

**CITY OF OAK HILL, TENNESSEE**

Annual Financial Report

For the Year Ended June 30, 2013

# CITY OF OAK HILL, TENNESSEE

## Table of Contents

	<u>Page Number</u>
INTRODUCTORY SECTION:	
Officials of the City of Oak Hill, Tennessee . . . . .	I
FINANCIAL SECTION:	
Independent Auditor's Report . . . . .	1-2
Management's Discussion and Analysis . . . . .	3-10
Basic Financial Statements:	
Government-Wide Financial Statements	
Statement of Net Position . . . . .	11
Statement of Activities . . . . .	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds . . . . .	14
Reconciliation of Balance Sheet to Statement of Net Position of Governmental Activities . . . . .	15
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds . . . . .	16
Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balance Of Governmental Funds to the Statement of Activities . . . . .	17
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (GAAP Basis) And Actual:	
General Fund . . . . .	18- 19
Notes to Financial Statements . . . . .	20-26

**CITY OF OAK HILL, TENNESSEE**

Table of Contents, Continued

	<u>Page Number</u>
Supplemental Information:	
Schedule of Capital Assets - by Function and Activity . . . . .	27
Schedule of Changes in Capital Assets . . . . .	28
Schedule of Cash and Cash Equivalents and Investments - All Funds . . . . .	29
Schedule of Insurance Coverage . . . . .	30
Schedule of State and Federal Financial Assistance . . . . .	31
 COMPLIANCE AND INTERNAL CONTROL:	
 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> . . . . .	32-33

## **INTRODUCTORY SECTION**

**CITY OF OAK HILL, TENNESSEE**

Officials of the City of Oak Hill, Tennessee

June 30, 2013

<u>Name</u>	<u>Title</u>
Elected Officials:	
Austin McMullen	Mayor
Jennifer Claxton	Vice Mayor
Kyle Felts	Commissioner
Management:	
Kevin Helms	City Manager
Mary Clyde Sparks	Assistant City Manager
Patrick Steiner	Administrative Assistant
Bill Burdette	Chief Building Official

**FINANCIAL SECTION**

**JOHN R. POOLE, CPA**  
**CERTIFIED PUBLIC ACCOUNTANT**

---

134 NORTHLAKE DRIVE  
HENDERSONVILLE, TN 37075

(615) 822-4177

**Independent Auditor's Report**

Mayor and Commissioners of the  
City of Oak Hill, Tennessee  
Oak Hill, Tennessee

**Report on the Financial Statements**

I have audited the accompanying financial statements of the governmental activities and each major fund of the City of Oak Hill, Tennessee as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted the audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting policies made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Oak Hill, Tennessee as of June 30, 2013, and the respective changes in financial position and the respective budgetary comparison for the General Fund 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 Required Supplementary Information which includes the Management's Discussion and Analysis 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. I 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 my inquiries, the basic financial statements and other knowledge we obtained during the audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

### **Other Matters -Other Information**

The audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section and the Supplementary Information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Introductory Section and the Supplementary Information have 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 Introductory Section and the Supplementary Information, is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, I have also issued my report dated October 31, 2013 on the consideration of the City of Oak Hill's internal control over financial reporting and the tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of the testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the 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 entity's internal control over financial reporting and compliance.

*John R Poole, CPA*

October 31, 2013



## CITY OF OAK HILL, TENNESSEE

### Management's Discussion and Analysis

As management of the City of Oak Hill, Tennessee (the City) we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013. The analysis focuses on significant financial position, budget changes and variances from the budget, and specific issues related to funds and the economic factors affecting the City. Management's Discussion and Analysis (MD&A) focuses on current year activities and resulting changes.

#### **Financial Highlights:**

The assets of the City of Oak Hill exceeded its liabilities at the close of the most recent fiscal year by \$5,750,863. Of this amount, \$5,040,674 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors. The government's total net position decreased by \$243,306 primarily as a result of decreased license, permit revenues and investment income. Additionally, several engineering assessments were conducted at a considerable cost. These serve to assist the City in setting future capital budget expenditures. As added information, the City has supplied a graphical analysis of its revenues and expenses for the last few years to assist in reading this analysis.

