies	6,000	13,000	14,202	9,610
Gas, oil and diesel fuel	7,000	7,000	6,460	6,473
Vehicle parts	4,200	4,200	1,089	3,690
Street materials	2,000	2,000	6,570	4,682
Insurance	785	785	838	785
Principal on notes	-	-	-	14,483
Interest on notes	-	-	-	209
Capital Outlay	10,000	10,000	-	-
Grants	-	-	-	-
	<u>78,985</u>	<u>79,985</u>	<u>69,639</u>	<u>78,237</u>
Total highway and street administration				
State street aid:				
Street lighting	32,000	32,000	32,782	35,514
	<u>32,000</u>	<u>32,000</u>	<u>32,782</u>	<u>35,514</u>
Total state street aid				
City beautification:				
Utilities	600	600	537	540
Supplies	1,500	1,500	393	236
	<u>2,100</u>	<u>2,100</u>	<u>930</u>	<u>776</u>
Total city beautification				
Total public works				
	<u>113,085</u>	<u>114,085</u>	<u>103,351</u>	<u>114,527</u>

(Continued)

TOWN OF TELLICO PLAINS, TENNESSEE

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

For the Fiscal Year Ended June 30, 2018

	2018 Original Budget	2018 Final Budget	2018 Actual	2017 Actual
Expenditures (continued):				
Cultural and recreational:				
Community center:				
Contractual services	\$ 6,000	\$ 6,000	\$ 5,174	\$ 4,830
Utilities	5,000	5,000	2,875	2,718
Supplies	1,800	1,800	2,977	2,399
Telephone	-	-	498	467
Building repair and maintenance	4,000	4,000	1,669	797
Insurance	785	785	757	781
Capital outlay	-	-	-	3,286
Total community center	<u>17,585</u>	<u>17,585</u>	<u>13,950</u>	<u>15,278</u>
Recreation administration:				
Utilities	3,400	3,400	3,000	3,194
Supplies	2,200	2,200	1,927	1,712
Insurance	2,203	2,203	2,313	2,203
Walking track improvements	137,500	137,500	-	-
Park improvements	1,500	1,500	-	-
Health department grant	2,500	2,500	-	-
Total recreation administration	<u>149,303</u>	<u>149,303</u>	<u>7,240</u>	<u>7,109</u>
Libraries:				
Utilities	3,600	3,600	2,970	2,866
Contributions	3,000	3,000	3,000	-
Maintenance	1,300	1,300	562	468
Insurance	1,095	1,095	1,110	1,095
Total libraries	<u>8,995</u>	<u>8,995</u>	<u>7,642</u>	<u>4,429</u>
Total cultural and recreational	<u>175,883</u>	<u>175,883</u>	<u>28,832</u>	<u>26,816</u>
Total expenditures	<u>748,966</u>	<u>784,949</u>	<u>657,274</u>	<u>639,067</u>
Revenues over (under) expenditures	<u>19,090</u>	<u>(16,893)</u>	<u>(28,881)</u>	<u>8,633</u>
Other financing sources (uses):				
Transfer from local utility	-	-	12,971	11,895
Transfer (to) from Sanitation Fund	-	-	16,497	16,732
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>29,468</u>	<u>28,627</u>
Revenues and other financing sources over (under) expenditures and other financing uses	19,090	(16,893)	587	37,260
Fund balance, beginning	<u>203,753</u>	<u>203,753</u>	<u>203,753</u>	<u>166,493</u>
Fund balance, ending	<u>\$ 222,843</u>	<u>\$ 186,860</u>	<u>\$ 204,340</u>	<u>\$ 203,753</u>

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

TOWN OF TELLICO PLAINS, TENNESSEE

Notes to Basic Financial Statements

June 30, 2018

(1) Summary of Significant Accounting Policies(a) General Statement

The accounting and reporting policies of the Town of Tellico Plains, Tennessee (the Town) relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America that are applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units. The more significant accounting policies of the Town are described below.

(b) Reporting Entity

The financial statements consist of all the funds of the Town of Tellico Plains, Tennessee.

(c) Basis of Presentation

The Town follows Governmental Accounting Standards Board standards for external financial reporting for all state and local governmental entities, which includes a statement of net position, a statement of activities showing the change in net position and a statement of cash flows. These standards require the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. The classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. The net investment in capital assets will also include deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt. If there are significant unspent related debt proceeds or deferred inflows of resources at year-end, the portion of the debt or deferred inflows of resources attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component (restricted or unrestricted) as the unspent proceeds.
- Restricted – This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

TOWN OF TELlico PLAINS, TENNESSEE

Notes to Basic Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)(c) Basis of Presentation (Continued)

The Town's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

1. **Government-Wide Financial Statements:**

The statement of net position and the statement of activities display information about the Town as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net position presents the financial condition of the governmental and business-type activities of the Town at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Town's governmental and business-type activities.

Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the Town. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Town.

2. **Fund Financial Statements:**

During the year, the Town segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

(d) Fund Accounting

The Town uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Governmental Funds:

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Town's governmental funds:

TOWN OF TELlico PLAINS, TENNESSEE

Notes to Basic Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)(d) Fund Accounting (Continued)**Governmental Funds (Continued):**

General Fund – The General Fund is the operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Proprietary Fund:

Enterprise Fund – Enterprise funds are used to account for the activities that are similar to those found in the private sector. Enterprise funds are used to account for operations (a) that are financed primarily through user charges, or (b) where the governing body has decided that determination of net income is appropriate.

The Water and Sewer Fund is operated as an enterprise fund.

(e) Measurement Focus**1. Government-Wide Financial Statements:**

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Town are included on the statement of net position.

2. Fund Financial Statements:

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Operating and Nonoperating Revenues

Operating income reported in proprietary fund financial statements include revenues and expenses related to the primary continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods and services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

TOWN OF TELLICO PLAINS, TENNESSEE

Notes to Basic Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)(f) Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and outflows of resources, and in the presentation of expenses versus expenditures.

1. Revenues – Exchange and Nonexchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Town, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the Town receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Town must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Town on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes, franchise taxes, special assessments, licenses, charges for services, interest income and intergovernmental revenue.

2. Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of costs, such as depreciation and amortization, are not recognized in governmental funds.

TOWN OF TELlico PLAINS, TENNESSEE

Notes to Basic Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)(g) Fund Balances

The Town follows GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Non-spendable, such as fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned),

Restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, donors, grantors, or through enabling legislation,

Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a resolution, a formal action of the Board (the Town's highest level of decision-making authority),

Assigned fund balance classification is intended to be used by the government for specific purposes, but do not meet the criteria to be classified as restricted or committed (only the Board can assign fund balances), and

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

If the Town has an expenditure that is incurred for purposes of multiple account classification, the Town's policy is to apply the expenditures in the following order: non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance.

First, non-spendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including non-spendable amounts). Then any remaining fund balance amounts for the non-general funds are classified.

It is possible for the non-general funds to have negative unassigned fund balance when non-spendable amounts plus the restricted fund balances for specific purposes amounts exceed the positive fund balance for the non-general fund.

(h) Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed. When expenditures are incurred with unrestricted resources, the Town uses the Governmental Accounting Standards Board's policy. Committed amounts are used first, followed by assigned amounts, and then unassigned amounts.

TOWN OF TELlico PLAINS, TENNESSEE

Notes to Basic Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)(i) Budgetary Procedures and Budgetary Accounting

Prior to the beginning of the fiscal year, the Town Board of Mayor and Aldermen prepares and approves an operating budget for all governmental funds and holds hearings. All supplemental appropriations must also be approved by the Town Board of Mayor and Aldermen. Actual expenditures and operating transfers out may not legally exceed "budget" appropriations at the individual fund level. Budgetary control, however, is maintained at the departmental level. During the year ended June 30, 2018, the Town overexpended its legally adopted budget in the Drug Enforcement Fund.

Appropriations lapse at the close of the fiscal year to the extent that they have not been transferred or encumbered.

