

CITY OF OAK HILL, TENNESSEE

Annual Financial Statements

June 30, 2003

CITY OF OAK HILL, TENNESSEE

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YEARY, HOWELL & ASSOCIATES

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Independent Auditors' Report

The Board of Commissioners City of Oak Hill, Tennessee

We have audited the accompanying general purpose financial statements and the individual fund and account group financial statements of the City of Oak Hill, Tennessee, for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the City of Oak Hill, Tennessee's management. Our responsibility is to express an opinion on these financial statements based on our audit.

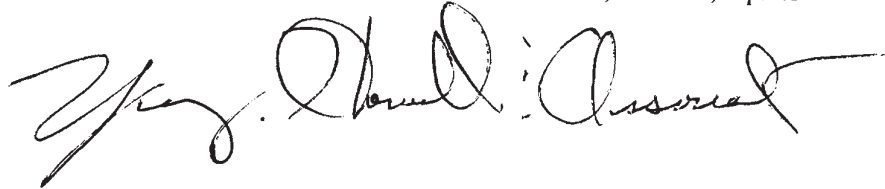
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Oak Hill, Tennessee as of June 30, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the individual fund and account group financial statements referred to above present fairly, in all material respects, the financial position of the individual fund and account group of the City of Oak Hill, Tennessee at June 30, 2003, and the results of operations of such funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2004, on our consideration of City of Oak Hill, Tennessee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole and on the individual fund and account group financial statements. The accompanying financial information listed as Supplementary Schedule in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the City of Oak Hill, Tennessee. Such information has been subjected to the auditing procedures applied in the audit of the general purpose and individual fund and account group financial statements and, in our opinion, is stated fairly, in all material respects, in relation to the financial statements of each of the respective individual funds and account groups taken as a whole.

We did not audit the statistical data listed in the Statistical Section of the Table of Contents and, therefore, express no opinion thereon.



April 16, 2004

CITY OF OAK HILL, TENNESSEE

Combined Balance Sheet

June 30, 2003

<u>Assets</u>	<u>Governmental Fund Type</u>		<u>General Fixed Asset Account Group</u>	<u>(Memorandum Only) Total</u>
	<u>General Fund</u>	<u>Special Revenue Fund</u>		
Cash and cash equivalents	\$ 6,434,978	-	-	6,434,978
Accounts receivable - State Government	313,074	-	-	313,074
Fixed assets	-	-	123,360	123,360
Total assets	<u>\$ 6,748,052</u>	<u>-</u>	<u>123,360</u>	<u>6,871,412</u>
 <u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	\$ 14,747	-	-	14,747
Deferred revenues	116,390	-	-	116,390
Accrued expenses	4,737	-	-	4,737
Total liabilities	<u>135,874</u>	<u>-</u>	<u>-</u>	<u>135,874</u>
Fund Equity:				
Investment in general fixed assets	-	-	123,360	123,360
Fund Balance:				
Unreserved, undesignated	6,612,178	-	-	6,612,178
Total fund equity	<u>6,612,178</u>	<u>-</u>	<u>123,360</u>	<u>6,735,538</u>
 Total liabilities and fund equity	 <u>\$ 6,748,052</u>	 <u>-</u>	 <u>123,360</u>	 <u>6,871,412</u>