The City's governmental funds reported combined ending fund balances of \$5,040,674, a decrease of \$203,580 in comparison to the prior year. The decrease was due to the reasons explained above. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$5,024,519 or 306% of the total general fund expenditures.

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

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

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

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

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Oak Hill include general government, personnel, finance, streets and public works. The government-wide financial statements can be found on pages 11-12 of this report.

Fund financial statements. A Fund is a grouping of related accounts that is used to maintain control over resources that have been segregated from specific activities or objectives. The City of Oak Hill, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City are governmental funds.

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

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

The City maintains an individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund which is considered to be a major fund.

The City of Oak Hill adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 14-19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-26 of this report.

**Financial Analysis of the Financial Statements ---Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Oak Hill, assets exceeded liabilities by \$5,750,863 at the close of the most recent fiscal year. Capital assets represents the City's investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure) less any related debt use to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

<b>City of Oak Hill's Net position</b>	2013 Governmental <u>Activities</u>	2012 Governmental <u>Activities</u>
Current and other assets	\$ 5,105,357	5,341,221
Capital assets	<u>710,189</u>	<u>749,915</u>
Total assets	5,815,546	6,091,136
Other liabilities	<u>64,683</u>	<u>96,967</u>
Total liabilities	64,683	96,967
Net position:		
Net investment in capital assets	710,189	749,915
Unrestricted	<u>5,040,674</u>	<u>5,244,254</u>
Total net position	\$ 5,750,863	5,994,169

**Government-wide comparison of revenues of expenses**

	2013	2012	Change Between Years
	<u>Governmental Activities</u>	<u>Governmental Activities</u>	
Revenues:			
Program revenues:			
Charges for services	125,130	176,675	(51,545)
Operating grants and contributions	182,500	181,967	533
General revenues:			
Sales taxes	369,566	358,432	11,134
State income and in lieu of taxes	722,506	549,108	173,398
Interest and investment income	25,271	64,186	(38,915)
Other	11,740	6,497	5,243
Total revenues	<u>1,436,713</u>	<u>1,336,865</u>	<u>99,848</u>
Expenses:			
General government	794,466	817,052	(22,586)
Highways and streets	428,087	705,701	(277,614)
Sanitation	457,466	452,463	5,003
Total expenses	<u>1,680,019</u>	<u>1,975,216</u>	<u>(295,197)</u>
Change in net position	<u>(243,306)</u>	<u>(638,351)</u>	<u>395,045</u>

The assets of the City of Oak Hill exceeded its liabilities at the close of the most recent fiscal year by \$5,750,863. Of this amount, \$5,040,674 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors. The government's total net position decreased by \$243,306 primarily as a result of decreased license and permit revenues. Additionally, several engineering assessments were conducted at a considerable cost. These serve to assist the City in setting future capital budget expenditures. As added information, the City has supplied a graphical analysis of its revenues and expenses for the last few years to assist in reading this analysis

## Financial Analysis of the Financial Statements

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

### Governmental Funds

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

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,024,519. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 306% of total general fund expenditures.

### General Fund Budgetary Highlights

The City amended its General Fund budget during the year due to higher expenses. See pages 18-19 for a further analysis.

### Capital Assets

The City of Oak Hill's investment in capital assets from its governmental activities at June 30, 2013, amounts to \$710,189 (net of accumulated depreciation). This investment in capital assets is in buildings, infrastructure, machinery and equipment.

### City of Oak Hill's Capital Assets

	2013	2012
	Governmental	Governmental
	<u>Activities</u>	<u>Activities</u>
Buildings	\$ 319,577	319,577
Infrastructure	660,472	660,472
Equipment	<u>77,058</u>	<u>77,058</u>
Less accumulated depreciation	(364,918)	(307,192)
Net Capital Assets	<u>\$ 710,189</u>	<u>749,915</u>

Additional information on the City of Oak Hill's capital assets can be found in the notes to the financial statements section of this report.