The Town prepares its budget on a basis of accounting that differs from accounting principles generally accepted in the United States of America (GAAP). The major difference between the budgetary basis of accounting and GAAP is that encumbrances are recorded as the equivalent of expenditures (budget) as opposed to a classification of fund balance (GAAP). At June 30, 2018, there were no encumbrances.

Budgeted amounts are as originally adopted or as amended by the Town Board of Mayor and Aldermen.

(j) Property Taxes Receivable

The Town's property taxes, levied on or about October 1, become delinquent on March 1. Property taxes attach as an enforceable lien on property on January 1. The county tax assessor provides the property assessment but the Town bills and collects its own taxes. Property tax revenues are recognized when levied to the extent that they result in current receivables within 60 days of the end of the year. Property taxes recognized as a receivable before the period of revenue recognition are reported as deferred inflows of resources.

At June 30, 2018, the Town's 2018 property taxes of \$86,000 were not scheduled to be billed until October 2018. Consequently, separate accounts for unbilled property taxes and deferred inflows of resources – unbilled property taxes totaling \$86,000 are recorded.

(k) Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in governmental funds. Open encumbrances at year-end are reported within the appropriate fund balance categories for the specific purpose of the encumbrance or assigned if not previously restricted or committed for a specific purpose. Encumbrances do not constitute expenditures or liabilities.

(l) Inventories

Inventories are valued at the lower of cost (weighted average method) or market.

TOWN OF TELLICO PLAINS, TENNESSEE

Notes to Basic Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)(m) Capitalization of Interest

The Town capitalizes net interest costs and interest earned as part of the cost of constructing various fixed assets when material. There was no capitalized interest for the year ended June 30, 2018.

(n) Cash Equivalents

For purposes of these financial statements, the Town considers all highly liquid investments (including restricted assets) having original maturity dates of three months or less when purchased to be cash equivalents.

(o) Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Short-term amounts owed between funds are classified as "Due to/from other funds." Interfund loans are classified as "Interfund notes receivable/payable."

(p) Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. All capital assets are capitalized at cost or estimated historical cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their estimated fair market values as of the date received. Net interest costs during construction periods are capitalized for assets acquired by the issuance of long-term debt. Major additions and improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are charged to operations.

Town

The Town maintains a capitalization threshold of one thousand dollars.

All reported capital assets except for land and land improvements are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	15 – 40 years
Land improvements	30 years
Machinery and equipment	5 – 20 years
Vehicles	5 – 30 years
Furniture and fixtures	5 years
Streets	10 – 100 years

TOWN OF TELlico PLAINS, TENNESSEE

Notes to Basic Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)(p) Capital Assets (Continued)**Water and Sewer Fund**

The Water and Sewer Fund maintains a capitalization threshold of one thousand dollars.

All reported capital assets except for land and land improvements are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Useful Lives</u>
Vehicles	5 years
Machinery and equipment	5 – 7 years
Water and Sewer plant	10 – 50 years

(q) Compensated Absences

Compensated absences are reported in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Town will compensate the employees for the benefits through paid time off or some other means. The Town records a liability for accumulated unused vacation time when earned for all employees.

The entire compensated absences liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid compensated absences is in the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

Employees of the Town may earn up to two (2) weeks of annual leave, depending upon their years of service. Annual leave does not accrue and is forfeited if not taken by year-end. Sick leave accrues at one-half day per month for full-time employees.

(r) Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or imposed by enabling legislation.

(s) Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

TOWN OF TELLICO PLAINS, TENNESSEE

Notes to Basic Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)(t) Use of Estimates

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

(u) Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Town and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2018.

(v) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Tellico Plains' participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from Tellico Plains' fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

(w) 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(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The government has items that qualify for reporting in these categories. Certain property taxes in the general fund are unavailable resources in the current year. This amount is deferred on the government-wide statement of net position and the governmental funds balance sheet and recognized as an inflow of resources in the period that the amount becomes available. Additionally, the statement of net position includes differences between projected and actual earnings on pension plan earnings, changes in assumptions for the pension plan and pension plan actuarial experience that are reported as both deferred inflows and outflows of resources.

TOWN OF TELlico PLAINS, TENNESSEE

Notes to Basic Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)(x) Recently Issued and Adopted Accounting Pronouncements

GASB has issued the following recent pronouncements:

Statement No. 75, "Financial Reporting for Postemployment Benefit Plans Other than Pension" - The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2017.

Statement No. 81, "Irrevocable Split-Interest Agreements" - The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2016.

Statement No. 85, "Omnibus" - The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2017.

Statement No. 86, "Certain Debt Extinguishment Issues" - The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2017.

None of these Statements had an effect on the Town's financial statements.

(y) Totals

The total column on the combined fund financial statements is only presented to facilitate financial analysis. Data in this column does not present financial position, results of operations, or changes in cash flows in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Cash, Cash Equivalents and Investments

At June 30, 2018, all of the Town's deposits with financial institutions were insured by federal depository insurance or by bank's participation in State of Tennessee Bank Collateral Pool.

TOWN OF TELlico PLAINS, TENNESSEE

Notes to Basic Financial Statements
(Continued)(3) Capital Assets

Governmental asset activity for the fiscal year ended June 30, 2018 was as follows:

<u>Governmental Activities</u>	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018
Capital asset, not being depreciated:				
Land	\$ 11,001	\$ -	\$ -	\$ 11,001
Capital assets, being depreciated:				
Buildings and improvements	764,543	-	-	764,543
Land improvements	72,825	-	-	72,825
Machinery and equipment	355,252	-	-	355,252
Vehicles	143,151	40,421	-	183,572
Furniture and fixtures	44,484	-	-	44,484
Streets	1,303,341	-	-	1,303,341
Total capital assets, being depreciated	<u>2,683,596</u>	<u>40,421</u>	<u>-</u>	<u>2,724,017</u>
Less accumulated depreciation for:				
Buildings and improvements	(397,126)	(15,546)	-	(412,672)
Land improvements	(15,536)	(1,942)	-	(17,478)
Machinery and equipment	(172,566)	(19,712)	-	(192,278)
Vehicles	(131,935)	(5,097)	-	(137,032)
Furniture and fixtures	(42,360)	-	-	(42,360)
Streets	(309,344)	(7,031)	-	(316,375)
Total accumulated depreciation	<u>(1,068,867)</u>	<u>(49,328) *</u>	<u>-</u>	<u>(1,118,195)</u>
Capital assets, being depreciated, net	<u>1,614,729</u>	<u>(8,907)</u>	<u>-</u>	<u>1,605,822</u>
Governmental activities capital assets, net	<u>\$ 1,625,730</u>	<u>\$ (8,907)</u>	<u>\$ -</u>	<u>\$ 1,616,823</u>

* Depreciation expense was charged to governmental functions as follows:

Public safety	\$ 22,358
Cultural and recreational	10,553
Administration	2,994
Economic development	4,400
Street department	<u>9,023</u>
Total depreciation expense	<u>\$ 49,328</u>

TOWN OF TELlico PLAINS, TENNESSEE

Notes to Basic Financial Statements
(Continued)(3) Capital Assets (Continued)

Business-type capital asset activity for the fiscal year ended June 30, 2018 was as follows:

<u>Business-Type Activities</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2018</u>
Capital assets, not being depreciated:				
Land	\$ 62,044	\$ -	\$ -	\$ 62,044
Construction work in progress	-	96,925	-	96,925
Total capital assets, not being depreciated	<u>62,044</u>	<u>96,925</u>	<u>-</u>	<u>158,969</u>
Capital assets, being depreciated:				
Buildings and improvements	64,075	-	-	64,075
Water and sewer plant	8,211,698	-	-	8,211,698
Machinery and equipment	328,590	-	-	328,590
Vehicles	70,002	-	-	70,002
Total capital assets, being depreciated	<u>8,674,365</u>	<u>-</u>	<u>-</u>	<u>8,674,365</u>
Less accumulated depreciation for:				
Buildings and improvements	(4,939)	(1,602)	-	(6,541)
Water and sewer plant	(3,606,790)	(210,790)	-	(3,817,580)
Machinery and equipment	(83,443)	(16,084)	-	(99,527)
Vehicles	(27,412)	(9,618)	-	(37,030)
Total accumulated depreciation	<u>(3,722,584)</u>	<u>(238,094)</u>	<u>-</u>	<u>(3,960,678)</u>
Capital assets, being depreciated, net	<u>4,951,781</u>	<u>(238,094)</u>	<u>-</u>	<u>4,713,687</u>
Business-type activities capital assets, net	<u>\$ 5,013,825</u>	<u>\$ (141,169)</u>	<u>\$ -</u>	<u>\$ 4,872,656</u>

Depreciation amounted to \$238,094 for the year ended June 30, 2018 including \$ - 0 - of capitalized expense.