See accompanying notes to the financial statements

CITY OF OAK HILL, TENNESSEE

**Combined Statement of Revenues, Expenditures
and Changes in Fund Balances**

All Governmental Fund Types

For the Year Ended June 30, 2003

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>(Memorandum Only) Total</u>
Revenues:			
Intergovernmental	\$ 899,011	-	899,011
Licenses and permits	99,421	-	99,421
Other, primarily interest	100,626	-	100,626
	<hr/>	<hr/>	<hr/>
Total revenues	1,099,058	-	1,099,058
	<hr/>	<hr/>	<hr/>
Expenditures:			
General government	915,935	-	915,935
Streets maintenance	240,690	-	240,690
Contracted sanitation services	-	271,570	271,570
	<hr/>	<hr/>	<hr/>
Total expenditures	1,156,625	271,570	1,428,195
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over expenditures	(57,567)	(271,570)	(329,137)
	<hr/>	<hr/>	<hr/>
<u>Other Financing Sources (Uses)</u>			
Operating transfer from other funds	-	271,570	271,570
Operating transfer to other funds	(271,570)	-	(271,570)
Total Other Financing Sources (Uses)	(271,570)	271,570	-
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(329,137)	-	(329,137)
	<hr/>	<hr/>	<hr/>
Fund Balance, Beginning of Year	6,941,315	-	6,941,315
	<hr/>	<hr/>	<hr/>
Fund Balance, End of Year	\$ 6,612,178	-	6,612,178
	<hr/>	<hr/>	<hr/>

See accompanying notes to the financial statements

CITY OF OAK HILL, TENNESSEE

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget (GAAP Basis) and Actual - General and Special Revenue Funds**

For the Year Ended June 30, 2003

	General Fund			Special Revenue Fund			(Memorandum Only Totals)		
	Budget	Actual	Actual Over (Under) Budget	Budget	Actual	Actual Over (Under) Budget	Budget	Actual	Actual Over (Under) Budget
Revenues:									
Intergovernmental	\$ 1,025,000	899,011	(125,989)	-	-	-	1,025,000	899,011	(125,989)
Licenses and permits	130,000	99,421	(30,579)	-	-	-	130,000	99,421	(30,579)
Interest income	200,000	100,626	(99,374)	-	-	-	200,000	100,626	(99,374)
Total revenues	1,355,000	1,099,058	(255,942)	-	-	-	1,355,000	1,099,058	(255,942)
Expenditures:									
General government	1,009,000	915,935	(93,065)	-	-	-	1,009,000	915,935	(93,065)
Contracted sanitation services	-	-	-	300,000	271,570	(28,430)	300,000	271,570	(28,430)
Street maintenance	573,000	240,690	(332,310)	-	-	-	573,000	240,690	(332,310)
Total expenditures	1,582,000	1,156,625	(425,375)	300,000	271,570	(28,430)	1,882,000	1,428,195	(453,805)
Excess (deficiency) of revenues over expenditures	(227,000)	(57,567)	169,433	(300,000)	(271,570)	28,430	(527,000)	(329,137)	197,863
Other Financing Sources (Uses)									
Operating transfer from other funds	-	-	-	300,000	271,570	(28,430)	300,000	271,570	(28,430)
Operating transfer to other funds	(300,000)	(271,570)	28,430	-	-	-	(300,000)	(271,570)	28,430
Total Other Financing Sources (Uses)	(300,000)	(271,570)	28,430	300,000	271,570	(28,430)	-	-	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	(527,000)	(329,137)	197,863	-	-	-	(527,000)	(329,137)	197,863
Fund Balance, Beginning of Year	6,941,315	6,941,315	-	-	-	-	6,941,315	6,941,315	-
Fund Balance, End of Year	\$ 6,414,315	6,612,178	197,863	-	-	-	6,414,315	6,612,178	197,863

See accompanying notes to the financial statements

CITY OF OAK HILL, TENNESSEE

Notes to Financial Statements

June 30, 2003

(1) SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The accounting policies of the City of Oak Hill, Tennessee conform to auditing standards generally accepted in the United States of America as applicable to governmental units. The financial statements are presented in conformity with generally accepted accounting principles. The following is a summary of the significant policies:

Financial Reporting Entity

Governmental Accounting Standards Board Statement (GASB) Number 14, "The Financial Reporting Entity" requires the General Purpose Financial Statements present the reporting entity which consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the City's General Purpose Financial Statements to be misleading or incomplete. At June 30, 2003, no potential component units were considered to meet the above criteria.