## **Economic Factors and Next Year's Budget and Rates**

In the 2013-2014 budget, General fund revenues are budgeted to increase from the 2012-2013 budget year primarily due to increases in local permit revenue and an increase in the state shared revenues. Due to an ongoing trend of expenditures exceeding revenues with a slow but steady decline in fund balance, the City Board of Commissioners conducted a citizen survey to assess citizen opinion regarding various options to reduce costs/services and/or increase revenues. Based upon those results, the Board has initiated a process to review the City's current zoning regulations to assess ways in which zoning can be changed to diversify and increase city revenues. At present, the Board of Commissioners has passed an ordinance on first reading to establish a commercial zoning district. A feasibility study conducted by the City shows that development within this area would more than offset the current imbalance of expenditures to revenues. It is expected to be finalized by the end of calendar year 2013. The City has also taken other steps to reduce expenditures, such as reducing employee retirement costs by joining the Tennessee Consolidated Retirement System. A special census is also underway and the results are expected to generate over \$200,000 over the next seven years due to an increase in population as related to state shared revenues.

All of these factors were considered in preparing the City's budget for the 2013-2014 fiscal year.

## **Requests for Information**

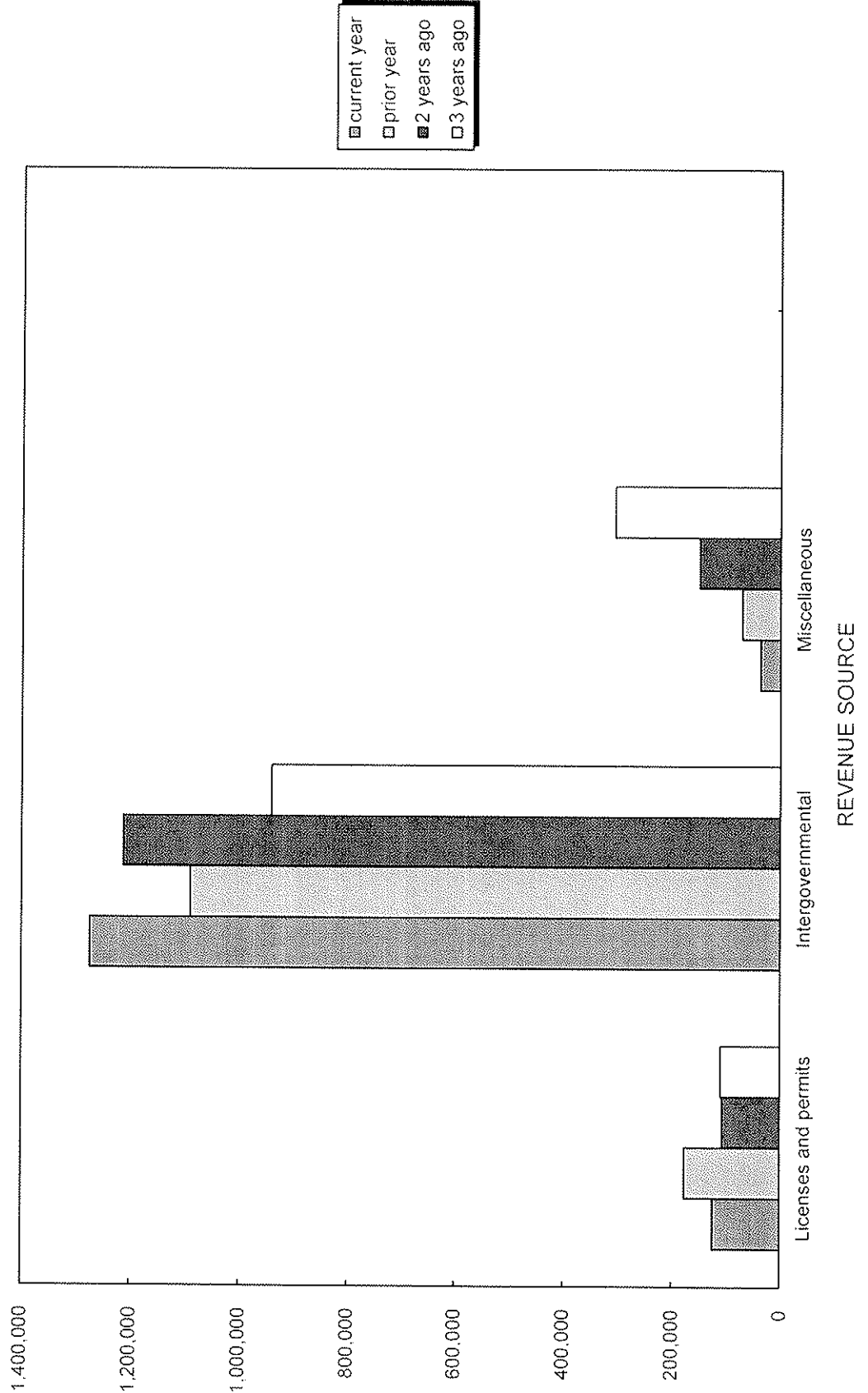
This financial report is designed to provide a general overview of the City of Oak Hill, Tennessee's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Kevin Helms  
City of Oak Hill