(4) Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2018:

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2018</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
\$69,000 Capital Outlay Note	\$ 53,990	\$ -	\$ 4,791	\$ 49,200	\$ 5,408
Compensated absences	14,939	15,061	21,656	8,344	-
	<u>\$ 68,929</u>	<u>\$ 15,061</u>	<u>\$ 26,447</u>	<u>\$ 57,544</u>	<u>\$ 5,408</u>

TOWN OF TELlico PLAINS, TENNESSEE

Notes to Basic Financial Statements
(Continued)(4) Long-Term Liabilities (Continued)Governmental Activities (Continued)Notes

\$69,000 Capital Outlay Note, due in monthly installments of \$590 including principal and interest through June 2026. Interest at 3.58%. \$ 49,200

Business-Type Activities

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2018</u>	<u>Due Within One Year</u>
<u>Business-Type Activities</u>					
FHA Waterworks and Sewer Revenue Bonds, dated April 26, 1990	\$ 177,825	\$ -	\$ 35,824	\$ 142,001	\$ 25,658
\$206,000 Capital Outlay Note	41,820	-	22,429	19,391	19,391
\$46,007 Vehicle Lease	<u>29,646</u>	<u>-</u>	<u>-</u>	<u>29,646</u>	<u>29,646</u>
	<u>\$ 249,291</u>	<u>\$ -</u>	<u>\$ 58,253</u>	<u>\$ 191,038</u>	<u>\$ 74,695</u>

Revenue Bonds

FHA Waterworks and Sewer Revenue Bonds, dated April 26, 1990, due in monthly installments of \$2,790 including principal and interest through June, 2023. Interest at 6.00%. \$ 142,001

\$206,000 Capital Outlay Note, due in monthly installments ranging from \$1,892 to \$2,170 including principal and interest through May 1, 2019. Interest at 4.00%. 19,391

\$46,007 Lease Agreement, due in annual payments through 2019. Interest at 6.84%. 29,646

Total Bonds \$ 191,038

TOWN OF TELLICO PLAINS, TENNESSEE

Notes to Basic Financial Statements
(Continued)(4) Long-Term Liabilities (Continued)Principal and Interest Requirements

The annual requirements to amortize long-term liabilities as of June 30, 2018 are as follows:

	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 5,408	\$ 1,673	\$ 74,695	\$ 9,372	\$ 80,103	\$ 11,045
2020	5,605	1,476	27,240	6,240	32,845	7,716
2021	5,809	1,272	28,921	4,559	34,730	5,831
2022	6,020	1,061	30,704	2,776	36,724	3,837
2023	6,239	842	29,478	884	35,717	1,726
2024-2026	20,119	1,129	-	-	20,119	1,129
Total	\$ 49,200	\$ 7,453	\$ 191,038	\$ 23,831	\$ 240,238	\$ 31,284

Under the terms of the bond indentures of the Water and Sewer Fund, the Town is required to maintain certain cash reserves and accounts. The indentures specify that a revenue fund account be maintained to receive all receipts from services and to pay operating expenses. Further, funds are to be transferred to a bond and interest sinking fund account, in monthly amounts equal to one-twelfth of the next annual bond payment and one-sixth of the next semi-annual interest payment (or one-twelfth of the next annual interest payment). The Town is required to establish and maintain reserve funds for each bond issue. At June 30, 2018, the sinking fund and reserve requirements were met.

(5) Pension Plan

Plan description. Employees of Tellico Plains are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.us/tcrs.

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

TOWN OF TELLICO PLAINS, TENNESSEE

Notes to Basic Financial Statements
(Continued)(5) Pension Plan (Continued)

Employees covered by benefit terms. At the measurement date of June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	7
Active employees	<u>3</u>
	<u>14</u>

Contributions. Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. Tellico Plains makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2018, the Actuarially Determined Contribution (ADC) for Tellico Plains was \$0 based on a rate of 0.00 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Tellico Plains' state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

Tellico Plains' net pension liability (asset) was measured as of June 30, 2017, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability as of June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.75 to 3.45 percent based on age, including inflation, averaging 4.00 percent
Investment rate of return	7.25 percent, net of pension plan investment expenses, including inflation

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2017 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

TOWN OF TELICO PLAINS, TENNESSEE

Notes to Basic Financial Statements
(Continued)(5) Pension Plan (Continued)

Net Pension Liability (Asset) (Continued)

Actuarial assumptions (continued)

Changes of assumptions. In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.5 percent; decreased the investment rate of return from 7.5 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.5 to 2.25 percent; decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modified mortality assumptions.

The long-term expected rate of return on pension plan investments was established by the TCRS board of Trustees in conjunction with the June 30, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each asset class. These best estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5 percent. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized by the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25 percent based on a blending of the three factors described above.

Discount rate. The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from Tellico Plains will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF TELLICO PLAINS, TENNESSEE

Notes to Basic Financial Statements
(Continued)(5) Pension Plan (Continued)

Net Pension Liability (Asset) (Continued)

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
Balance at 6/30/16	\$ 191,017	\$ 313,308	\$ (122,291)
Changes for the year:			
Service cost	8,274		8,274
Interest	14,069		14,069
Differences between expected and actual experience	(3,442)		(3,442)
Contributions - employer	8,250		8,250
Contributions - employees		4,309	(4,309)
Net investment income		34,408	(34,408)
Benefit payments, including refunds of employee contributions	(23,414)	(23,414)	-
Administrative expense		(255)	255
Net changes	<u>3,737</u>	<u>15,048</u>	<u>(11,311)</u>
Balance at 6/30/17	<u>\$ 194,754</u>	<u>\$ 328,356</u>	<u>\$ (133,602)</u>

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of Tellico Plains calculated using the discount rate of 7.25 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Tellico Plain's net pension liability (asset)	\$ (115,318)	\$ (133,602)	\$ (149,184)

TOWN OF TELlico PLAINS, TENNESSEE

Notes to Basic Financial Statements
(Continued)(5) Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension expense. For the year ended June 30, 2018, Tellico Plains recognized a (negative) pension expense of \$(5,157).

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2018, Tellico Plains reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 13,229	\$ (23,044)
Net difference between projected and actual earnings on pension plan investments	197	-
Changes in Assumptions	6,600	-
Contributions subsequent to the measurement date of June 30, 2017	-	-
Total	<u>\$ 20,026</u>	<u>\$ (23,044)</u>

The amounts shown above, if any, for "Contributions subsequent to the measurement date of June 30, 2017," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Total</u>
Year Ended June 30:	
2019	\$ (674)
2020	883
2021	(1,862)
2022	(1,365)
2023	-
Thereafter	-

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

At June 30, 2018, Tellico Plains reported a payable of \$ - 0 - for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2018.

TOWN OF TELLICO PLAINS, TENNESSEE

Notes to Basic Financial Statements
(Continued)(6) Interfund Receivables/Payables

Interfund receivable/payable balances at June 30, 2018 are as follows:

Due From	Due To			Total
	Drug Fund	Water & Sewer	General Fund	
General Fund	\$ 7,229	\$ 131,142	\$ -	\$ 138,371
Colonial Building Fund	-	-	287	287
Total	<u>\$ 7,229</u>	<u>\$ 131,142</u>	<u>\$ 287</u>	<u>\$ 138,658</u>

The Town has been moving monies from various funds to make up for the shortfall in the General Fund. The General Fund expects to pay the Water and Sewer Fund \$131,142 and the Drug Enforcement Fund \$7,229 within one year.