Basis of Presentation

The accounts of the City are organized on the basis of funds and an account group, each of which is considered a separate accounting entity. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in an individual fund based upon the purpose for which they are spent and the means by which spending activities are controlled. The following fund types and account group are used by the City:

Governmental Fund Types:

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

Special Revenue Fund - Special Revenue Funds are used to account for the proceeds of a specific revenue source legally restricted to expenditures for specified purposes. The Special Revenue fund is used to account for the sanitation removal operation of the City.

Account Group:

The accounting and reporting treatment applied to the fixed assets associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus.

General fixed assets have been acquired for general governmental purposes. Assets purchased are recorded as expenditures in the General Fund and accounted for at cost in the General Fixed Asset Account Group. Public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are not capitalized. No depreciation has been provided on general fixed assets. All such fixed assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

The account group is not a "fund". It is concerned only with the measurement of financial position. It is not involved with measurement of results of operations.

CITY OF OAK HILL, TENNESSEE

Notes to Financial Statements, Continued

(1) SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, (Continued)

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Operating budgets for the General and Special Revenue Fund are prepared for the fiscal year commencing the following July 1.
2. Public hearings are conducted at City Hall to obtain taxpayer comments.
3. Prior to June 30, the budgets are legally enacted through passage of an ordinance. In no event shall the total appropriations for any fund included in the budget exceed the estimated revenues and unappropriated fund balance.
4. The Mayor is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total appropriations of any department or fund must be approved by the Mayor and Commissioners.
5. Budgets for the General and Special Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. All balances of appropriations in the current operating budgets lapse into the fund balance of the fund from which appropriations were made at the end of the fiscal year.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net total assets.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Sales taxes and other shared revenues received through intermediary collecting governments are considered measurable and available if collected within 30 days of year end. Expenditures are recorded when the related fund liability is incurred.

Governmental Accounting Standards Board (GASB) Statement Number 33, "*Accounting and Financial Reporting of Nonexchange Transactions*" and Statement Number 36 "*Recipient Reporting for Certain Shared Nonexchange Revenues*" became effective for the year ended June 30, 2001. Under the provisions of these statements specific guidance is provided for nonexchange transactions of local governments. These statements establish accounting and financial reporting standards for non-exchange transactions.

Specific classes of nonexchange transactions applicable to the City involve local option sales taxes, state shared revenues collected by the State of Tennessee and contributions to the City's Special Revenue Fund. Generally, provisions of these statements require that assets (accounts receivable) be recognized in the period in which the tax is imposed and there is an enforceable legal claim to the asset. Under the modified accrual basis of accounting the resources must be available to result in revenue, resources received in advance of the availability criteria are considered deferred revenues.

CITY OF OAK HILL, TENNESSEE

Notes to Financial Statements, Continued

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, (Continued)**

Basis of Accounting, Continued

As a result of adopting provisions of the above GASB Statements, accounts receivable of the General Fund now contain amounts to be received from the State and county in July and August 2003.

The City reports deferred revenues on its balance sheet. Deferred revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

(2) **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of cash and highly liquid investments with a maturity of three months or less, which are stated at cost, at June 30, 2003.

At year end the carrying amount of the City’s deposits of cash and cash equivalents was \$6,434,978 of which \$6,210,193 is held in the Local Government Investment Pool. Deposits in financial institutions are required by State statute to be secured and collateralized by the institutions. The bank balance was \$275,502 of which \$100,000 is insured by the federal depository insurance corporation with the remaining \$175,502 fully collateralized by the Tennessee State Collateral Pool.

(3) **GENERAL FIXED ASSETS**

Activity in the City’s General Fixed Asset Account Group for the year ended June 30, 2003 was as follows:

Balance, beginning of year	\$ 115,691
Additions for the year	<u>7,669</u>
Balance, end of year	\$ <u>123,360</u>

(4) **STATE STREET AID FUND**

State Street Aid funds are combined with the General Fund as provided by Public Chapter 173 of the Public Acts of 1985. Approval was granted by the Division of Municipal Audit in 2000. During the fiscal year ended June 30, 2003, the activity related to State Street Aid Activities was as follows:

State Street Aid funds (Gasoline tax) revenue	\$ <u>125,468</u>
Street construction, repair and maintenance cost	\$ <u>65,273</u>

(5) **INTERFUND TRANSACTIONS**

Individual operating transfers for the year ended June 30, 2003 were as follows:

	Transfer From	Transfer To
General Fund	\$ 271,570	-
Solid Waste Disposal Fund	-	271,570
Total	\$ <u>271,570</u>	<u>271,570</u>

CITY OF OAK HILL, TENNESSEE

Notes to Financial Statements, Continued

(6) RISK MANAGEMENT

The City of Oak Hill is exposed to various risks to general liability, property and casualty losses. The City deems it was more economically feasible to participate in a public entity risk pool as opposed to purchasing commercial insurance for general liability, property, casualty, and workman's compensation coverage. The City participates in the TML Insurance Pool which is a public entity risk pool established by the Tennessee Municipal League, an association of member Cities. The City pays an annual premium to TML for its general liability and casualty insurance coverage. The creation of the pool provides for it to be self-sustaining through member premiums. The pool reinsures through commercial insurance companies for claims in excess of \$130,000 for each insured event.

The City continues to carry commercial insurance for all other risks of loss, including workers' compensation, employee health and accident and environmental. Settled claims from these losses have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) SUBSEQUENT EVENTS

In August 2003, the City of Oak Hill entered into an Agreement for paving services with a local paving company. Typically, these paving services would have been provided during the fiscal year ended June 30, 2003. Payments under the Agreement discussed above amounted to approximately \$144,300.

CITY OF OAK HILL, TENNESSEE

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

For the Year Ended June 30, 2003

	<u>Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Budget</u>
Revenues:			
Intergovernmental:			
State sales tax	\$ 275,000	270,313	(4,687)
State income tax	500,000	369,957	(130,043)
State beer tax	2,500	2,335	(165)
State TVA tax in lieu	-	29,261	29,261
State fuel tax	135,000	125,468	(9,532)
Metro tax allocation for streets and roads	-	10,254	10,254
Metro road fund	78,000	88,000	10,000
Miscellaneous revenues	34,500	3,423	(31,077)
	<u>1,025,000</u>	<u>899,011</u>	<u>(125,989)</u>
Licenses and permits	<u>130,000</u>	<u>99,421</u>	<u>(30,579)</u>
Other:			
Miscellaneous - primarily interest	<u>200,000</u>	<u>100,626</u>	<u>(99,374)</u>
Total revenues	<u>1,355,000</u>	<u>1,099,058</u>	<u>(255,942)</u>
Expenditures:			
General Government:			
Current:			
Salaries:			
City manager	77,800	79,368	1,568
City attorney	15,000	10,554	(4,446)
Clerical help	42,000	46,174	4,174
Payroll taxes	35,000	12,608	(22,392)
Employee benefits	-	1,100	1,100
Office supplies	5,500	3,563	(1,937)
Legal and professional	140,500	70,043	(70,457)
Utilities and maintenance fee	12,200	29,682	17,482
Appropriations to not-for-profit organizations	600,000	601,000	1,000
Miscellaneous expense	81,000	49,783	(31,217)
Vacation expense	-	4,391	4,391
Capital outlay	-	7,669	7,669
Total general government	<u>1,009,000</u>	<u>915,935</u>	<u>(93,065)</u>
Streets:			
Current:			
Street signs, lights and energy	47,000	27,406	(19,594)
State Street Aid Expenditures:			
Construction, maintenance and improvements to streets	320,000	65,273	(254,727)
Maintenance of right of way	145,000	129,275	(15,725)
Engineering expense	28,000	12,767	(15,233)
Miscellaneous expense	33,000	5,969	(27,031)
Total streets	<u>573,000</u>	<u>240,690</u>	<u>(332,310)</u>
Total expenditures	<u>1,582,000</u>	<u>1,156,625</u>	<u>(425,375)</u>
Excess (deficiency) of revenues over expenditures	\$ (227,000)	(57,567)	169,433

Continued on next page.