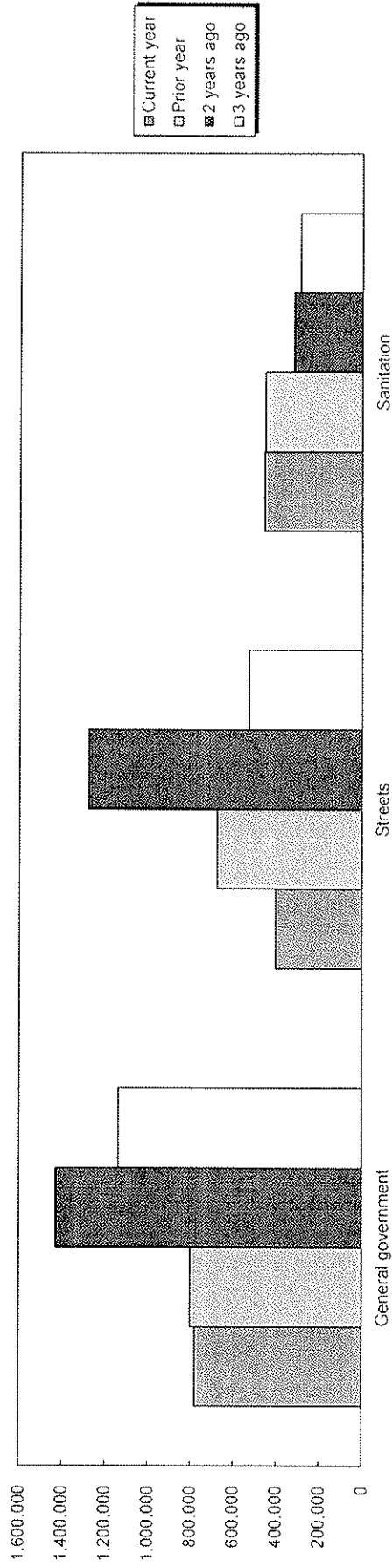
M. C. Sparks  
City of Oak Hill

Patrick Steiner  
City of Oak Hill

**CITY OF OAK HILL, TENNESSEE  
GOVERNMENTAL FUND REVENUES**



**CITY OF OAK HILL, TENNESSEE  
GOVERNMENTAL FUND EXPENDITURES**



CATEGORIES



**BASIC FINANCIAL STATEMENTS**

CITY OF OAK HILL, TENNESSEE

Statement of Net Position

June 30, 2013

<u>Assets and Other Debits</u>	Governmental Activities	Total
Cash and cash equivalents	\$235,500	235,500
Investments	4,098,081	4,098,081
Accounts receivable from other governments	755,621	755,621
Prepaid assets	16,155	16,155
Capital asset, net of accumulated depreciation	710,189	710,189
Total Assets and Other Debits	<u>\$5,815,546</u>	<u>5,815,546</u>
Liabilities:		
Accounts payable	\$18,494	18,494
Accrued expenses	\$7,457	7,457
Unavailable revenue	38,732	38,732
Total Liabilities	<u>64,683</u>	<u>64,683</u>
Net Position:		
Net investment in capital assets	710,189	710,189
Unrestricted	5,040,674	5,040,674
Total Net Position	<u>5,750,863</u>	<u>5,750,863</u>

See accompanying notes to financial statements.

CITY OF OAK HILL, TENNESSEE

Statement of Activities

For the Year Ended June 30, 2013

Function/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets	
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Government Activities:					
General government	794,466	53,556	0	(615,780)	(615,780)
Highways and streets	428,087	128,944	0	(299,143)	(299,143)
Sanitation	457,466	0	0	(457,466)	(457,466)
Total Governmental Activities	<u>1,680,019</u>	<u>125,130</u>	<u>0</u>	<u>(1,372,389)</u>	<u>(1,372,389)</u>
General Revenues					
Sales taxes				369,566	369,566
State income tax				668,619	668,619
In lieu of taxes				51,648	51,648
State beer tax				2,239	2,239
Unrestricted investment earnings				25,271	25,271
Other				11,740	11,740
Total general revenues				<u>1,129,083</u>	<u>1,129,083</u>
Changes in net position				(243,306)	(243,306)
Net position - beginning of year				5,994,169	5,994,169