(7) Due From Other Governments

Amounts due from other governments at June 30, 2018 consist of the following:

Monroe County	Court Fines	\$ 114
Monroe County	Local Sales Tax	61,202
State of Tennessee	GHSO Safety Grant	3,444
State of Tennessee	Wholesale Beer Tax	7,211
State of Tennessee	City Streets and Transportation	294
State of Tennessee	Sales Tax	13,618
State of Tennessee	Gasoline and Motor Fuel Tax	5,183
State of Tennessee	Business Tax	252
State of Tennessee	State Income Tax	246
		<u>\$ 91,564</u>

TOWN OF TELlico PLAINS, TENNESSEE

Notes to Basic Financial Statements
(Continued)(8) Segment Information for Enterprise Fund

The Town maintains an Enterprise Fund which provides water and sewer services. Segment information for the year ended June 30, 2018 is as follows:

	<u>Water and Sewer Fund</u>
Operating revenues	\$ 837,523
Depreciation expense	\$ 238,094
Operating margin	\$ 6,470
Capital contributions	\$ 85,953
Change in net position	\$ 69,450
Property, plant and equipment:	
Additions	\$ 96,925
Retirements	\$ -
Net working capital	\$ 825,262
Total assets	\$ 6,023,227
Bonds and other long-term debt	\$ 191,038
Total net position	\$ 5,699,657

(9) 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 purchases commercial insurance for all of these risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

(10) Operating Transfers

Operating transfers for the year ended June 30, 2018 are as follows:

	<u>Transferred From</u>	
<u>Transferred To</u>	<u>Sanitation Fund</u>	<u>Total</u>
General Fund	<u>\$16,497</u>	<u>\$16,497</u>

The purpose of the transfer to the General Fund from the Sanitation Fund was to move the excess collection in the current year.

TOWN OF TELLICO PLAINS, TENNESSEE

Notes to Basic Financial Statements
(Continued)(11) Subsequent Events

Management has evaluated subsequent events through July 2, 2019, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF TELLICO PLAINS, TENNESSEE

Schedule of Changes in the Net Pension Liability (Asset) and Related Ratios
Based on Participation in the Public Employee Pension Plan of TCRS

For the Last 10 Measurement Periods Ending June 30,

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total pension liability				
Service cost	\$ 5,148	\$ 6,634	\$ 11,453	\$ 8,274
Interest	12,461	13,922	16,196	14,069
Changes in benefit terms	-	-	-	-
Differences between actual and expected experience	17,271	19,548	(33,818)	(3,442)
Change of assumptions	-	-	-	8,250
Benefit payments, including refunds of employee contributions	(19,166)	(14,608)	(14,608)	(23,414)
Net change in total pension liability	<u>15,714</u>	<u>25,496</u>	<u>(20,777)</u>	<u>3,737</u>
Total pension liability - beginning	<u>170,584</u>	<u>186,298</u>	<u>211,794</u>	<u>191,017</u>
Total pension liability - ending (a)	<u>\$ 186,298</u>	<u>\$ 211,794</u>	<u>\$ 191,017</u>	<u>\$ 194,754</u>
Plan fiduciary net position				
Contributions - employer	\$ -	\$ -	\$ -	\$ -
Contributions - employee	5,523	5,800	4,318	4,309
Net investment income	45,770	9,566	8,232	34,408
Benefit payments, including refunds of employee contributions	(19,166)	(14,608)	(14,608)	(23,414)
Administrative expense	(184)	(244)	(227)	(255)
Net change in plan fiduciary net position	<u>31,943</u>	<u>514</u>	<u>(2,285)</u>	<u>15,048</u>
Plan fiduciary net position - beginning	<u>283,136</u>	<u>315,079</u>	<u>315,593</u>	<u>313,308</u>
Plan fiduciary net position - ending (b)	<u>\$ 315,079</u>	<u>\$ 315,593</u>	<u>\$ 313,308</u>	<u>\$ 328,356</u>
Net pension liability (asset) - ending (a)-(b)	<u>\$ (128,781)</u>	<u>\$ (103,799)</u>	<u>\$ (122,291)</u>	<u>\$ (133,602)</u>
Plan fiduciary net position as a percentage of total pension liability	169.13%	149.01%	164.02%	168.60%
Covered payroll	\$ 110,467	\$ 115,997	\$ 86,361	\$ 86,361
Net pension liability (asset) as a percentage of covered payroll	(116.58%)	(89.48%)	(141.60%)	(154.70%)

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

See independent auditor's report.

TOWN OF TELLICO PLAINS, TENNESSEE

Schedule of Tellico Plains' Contributions Based on
Participation in the Public Employee Pension Plan of TCRS

For the Last 10 Measurement Periods Ending June 30,

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	-	-	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 110,467	\$ 115,997	\$ 86,361	\$ 86,173	\$ 99,118
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%	0.00%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

See independent auditor's report.

TOWN OF TELLICO PLAINS, TENNESSEE

Notes to Required Supplementary Information

June 30, 2018

Notes to Schedule - PSPP Plan

Changes of assumptions. In 2017, amounts reported as changes of assumptions resulted from changes to the inflation rate, investment rate of return, cost-of-living adjustment, salary growth and mortality improvements.

Valuation date: Actuarially determined contribution rates for 2017 were calculated based on the June 30, 2017 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	Varies by year
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation
Investment Rate of Return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of Living Adjustments	2.5 percent

See independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION

TOWN OF TELlico PLAINS, TENNESSEE
 Schedule of Expenditures of Federal and State Awards
 For the Fiscal Year Ended June 30, 2018

Federal Grantor / Pass-Through Grantor	Program / Cluster Name	CFDA Number	Contract Number	Expenditures
FEDERAL AWARDS:				
U.S. Department of Transportation / Tennessee Department of Transportation	GHSO: Safety Grant	20.607	Z17THS315	\$ 3,444
U.S. Department of Housing and Urban Development / Tennessee Department of Economic and Community Development	CDBG: 2015 CDBG Water System Improvements	14.269	N/A	<u>85,953</u>
TOTAL FEDERAL AWARDS				<u>89,397</u>
STATE AWARDS:				
None				<u>-</u>
TOTAL STATE AWARDS				<u>-</u>
TOTAL FEDERAL AND STATE AWARDS				<u><u>\$ 89,397</u></u>

See independent auditor's report.

TOWN OF TELLICO PLAINS, TENNESSEE

Notes to Schedule of Expenditures of Federal and State Awards

For the Fiscal Year Ended June 30, 2018

Note A – Basis of Presentation

The accompanying schedule of federal and state awards (the Schedule) includes federal and state award activity of the Town of Tellico Plains, Tennessee under programs of the federal and state governments for the year ended June 30, 2018. 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).

Note B – Summary of Significant Accounting Policies

- (1) 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 and/or OMB Circular A87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) The Town of Tellico Plains, Tennessee has not elected to use the 10 percent *de minimus* indirect cost rate as allowed under the Uniform Guidance.

TOWN OF TELlico PLAINS, TENNESSEE

Nonmajor Governmental Funds
Combining Balance Sheet

June 30, 2018

	Sanitation Fund	Colonial Building Fund	Drug Enforcement Fund	Total Nonmajor Governmental Funds
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ -	\$ 104,215	\$ -	\$ 104,215
Accounts receivable	-	3,200	-	3,200
Due from other funds	-	-	-	-
Restricted assets:				
Cash and cash equivalents	-	-	10,893	10,893
Due from other funds	-	-	7,229	7,229
Total assets	<u>\$ -</u>	<u>\$ 107,415</u>	<u>\$ 18,122</u>	<u>\$ 125,537</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>				
Liabilities:				
Funds held in a trust	\$ -	\$ -	\$ 509	\$ 509
Due to other funds	-	287	-	287
Total liabilities	<u>-</u>	<u>287</u>	<u>509</u>	<u>796</u>
Deferred inflows of resources:				
Deferred rent revenue	<u>-</u>	<u>3,200</u>	<u>-</u>	<u>3,200</u>
Total deferred inflows of resources	<u>-</u>	<u>3,200</u>	<u>-</u>	<u>3,200</u>
Fund balances:				
Restricted	-	-	17,613	17,613
Committed	-	103,928	-	103,928
Total fund balances	<u>-</u>	<u>103,928</u>	<u>17,613</u>	<u>121,541</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ -</u>	<u>\$ 107,415</u>	<u>\$ 18,122</u>	<u>\$ 125,537</u>

See independent auditor's report.