See accompanying notes to the financial statements

CITY OF OAK HILL, TENNESSEE

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

For the Year Ended June 30, 2003

	<u>Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Budget</u>
Other financing sources (uses)			
Operating transfer to Solid Waste Disposal Fund	<u>(300,000)</u>	<u>(271,570)</u>	<u>28,430</u>
Total other financing sources (uses)	<u>(300,000)</u>	<u>(271,570)</u>	<u>28,430</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(527,000)</u>	<u>(329,137)</u>	<u>197,863</u>
Fund balance, Beginning of Year	<u>6,941,315</u>	<u>6,941,315</u>	<u>-</u>
Fund balance, End of year	<u>\$ 6,414,315</u>	<u>6,612,178</u>	<u>197,863</u>

See accompanying notes to the financial statements

CITY OF OAK HILL, TENNESSEE
Schedule of Cash and Cash Equivalents
June 30, 2003

SunTrust Bank	\$ 224,635
Local Government Investment Pool	6,210,193
Petty cash	150
	<u>\$ 6,434,978</u>

CITY OF OAK HILL, TENNESSEE

Salaries and Official Bonds of Principal Officials

For the Year Ended June 30, 2003

	<u>Yearly Salary</u>	<u>Fidelity Bond</u>
City manager: Mr. Barnett Williams	\$ 77,815	*
Administrative assistant: Mary Clyde Sparks	32,729	*

* This is covered under a blanket crime policy.

CITY OF OAK HILL, TENNESSEE

Insurance Coverage

June 30, 2003

<u>Type of Coverage</u>	<u>Amount</u>
Public officials' errors and omissions liability	\$ 1,000,000
Worker's compensation	\$ 1,000,000 each accident 1,000,000 policy limits 1,000,000 each employee
Crime coverage	\$ 100,000 all employees
General liability	\$ 250/600,000 - Except for work which is performed for the City, which varies by type of services performed.
	\$ 1,000,000 per occurrence

YEARY, HOWELL & ASSOCIATES

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Commissioners
City of Oak Hill, Tennessee

We have audited the general purpose financial statements and the individual fund and account group financial statements of the City of Oak Hill, Tennessee as of and for the year ended June 30, 2003 and have issued our report thereon dated April 16, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the City of Oak Hill, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

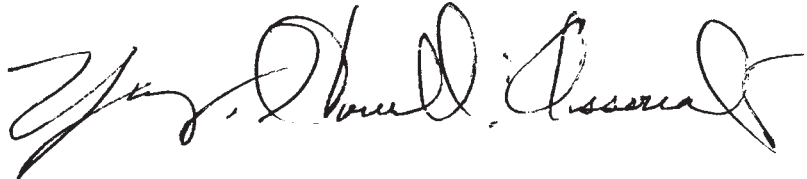
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Oak Hill, Tennessee's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Oak Hill, Tennessee's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 02-01 and 02-02.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control over financial reporting that we have reported to management of the City of Oak Hill, Tennessee in a separate letter dated April 16, 2004.

This report is intended solely for the information and use of the State Comptroller's office, the Board of Commissioners, and the City's management and is not intended to be and should not be used by anyone other than these specified parties.



April 16, 2004

CITY OF OAK HILL, TENNESSEE

Schedule of Findings

For the Year Ended June 30, 2003

(02-01) Due to staff limitations, there is a lack of segregation of duties necessary to achieve the desired internal control over receipts and disbursements.

Recommendation: A division of accounting functions whereas the employees divide the duties of collecting and disbursing of cash, posting accounting records, preparation of bank deposits, and the daily balancing of receipts.

Management Response: The City concurs with this recommendation and are planning to restructure the duties of the current administrative assistant.

(02-02) Not all wages eligible for taxation and withholding of Medicare and Social Security taxes were reported.

Recommendation: The federal wage reports need to be amended to reflect the correct wages and tax and refiled.

Management Response: City management concurs with this recommendation and has taken steps to remedy the situation.