Net position - ending of year				<u>5,750,863</u>	<u>5,750,863</u>

See accompanying notes to financial statements.

**FUND FINANCIAL STATEMENTS**

CITY OF OAK HILL, TENNESSEE

Balance Sheet

Governmental Funds

June 30, 2013

<u>Assets</u>	<u>General Fund</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$235,500	\$235,500
Investments	4,098,081	4,098,081
Accounts receivable from other governments	755,621	755,621
Prepaid assets	<u>16,155</u>	<u>16,155</u>
Total Assets	<u><u>\$5,105,357</u></u>	<u><u>\$5,105,357</u></u>
 <u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	\$18,494	\$18,494
Accrued expenses	\$7,457	\$7,457
Unavailable revenue	38,732	38,732
Total Liabilities	<u>64,683</u>	<u>64,683</u>
 Fund balance:		
Non-spendable	16,155	16,155
Unassigned	5,024,519	5,024,519
Total Fund Balance	<u>5,040,674</u>	<u>5,040,674</u>
Total Liabilities and Fund Balance	<u><u>\$5,105,357</u></u>	<u><u>\$5,105,357</u></u>

CITY OF OAK HILL, TENNESSEE

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

June 30, 2013

Amounts reported for fund balance - total governmental funds	\$ 5,040,674
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	<u>710,189</u>
Net position of governmental activities	\$ <u><u>5,750,863</u></u>

CITY OF OAK HILL, TENNESSEE

Statement of Revenues, Expenditures  
and Changes in Fund Balances

All Governmental Funds

For the Year Ended June 30, 2013

	General Fund	Total
Revenues:		
Licenses and permits	\$125,130	125,130
Intergovernmental	1,274,572	1,274,572
Miscellaneous	37,011	37,011
Total Revenue	<u>1,436,713</u>	<u>1,436,713</u>
Expenditures:		
Current:		
General government	779,539	779,539
Highways and streets	403,288	403,288
Sanitation	457,466	457,466
Total Expenditures	<u>1,640,293</u>	<u>1,640,293</u>
Excess (deficiency) of revenues over expenditures	<u>(203,580)</u>	<u>(203,580)</u>
Fund Balance, July 1, 2012	5,244,254	5,244,254
Fund Balance, June 30, 2013	<u>\$5,040,674</u>	<u>5,040,674</u>

See accompanying notes to financial statements.