TOWN OF TELlico PLAINS, TENNESSEE

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Nonmajor Governmental Funds

For the Fiscal Year Ended June 30, 2018

	Sanitation Fund				Colonial Building Fund				Drug Enforcement Fund				Total Nonmajor Governmental Funds			
	2018 Original Budget	2018 Final Budget	2018 Actual	2017 Actual	2018 Original Budget	2018 Final Budget	2018 Actual	2017 Actual	2018 Original Budget	2018 Final Budget	2018 Actual	2017 Actual	2018 Original Budget	2018 Final Budget	2018 Actual	2017 Actual
Revenues:																
Refuse collection charges	\$ 46,000	\$ 46,000	\$ 58,813	\$ 57,798	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,000	\$ 46,000	\$ 58,813	\$ 57,798
Drug related fines	-	-	-	-	-	-	-	-	1,500	1,500	9,211	7,859	1,500	1,500	9,211	7,859
Rental income	-	-	-	-	9,600	9,600	11,200	12,800	-	-	-	-	9,600	9,600	11,200	12,800
Interest	-	-	-	-	38	38	48	39	-	-	-	-	38	38	48	39
Total revenues	46,000	46,000	58,813	57,798	9,638	9,638	11,248	12,839	1,500	1,500	9,211	7,859	57,138	57,138	79,272	78,496
Expenditures:																
Insurance	-	-	-	-	2,992	2,992	124	164	-	-	-	-	2,992	2,992	124	164
Repair and maintenance	-	-	-	-	1,000	1,000	-	-	-	-	-	-	1,000	1,000	-	-
Supplies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collection fees	46,000	46,000	42,316	41,066	-	-	-	-	-	-	-	-	46,000	46,000	42,316	41,066
Capital outlay	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Drug enforcement	-	-	-	-	-	-	-	-	1,600	1,600	2,995	1,222	1,600	1,600	2,995	1,222
Total expenditures	46,000	46,000	42,316	41,066	3,992	3,992	124	164	1,600	1,600	2,995	1,222	51,592	51,592	45,435	42,452
Revenues over (under) expenditures	-	-	16,497	16,732	5,646	5,646	11,124	12,675	(100)	(100)	6,216	6,637	5,546	5,546	33,837	36,044
Other financing sources (uses):																
Transfers (to) from general fund	-	-	(16,497)	(16,732)	-	-	-	-	-	-	-	-	-	-	(16,497)	(16,732)
Total other financing sources (uses)	-	-	(16,497)	(16,732)	-	-	-	-	-	-	-	-	-	-	(16,497)	(16,732)
Revenues and other financing sources over (under) expenditures and other financing uses	-	-	-	-	5,646	5,646	11,124	12,675	(100)	(100)	6,216	6,637	5,546	5,546	17,340	19,312
Fund balance, beginning	-	-	-	-	92,804	92,804	92,804	80,129	11,397	11,397	11,397	4,760	104,201	104,201	104,201	84,889
Fund balance, ending	\$ -	\$ -	\$ -	\$ -	\$ 98,450	\$ 98,450	\$ 103,928	\$ 92,804	\$ 11,297	\$ 11,297	\$ 17,613	\$ 11,397	\$ 109,747	\$ 109,747	\$ 121,541	\$ 104,201

See independent auditor's report.

TOWN OF TELlico PLAINS, TENNESSEE

Schedule of Long-Term Principal and Interest Requirements by Issue
Governmental Activities

June 30, 2018

Fiscal Year June 30,	\$69,000 Capital Outlay Note 3.58%	
	Principal	Interest
2019	\$ 5,408	\$ 1,673
2020	5,605	1,476
2021	5,809	1,272
2022	6,020	1,061
2023	6,239	842
2024	6,466	615
2025	6,702	379
2026	6,951	135
	<u>\$ 49,200</u>	<u>\$ 7,453</u>

See independent auditor's report.

TOWN OF TELlico PLAINS, TENNESSEE

Schedule of Long-Term Principal and Interest Requirements by Issue
Business-Type Activities

June 30, 2018

Fiscal Year June 30,	1989 FHA Waterworks and Sewer Revenue Bonds 6.00%		\$206,000 Capital Outlay Note 4.00%		\$46,007 Capital Lease Agreement 6.84%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 25,658	\$ 7,822	\$ 19,391	\$ 503	\$ 29,646	\$ 1,047	\$ 74,695	\$ 9,372
2020	27,240	6,240	-	-	-	-	27,240	6,240
2021	28,921	4,559	-	-	-	-	28,921	4,559
2022	30,704	2,776	-	-	-	-	30,704	2,776
2023	29,478	884	-	-	-	-	29,478	884
	<u>\$ 142,001</u>	<u>\$ 22,281</u>	<u>\$ 19,391</u>	<u>\$ 503</u>	<u>\$ 29,646</u>	<u>\$ 1,047</u>	<u>\$ 191,038</u>	<u>\$ 23,831</u>

See independent auditor's report.

TOWN OF TELLICO PLAINS, TENNESSEE
Schedule of Capital Assets and Accumulated Depreciation
For the Fiscal Year Ended June 30, 2018

Water and Sewer Fund	Assets			Accumulated Depreciation				Net Book Value	
	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Balance July 1, 2017	Additions	Retirements		Balance June 30, 2018
Land and land rights	\$ 62,044	\$ -	\$ -	\$ 62,044	\$ -	\$ -	\$ -	\$ -	\$ 62,044
Buildings and improvements	64,075	-	-	64,075	4,939	1,602	-	6,541	57,534
Wells	683,230	-	-	683,230	207,414	19,893	-	227,307	455,923
Capitalized interest and engineering fees	124,760	-	-	124,760	100,109	2,495	-	102,604	22,156
Water and sewer tanks	250,984	-	-	250,984	247,034	235	-	247,269	3,715
Water distribution system	1,000,412	-	-	1,000,412	443,568	49,520	-	493,088	507,324
Sewer collection system	1,126,237	-	-	1,126,237	558,598	37,424	-	596,022	530,215
Water treatment plant	518,654	-	-	518,654	317,674	10,730	-	328,404	190,250
Water service lines	4,125,491	-	-	4,125,491	1,485,233	82,369	-	1,567,602	2,557,889
Equipment	328,590	-	-	328,590	83,443	16,084	-	99,527	229,063
Auto	70,002	-	-	70,002	27,412	9,618	-	37,030	32,972
Tanks	319,158	-	-	319,158	227,052	4,556	-	231,608	87,550
Pumps	62,772	-	-	62,772	20,108	3,568	-	23,676	39,096
Total plant in service	8,736,409	-	-	8,736,409	3,722,584	238,094	-	3,960,678	4,775,731
Construction in progress	-	96,925	-	96,925	-	-	-	-	96,925
Total plant	\$ 8,736,409	\$ 96,925	\$ -	\$ 8,833,334	\$ 3,722,584	\$ 238,094	\$ -	\$ 3,960,678	\$ 4,872,656

See independent auditor's report.