CITY OF OAK HILL, TENNESSEE

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

For the Year Ended June 30, 2013

Net change in fund balances - total governmental funds: \$ (203,580)

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

Governmental funds report capital outlays as expenditures. However, in the statement  
of activities the cost of those assets is allocated over their estimated useful lives and  
reported as depreciation expense.

Acquisition of capital assets	0
Depreciation expense	<u>(39,726)</u>

Change in net position of governmental activities \$ (243,306)



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, 2013

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues:				
Licenses and permits	168,550	168,550	125,130	(43,420)
Total Licenses and permits	<u>168,550</u>	<u>168,550</u>	<u>125,130</u>	<u>(43,420)</u>
Intergovernmental:				
TVA in lieu	53,000	53,000	51,648	(1,352)
State sales tax	308,500	308,500	311,894	3,394
Local sales tax	49,500	49,500	57,672	8,172
State income tax	475,000	475,000	668,619	193,619
State beer tax	2,400	2,400	2,239	(161)
FEMA grant	0	0	53,556	53,556
Gasoline .03 tax	13,000	13,000	12,848	(152)
Gasoline 1989 tax	24,000	24,000	23,853	(147)
Gasoline and motor fuel	84,250	84,250	82,961	(1,289)
Special petroleum tax	9,500	9,500	9,282	(218)
Total Intergovernmental Revenue	<u>1,019,150</u>	<u>1,019,150</u>	<u>1,274,572</u>	<u>255,422</u>
Miscellaneous:				
Interest and investment income	65,000	65,000	25,271	(39,729)
Insurance proceeds	0	0	7,975	7,975
Miscellaneous	2,500	2,500	3,765	1,265
Total Miscellaneous	<u>67,500</u>	<u>67,500</u>	<u>37,011</u>	<u>(30,489)</u>
 Total Revenues	 <u>1,255,200</u>	 <u>1,255,200</u>	 <u>1,436,713</u>	 <u>181,513</u>

The notes accompanying the financial statements are an integral part of these 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, 2013

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Expenditures:				
General Government:				
Current:				
Salaries and wages	267,000	267,000	263,599	(3,401)
Employee benefits	121,250	121,250	119,154	(2,096)
Commission expense	16,200	16,200	16,200	0
Occupancy	45,000	45,000	39,586	(5,414)
Professional services	90,000	100,000	143,014	43,014
Public safety	44,000	44,000	35,185	(8,815)
Public relations	52,500	52,500	51,291	(1,209)
Office expense	10,000	10,000	8,834	(1,166)
Insurance	30,275	30,275	29,206	(1,069)
Legal notices	3,500	3,500	4,094	594
Repair and maintenance	4,000	4,000	2,527	(1,473)
Dues and subscriptions	5,500	5,500	4,828	(672)
Training	5,000	5,000	1,980	(3,020)
Travel and vehicle expense	10,000	10,000	7,303	(2,697)
Donations	33,334	33,334	33,333	(1)
Election	0	3,961	3,960	(1)
Miscellaneous	7,500	7,500	15,445	7,945
	<u>745,059</u>	<u>759,020</u>	<u>779,539</u>	<u>20,519</u>
Capital outlay	0	60,000	0	(60,000)
Total General Government	<u>745,059</u>	<u>819,020</u>	<u>779,539</u>	<u>(39,481)</u>
Streets and Highway:				
Street lights	41,000	41,000	39,900	(1,100)
Professional services	32,000	32,000	38,565	6,565
Chipper and tree service	150,000	150,000	149,800	(200)
Street maintenance	72,500	72,500	134,514	62,014
Snow removal	75,000	75,000	30,300	(44,700)
Street supplies	8,500	28,500	10,209	(18,291)
Capital outlay	0	65,000	0	(65,000)
Total Street and Highway	<u>379,000</u>	<u>464,000</u>	<u>403,288</u>	<u>(60,712)</u>
Sanitation:				
Contract services	<u>456,000</u>	<u>459,000</u>	<u>457,466</u>	<u>(1,534)</u>
Total Expenditures	<u>1,580,059</u>	<u>1,742,020</u>	<u>1,640,293</u>	<u>(101,727)</u>
Excess (deficiency) of Revenues over Expenditures	(324,859)	(486,820)	(203,580)	283,240
Fund Balance, July 1, 2012	5,244,254	5,244,254	5,244,254	0
Fund Balance, June 30, 2013	<u><u>4,919,395</u></u>	<u><u>4,757,434</u></u>	<u><u>5,040,674</u></u>	<u><u>283,240</u></u>