TOWN OF TELlico PLAINS, TENNESSEE
 Schedule of Changes in Property Taxes Receivable
 For the Fiscal Year Ended June 30, 2018

DETAIL OF DELINQUENT TAXES RECEIVABLE BY TAX YEAR

Tax Year	Balance July 1, 2017	Current Assessment	Abatements and Adjustments	Collections	Balance June 30, 2018
2017	\$ -	\$ 86,580	\$ -	\$ (80,158)	\$ 6,422
2016	8,084	-	(422)	(5,151)	2,511
2015	3,020	-	(21)	(1,062)	1,937
2014	1,606	-	-	-	1,606
2013	1,075	-	-	-	1,075
2012	478	-	(2)	-	476
2011	501	-	-	-	501
2010	445	-	-	-	445
2009	362	-	-	-	362
2008	2	-	-	-	2
	<u>\$ 15,573</u>	<u>\$ 86,580</u>	<u>\$ (445)</u>	<u>\$ (86,371)</u>	15,337
January 1, 2018 property tax assessment not to be billed until October 1, 2018 (est.)					<u>86,000</u>
					<u>\$ 101,337</u>

See independent auditor's report.

TOWN OF TELICO PLAINS, TENNESSEE

Analysis of Tax Rates and Assessments

June 30, 2018

<u>Fiscal Year</u>	<u>Assessed Value</u>	<u>Tax Rate Per \$100</u>	<u>Total Tax Levy</u>	<u>Total Tax Collections</u>	<u>Total Collections as a Percent of Total Levy</u>	<u>Outstanding Delinquent Taxes</u>	<u>Outstanding Delinquent Taxes Filed in Chancery Court</u>
2018 (est.)	\$ 18,297,872	\$ 0.47	\$ 86,000	\$ -	0.00%	\$ 86,000	\$ -
2017	18,517,653	0.47	86,580	80,158	92.58%	6,422	-
2016	19,026,734	0.47	88,998	86,487	97.18%	2,511	-
2015	18,939,512	0.47	88,729	86,792	97.82%	1,937	-
2014	19,199,154	0.47	89,224	87,618	98.20%	1,606	1,606
2013	22,315,533	0.43	89,773	88,698	98.80%	1,075	1,075
2012	23,488,372	0.43	95,957	95,481	99.50%	476	476
2011	23,255,814	0.43	99,901	99,400	99.50%	501	501
2010	23,470,145	0.43	100,917	100,472	99.56%	445	445
2009	20,706,185	0.43	89,040	88,678	99.59%	362	362
2008	19,830,554	0.43	86,405	86,403	100.00%	2	2

Source: Town's Management

See independent auditor's report.

TOWN OF TELICO PLAINS, TENNESSEE
Utility Rate Structure and Number of Customers

June 30, 2018

Water Rates

	<u>Inside Town</u>	<u>Inside Town No Sewer</u>	<u>Outside Town</u>	<u>Commercial</u>
First 1,000 gallons each month (minimum)	\$8.00	\$9.00	\$13.00	\$15.00
All over 1,000 gallons each month (per thousand gallons)	3.00	3.25	4.00	4.00

Sewer Rates

First 2,000 gallons each month (minimum)	\$8.00	N/A	N/A	\$15.00
All over 2,000 gallons each month (per thousand gallons)	3.00	N/A	N/A	4.00

Garbage Collection Fees

Age 62 and over	\$ 8.81	per month
Residential	13.65	per month
Commercial	19.87	per month
Schools	75.00	per month

Number of Customers

Water	2,364
Sewer	400
Garbage Collection	363

Source: Town's Management

See independent auditor's report.

STATISTICAL SECTION

OTHER STATISTICAL SCHEDULES
(Unaudited)

AWWA Free Water Audit Software: Reporting Worksheet

WAS v5.0

American Water Works Association

? Click to access definition
+ Click to add a comment

Water Audit Report for: TELLICO PLAINS UTILITIES (TN 0000693)
Reporting Year: 2017/2018 7/2017 - 6/2018

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.

WATER SUPPLIED

<----- Enter grading in column 'E' and 'J' ----->

Volume from own sources:	+ ?	9	225.995	MG/Yr
Water imported:	+ ?	10	0.000	MG/Yr
Water exported:	+ ?	10	0.200	MG/Yr

Master Meter and Supply Error Adjustments

	Pcnt:	Value:	
+ ?	3	4.00%	MG/Yr
+ ?			MG/Yr
+ ?	3	4.00%	MG/Yr

WATER SUPPLIED: 217.111 MG/Yr

Enter negative % or value for under-registration
Enter positive % or value for over-registration

AUTHORIZED CONSUMPTION

Billed metered:	+ ?	10	117.102	MG/Yr
Billed unmetered:	+ ?	n/a	0.000	MG/Yr
Unbilled metered:	+ ?	10	2.000	MG/Yr
Unbilled unmetered:	+ ?		2.714	MG/Yr

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

AUTHORIZED CONSUMPTION: 121.816 MG/Yr

Click here: ?
for help using option buttons below

Pcnt:	Value:
1.25%	MG/Yr

Use buttons to select percentage of water supplied
OR
value

WATER LOSSES (Water Supplied - Authorized Consumption)

95.295 MG/Yr

Apparent Losses

Unauthorized consumption: + ? 0.543 MG/Yr

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Customer metering inaccuracies:	+ ?	10	11.779	MG/Yr
Systematic data handling errors:	+ ?		0.293	MG/Yr

Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed

Apparent Losses: 12.615 MG/Yr

Pcnt:	Value:
0.25%	MG/Yr

9.00%	MG/Yr
0.25%	MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: 82.680 MG/Yr

WATER LOSSES: 95.295 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 100.009 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	+ ?	9	156.0	miles
Number of active AND inactive service connections:	+ ?	7	2,500	
Service connection density:	?		16	conn./mile main

Are customer meters typically located at the curbside or property line? No (length of service line, beyond the property boundary, that is the responsibility of the utility)

Average length of customer service line: + ? 5 30.0 ft

Average operating pressure: + ? 8 65.0 psi

COST DATA

Total annual cost of operating water system:	+ ?	9	\$611,394	\$/Year
Customer retail unit cost (applied to Apparent Losses):	+ ?	9	\$8.00	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	+ ?	9	\$0.40	\$/Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 86 out of 100 ***

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

- 1: Volume from own sources
- 2: Unauthorized consumption
- 3: Systematic data handling errors



AWWA Free Water Audit Software: System Attributes and Performance Indicators

WAS v5.0

American Water Works Association.

Water Audit Report for: TELLICO PLAINS UTILITIES (TN 0000693)
 Reporting Year: 2017/2018 | 7/2017 - 6/2018

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 86 out of 100 ***

System Attributes:

	Apparent Losses:	12.615	MG/Yr
+	Real Losses:	82.680	MG/Yr
=	Water Losses:	95.295	MG/Yr

? Unavoidable Annual Real Losses (UARL): 31.45 MG/Yr

Annual cost of Apparent Losses: \$100,919

Annual cost of Real Losses: \$33

Valued at **Variable Production Cost**

Return to Reporting Worksheet to change this assumption

Performance Indicators:

Financial: { Non-revenue water as percent by volume of Water Supplied: 46.1%
 Non-revenue water as percent by cost of operating system: 16.5% Real Losses valued at Variable Production Cost

Operational Efficiency: { Apparent Losses per service connection per day: 13.82 gallons/connection/day
 Real Losses per service connection per day: N/A gallons/connection/day
 Real Losses per length of main per day*: 1,452.05 gallons/mile/day
 Real Losses per service connection per day per psi pressure: N/A gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL): 82.68 million gallons/year

? Infrastructure Leakage Index (ILI) [CARL/UARL]: 2.63

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

TOWN OF TELlico PLAINS, TENNESSEE

Miscellaneous Statistical Data

June 30, 2018

Incorporated	1911
Form of government	Mayor and Aldermen
Area in square miles	5
Police protection:	
Number of stations	1
Number of full-time employees	6
Number of part-time employees	3
Fire protection:	
Number of stations	2
Number of volunteers	24
Total number of public safety employees (full-time)	5
Recreation:	
Parks (acres)	1 (2)
Playgrounds	1
Municipal water plant:	
Average daily consumption in gallons	315,214
Maximum storage capacity in gallons	790,000
Paved streets (per lane mile)	24
Water lines (miles)	131
Sanitary sewer (miles)	8

Source: Town's Management

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

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MEMBERS
 AMERICAN INSTITUTE OF
 CERTIFIED PUBLIC ACCOUNTANTS

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*

Mayor and Board of Aldermen
 Tellico Plains, 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, each major fund, and the aggregate remaining fund information of the Town of Tellico Plains, Tennessee (the Town) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town of Tellico Plains' basic financial statements and have issued our report thereon dated July 2, 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.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described below, items #2018-001 through #2018-006, to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described below, items #2018-007 through #2018-009, to be significant deficiencies.