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

# CITY OF OAK HILL, TENNESSEE

## Notes to Financial Statements

June 30, 2013

### (1) Summary of Significant Accounting Policies

The City of Oak Hill, Tennessee, was incorporated under the Private Act of the Tennessee General Assembly. The City provides the following services, as authorized by its charter and duly passed ordinances: streets, public improvements, and general administrative services. The accounting policies of the City of Oak Hill, Tennessee conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

#### Reporting Entity:

Governmental Accounting Standards Board (GASB) Statement Number 14, "The Financial Reporting Entity" requires that financial statements present the reporting entity which consists of the primary government and any "Component Unit" organizations for which the primary government is financially accountable and any other "Component Unit" organizations for which the nature and significance of their relationship with the primary government are such that exclusion, could cause the City's financial statements to be misleading. There were no component units requiring blended or discrete presentation under the requirements of GASB Statement Number 14.

#### Accounting Pronouncements:

Effective July 1, 2003 the City adopted GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments; Omnibus, an amendment of GASB Statements No. 21 and 34, Statement No. 38, Certain Financial Statement Note Disclosures and Interpretation No. 6, Recognition and measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements. The requirements of these statements represent a significant change in the financial reporting model used by the City. The financial statements now include government-wide financial statements prepared on the accrual basis of accounting and the economic measurement focus for all funds. The fund financial statements present information for individual major funds rather than by fund type. Other significant changes include the reporting of capital assets, infrastructure and depreciation, the elimination of account groups, and the inclusion of management's discussion and analysis.

#### Government -Wide and Fund Financial Statements

The Government-wide financial statements, the statement of Net Position and the statement of changes in Net Position, report information on all of the nonfiduciary activities of the primary government and its component units. For the most part the effect of the interfund activity has been removed from these statements. Government activities which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

## CITY OF OAK HILL, TENNESSEE

### Notes to Financial Statements

#### (I) Summary of Significant Accounting Policies, Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (i) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

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

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund revenues are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers most governmental revenues as available if received within 60 days of year end. Expenditures are recorded generally when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

State shared revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period using the criteria specified in the paragraph above. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major funds:

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

# CITY OF OAK HILL, TENNESSEE

## Notes to Financial Statements

### (1) Summary of Significant Accounting Policies, Continued

#### Cash and Cash Equivalents

Cash and cash equivalents consist primarily of savings accounts, certificates of deposit with original maturities three months or less and amounts held by the State Local Government Investment Pool.

#### Receivables and Payables

Activity between funds that are representative of lending/ borrowing arrangements outstanding at the end of the fiscal year are referred to as either due from/ due to other funds (i.e. the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available resources.

#### Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets consisting of certain improvements other than buildings, including roads, bridges, streets and sidewalks, and drainage systems are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an individual cost of \$5,000 and an estimated useful life in excess of three years. All fixed assets are valued at historical cost or estimated useful life in excess of three years. All 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is provided over the estimated useful lives using the straight line method.