Design Deficiencies

Finding #2018-001: Segregation of Duties (Repeated from prior year)

Condition: The Town employees are responsible for billing, collecting, depositing and recording Town collections, and signing checks.

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 – Custody, Recordkeeping, Authorization. There is an absence of appropriate segregation of duties consistent with control objectives within the revenue, payroll and cash disbursement cycles. The same accounting personnel are currently responsible for/have access to and/or are performing duties involving payroll, disbursements, billing, collections, maintenance of receivables, general ledger activity and bank reconciliations.

Cause: For a majority of the year, the Town only employs one individual for each department in accounting.

Effect: One person with the authority to control all aspects of an accounting cycle leaves greater potential for error or fraud.

Recommendation: We recommend the Board review employee responsibilities to ensure that no employee has control over a complete transaction cycle.

Management's Response: The city will continue to look at options to insure proper duties have oversight. Also will look into more responsibilities for other personnel to carry out duties.

Finding #2018-002: Financial Statement Presentation (Repeated from prior year)

Condition: An entity being audited is required to have sufficient internal control over financial reporting to allow management to prepare their own financial statements and footnotes in accordance with generally accepted accounting principles (GAAP). Due to limitations on staff size and resources, the Town's current internal control structure does not meet this requirement. Management obtains assistance from its external audit firm for the preparation of its drafted financial statements and footnotes in accordance with GAAP. Although this results in financial statements which are in accordance with GAAP, the external audit firm cannot be and is not considered to be a part of the Town's internal control structure.

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

Cause: The Town's personnel does not have the skills, knowledge and expertise to prepare the financial statements; however, they do have the skills, knowledge and expertise to review and accept the financial statements.

Effect: The Town does not employ personnel with the skills, knowledge and expertise to prepare annual financial reports in accordance with generally accepted accounting principles; however, they do have the skills, knowledge and expertise to accept the financial statements.

Recommendation: The Town should evaluate the cost and benefits of providing training to its personnel to provide them with the skills, knowledge and expertise to allow them to prepare annual financial reports in accordance with generally accepted accounting principles.

Management's Response: The city does not have the financial resources to invest at this time. The city will continue to contract with a firm.

Finding #2018-003: Material Auditor-Proposed Adjusting Entries (Repeated from prior year)

Condition: During our audit, we proposed significant adjustments to various asset, liability and equity accounts of the Town so the Town's financial statements would conform to generally accepted accounting principles.

Criteria: Before the auditors receive the financial records to begin audit procedures, all asset, liability and equity accounts should be reconciled, adjusted and/or recorded in the financial records.

Cause: Certain asset and liability accounts had not been reconciled, adjusted and/or recorded.

Effect: Before auditor-proposed adjustments were posted, certain asset and liability accounts were materially misstated.

Recommendation: We recommend all asset, liability and equity accounts be reconciled, adjusted and/or recorded to the financial records before audit procedures begin.

Management's Response: With further clarification from our auditor, our CMFO will implement the controls to avoid errors in accounting record.

Operating Deficiencies

Finding #2018-004: Purchasing and Cash Disbursements (Repeated from prior year)

Condition: We noted during our audit, receipt of goods was not documented, instances of checks written not having dual signatures and an instance of missing supporting documentation. The Town was unable to provide a written Board approved and adopted purchasing policy.

Criteria: Invoices, receipts and other documentation should be retained to verify that items and services were for governmental purposes. The Town should have a written Board approved and adopted purchasing policy.

Cause: Failure to maintain authorization for purchases and/or detail supporting the purchases. Failure to maintain a written purchasing policy.

Effect: The Town failed to maintain proper support for disbursements.

Recommendation: The Town should locate or draft and adopt a purchasing policy. Steps should also be taken to ensure that all expenditures are properly documented and approved.

Management's Response: Management will address with Department Heads proper purchasing requests.

Finding #2017-005: Due To/From (Repeated from prior year)

Condition: We noted during our audit, the Town was not properly reconciling due to/from accounts.

Criteria: Due to/from reconciliations should be performed monthly to maintain accurate records.

Cause: Staff is not reconciling the due to/from accounts.

Effect: The Town's due to/from accounts were out of balance.

Recommendation: We recommend the Town reconcile all due to/from accounts monthly.

Management's Response: Management will have better oversight with Finance Office.

Finding #2018-006: Bank Account Reconciliations (Repeated from prior year)

Condition: We noted during our audit, several bank account reconciliations did not agree with the general ledger.

Criteria: Bank account reconciliations should be performed accurately to record all bank activity and all bank account activity should be reflected correctly on the general ledger.

Cause: The Town's personnel are not correctly completing bank account reconciliations and adjusting the general ledger to agree.

Effect: The financial statements could be significantly misstated due to bank reconciliations not being completed correctly. If discrepancies are not reported timely, it could result in loss of funds and inaccurate general ledger balances.

Recommendation: We recommend each bank account be reconciled timely and accurately. Any discrepancies should be resolved prior to closing. The general ledger balances should agree to the bank account reconciliations.

Management's Response: Management will have better oversight with Finance Office.

Finding #2018-007: Non-Revenue Water/Water Line Loss (Repeated from prior year)

Condition: The Town's percent of non-revenue water is 46% which is excessive.

Criteria: Line loss problems should be located and corrected.

Cause: Staff is not able to locate and correct line loss issues.

Effect: The Town continues to have excessive line loss.

Recommendation: We recommend the Town develop and institute a plan to correct its line loss problems in a cost-efficient manner.

Management's Response: New procedures are implemented in Water/Sewer Dept. to help locate and fix leaks.

Finding #2018-008: Payroll (Repeated from prior year)

Condition: We noted during our audit, instances in which management were not indicating their review of timecards by a signature. Also, employees had handwritten time on the timecard instead of using the time clock, employees are not clocking out for lunch and employee W-4's were not in their personnel files.

Criteria: Payroll should be properly supported and authorized.

Cause: Improper method time entry on timecard and lack of management review of timecards.

Effect: The Town did not have adequate support or controls of payroll processing.

Recommendation: We recommend the Town train employees regarding timekeeping policies.

Management's Response: Management has already discussed this issue with the employees. Payroll policy will be reviewed to be in compliance.

Finding #2018-009: Compensated Absences (Repeated from prior year)

Condition: We noted during our audit, instances in which management were not reviewing and approving compensated time records and employee are not accruing vacation/sick time appropriately per the Town's Policy.

Criteria: Management should review records and follow their policies.

Cause: Improper review of records and lack of management following the Town's policies.

Effect: The Town did not have adequate support or controls of compensated time.

Recommendation: We recommend the Town review compensated time records and follow their policies.

Management's Response: Management will have more oversight with Department Heads that compile compensation time.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Tellico Plains, Tennessee'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 below as items #2018-010 and #2018-013.

Finding #2018-010: Drug Fund/State Law Enforcement Support Office Program

Condition: We noted during our audit, instances in which seized monies were never being deposited with the bank, confidential funds were not being documented and accounted for as required with State guidelines and items obtained from State Law Enforcement Support Office (LESO) Program appeared to not be used for a specified police purpose.

Criteria: Seized monies should be deposited in a timely manner; appropriate guidelines should be followed for confidential funds and LESO Program items should only be requested for a specified police purpose.

Cause: State requirements and guidelines for confidential funds are not being followed.

Effect: The Town did not have adequate controls for Drug Fund seizures, confidential funds and usage of LESO items.

Recommendation: We recommend the Town follow State guidelines for confidential funds and usage of LESO Program items.

Management's Response: New personnel has been hired that understands drug seizure and CI funds are properly documented.

Finding #2018-011: Prior Year Audit Findings (Repeated from prior year)

Condition: During our audit, we noted that several of the prior year audit findings have not been corrected.

Criteria: Management should correct audit findings each year.

Cause: Management is unable to correct findings.

Effect: The Town has ongoing issues from year to year.

Recommendation: We recommend management should take the necessary steps to correct audit findings.

Management's Response: Management has reviewed all findings and has shared with City Council. City Council will assist management with better oversight. The Town disagrees with the LESO finding. All items are used until they are surplus.

Finding #2018-012: Budget Compliance

Condition: During our audit, we noted that the Town over expended the Drug Enforcement Fund appropriations. This is a violation of state law.

Criteria: Management should review budget versus actual expenses periodically to ensure the budgets are not violated.

Cause: Management did not review budget versus actual expenses before making expenditures.

Effect: The Town's Drug Enforcement Fund over expended its legally adopted budget.

Recommendation: We recommend that all expenditures be reviewed for proper appropriation prior to disbursement. The Mayor and Board of Aldermen should pass a formal budget amendment before excess expenditures are made. Also, budgeting deficits are not prudent financial management.

Management's Response: Management will have better oversight and review budget periodically. They will make amendments as necessary.

Finding #2018-013: Deficit Regulatory Change in Net Position

Condition: During our audit, we noted that the water and sewer fund had a deficit regulatory change in net position. This is the second straight year of deficit regulatory change in net position. According to TCA Section 68-13-1010, the water and sewer system is to be operated in a sound financial position.

Criteria: Management should evaluate the water and sewer fund revenues and expenditures to ensure that the fund does not operate in a deficit.

Cause: Expenditures are increasing faster than expenditures.

Effect: The Water and Sewer fund had a deficit regulatory change in net position.

Recommendation: We recommend that operating expenses and anticipated growth be reviewed to determine what steps are necessary to operate the water and sewer system in a sound financial position.

Management's Response: The Town will look into raising rates to create the revenue to cover its expenses including depreciation.

Town of Tellico Plains, Tennessee's Response to Findings

The Town of Tellico Plains, Tennessee's responses to the findings identified in our audit are described above. 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 the testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CERTIFIED PUBLIC ACCOUNTANTS

Knoxville, Tennessee
July 2, 2019

TOWN OF TELLICO PLAINS, TENNESSEE

Summary Schedule of Prior Audit Findings

Finding Number	Finding Title	Status
#2017-001	Segregation of Duties	Not corrected
#2017-002	Financial Statement Presentation	Not corrected
#2017-003	Adjusting Journal Entries	Not corrected
#2017-004	Cash Disbursements	Not corrected
#2017-005	Interfund Receivables/Payables	Not corrected
#2017-006	Cash and Bank Accounts	Not corrected
#2017-007	Travel	Corrected
#2017-008	Water Line Loss	Not corrected
#2017-009	Payroll	Not corrected
#2017-010	Compensated Absences	Not corrected
#2017-011	Litigation Tax	Corrected
#2017-012	Prior Year Audit Findings	Not corrected



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Management's Corrective Action Plan

Finding #2018-001: Segregation of duties

Response and Corrective Action Plan Prepared by: Patrick Hawkins, Mayor

Person Responsible for Implementing the Corrective Action: Mayor

Anticipated Completion Date of Corrective Action: 01/01/2020

Repeat Finding: Yes

Planned Corrective Action: The city will continue to look at options to insure proper duties have oversight. Also will look into more responsibilities for other personnel to carry out duties.

Finding #2018-002: Financial Statement Presentation

Response and Corrective Action Plan Prepared by: Patrick Hawkins, Mayor

Person Responsible for Implementing the Corrective Action: Mayor

Anticipated Completion Date of Corrective Action: N/A

Repeat Finding: Yes

Planned Corrective Action: The city does not have the financial resources to invest at this time. The city will continue to contract with a firm.

Finding #2018-003: Material auditor-proposed adjusting entries

Response and Corrective Action Plan Prepared by: Patrick Hawkins, Mayor

Person Responsible for Implementing the Corrective Action: Mayor

Anticipated Completion Date of Corrective Action: 01/01/2020

Repeat Finding: Yes

Planned Corrective Action: With further clarification from our auditor, our CMFO will implement the controls to avoid errors in accounting record.

Finding #2018-004: Purchasing and cash disbursements

Response and Corrective Action Plan Prepared by: Patrick Hawkins, Mayor

Person Responsible for Implementing the Corrective Action: Mayor

Anticipated Completion Date of Corrective Action:01/01/2020

Repeat Finding: Yes

Planned Corrective Action: Management will address with Department Heads proper purchasing requests.

Finding #2018-005: Due to/from

Response and Corrective Action Plan Prepared by: Patrick Hawkins, Mayor

Person Responsible for Implementing the Corrective Action: Mayor

Anticipated Completion Date of Corrective Action: 01/01/2020

Repeat Finding: Yes

Planned Corrective Action: Management will have better oversight with Finance Office.

Finding #2018-006: Bank account reconciliations

Response and Corrective Action Plan Prepared by: Patrick Hawkins, Mayor

Person Responsible for Implementing the Corrective Action: Mayor

Anticipated Completion Date of Corrective Action: 01/01/2020

Repeat Finding: Yes

Planned Corrective Action: Management will have more oversight with Finance Office.

Finding #2018-007: Non-revenue water/water line loss

Response and Corrective Action Plan Prepared by: Patrick Hawkins, Mayor

Person Responsible for Implementing the Corrective Action: Robert Patty

Anticipated Completion Date of Corrective Action: 06/30/2020

Repeat Finding: Yes

Planned Corrective Action: New procedures are implemented in Water/Sewer Dept. to help locate and fix leaks.

Finding #2018-008: Payroll

Response and Corrective Action Plan Prepared by: Patrick Hawkins, Mayor

Person Responsible for Implementing the Corrective Action: Mayor

Anticipated Completion Date of Corrective Action: 01/01/2020

Repeat Finding: Yes

Planned Corrective Action: Management has already addressed this issue with the employees. Payroll policy will be reviewed to be in compliance.

Finding #2018-009: Compensated absences

Response and Corrective Action Plan Prepared by: Patrick Hawkins, Mayor

Person Responsible for Implementing the Corrective Action: Mayor

Anticipated Completion Date of Corrective Action: 01/01/2020

Repeat Finding: Yes

Planned Corrective Action: Management will have more oversight with Department Heads that compile compensation time.

Finding #2018-010: Drug Fund

Response and Corrective Action Plan Prepared by: Patrick Hawkins, Mayor

Person Responsible for Implementing the Corrective Action: Mayor

Anticipated Completion Date of Corrective Action: ASAP

Repeat Finding: No

Planned Corrective Action: New personnel has been hired that understands drug seizure and CI funds are properly documented.

Finding #2018-011: Prior year audit findings

Response and Corrective Action Plan Prepared by: Patrick Hawkins, Mayor

Person Responsible for Implementing the Corrective Action: Mayor

Anticipated Completion Date of Corrective Action: ASAP

Repeat Finding: Yes

Planned Corrective Action: Management has reviewed all findings and has shared with City Council. City Council will assist management with better oversight. The Town disagrees with the LESO finding. All items are used until they are surplus.

Finding #2018-012: Budget Compliance

Response and Corrective Action Plan Prepared by: Patrick Hawkins, Mayor

Person Responsible for Implementing the Corrective Action: Mayor

Anticipated Completion Date of Corrective Action: 01/01/2020

Planned Corrective Action: Management will have better oversight and review Budget periodically. They will make amendments as necessary.

Finding #2018-013: Deficit Regulatory Change in Net Position

Response and Corrective Action Plan Prepared by: Patrick Hawkins, Mayor

Person Responsible for Implementing the Corrective Action: Mayor

Anticipated Completion Date of Corrective Action: 01/01/2020

The Town will look into raising rates to create the revenue to cover its expenses including depreciation.

x Patrick Hawkins