The estimated useful lives are as follows:

Infrastructure	30 years
Buildings	30 years
Furniture and Equipment	5-10 years

#### Net Position Flow Assumption

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

# CITY OF OAK HILL, TENNESSEE

## Notes to Financial Statements

June 30, 2013

### (I) Summary of Significant Accounting Policies, Continued

#### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Credit Risk

Financial instruments that potentially subject the City to significant concentrations of credit risk consist principally of cash and accounts receivable. The City places its cash with federally-insured financial institutions, institutions participating in the State collateral pool. With respect to accounts receivable, credit risk is limited to two governmental agencies, the State of Tennessee and the City of Nashville, Tennessee, and as such the credit is deemed not significant.

#### Fund Balance

The City implemented GASB 54 which addresses issues related to how fund balances are reported. Fund balances are now reported in the following manner:

Nonspendable fund balances – amounts that are not in a spendable form, Restricted fund balance – amounts constrained to specific purposes by their providers, provisions, or by enabling legislation, Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint, Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority, Unassigned fund balance – amounts that are available for any purpose; these amounts are reported only in the general fund.

Only by Board approval (via ordinance) can fund balance amounts be classified as committed or assigned. Board approval (via ordinance) is required to establish, modify or rescind a fund balance requirement.

#### Unavailable Revenue

Unavailable revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unavailable revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to resources, the Unavailable revenue is removed from the balance sheet and revenue is recognized.

# CITY OF OAK HILL, TENNESSEE

## Notes to Financial Statements

June 30, 2013

### (1) Summary of Significant Accounting Policies, Continued

#### Restricted Funds

It is the City's policy to use restricted funds when an expense is incurred for purposes for which both restricted and unrestricted Net Position are available. When unrestricted funds are used the City uses committed, assigned then unassigned funds.

#### Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental fund.

#### Budgets and Budgetary Accounting

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

- a. Formal budgets are adopted and approved by Council vote on an annual basis for all the Funds. These budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- b. The City Council approves, by ordinance, total budget appropriations by department only. The Mayor is authorized to transfer budget amounts between line items within each department; however, any revisions that alter the total appropriations of any fund must be approved by the City Council.
- c. The budget amounts shown in the financial statements are the final authorized amounts as amended during the year.

### (2) Cash and Cash Equivalents

The City is authorized to invest funds in Federal treasury bills and notes, State of Tennessee Local Government Investment Pool and financial institution demand deposit accounts and certificates of deposit. During the year, the City invested funds that were not immediately needed in certificates of deposits and savings accounts. The City has deposit policies to minimize custodial credit risks. Deposits in financial institutions are required by State Statute to be secured and collateralized by the institutions.

The collateral must meet certain requirements and be deposited in an escrow account in a second bank for the benefit of the City and must total a minimum 105% of the value of the deposits placed in the institutions less the amount protected by federal depository insurance. The City's deposits with financial institutions are fully insured or collateralized by securities held in the government's name.

**CITY OF OAK HILL, TENNESSEE**

Notes to Financial Statements

June 30, 2013

**(3) Investments**

The City has investments of \$4,098,081 with Stern Agee. These investments include Cash and cash equivalents (\$625,194), Certificate of deposits (\$3,233,426) and Federal government bonds (\$239,461). These investments must be collateralized and must meet certain requirements and be deposited in an escrow account in a second bank for the benefit of the City and must total a minimum 105% of the value of the deposits placed in the institutions less the amount protected by federal depository insurance. The City's investment's with financial institutions are invested in Certificate of deposits which are all insured by FDIC and U.S. government securities with are guaranteed by the United States government.

The Carrying value of all investments approximates the market value.

**(4) Accounts Receivable**

Accounts receivable at June 30, 2013, consist of the following:

<u>Fund</u>	<u>Other Governments</u>
General Fund	\$ <u>755,621</u>

**(5) Capital Assets**

A summary of changes in capital assets as presented in the governmental activities column of the government-wide financial statement is as follows:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>
Building	\$ 319,577	-	-	319,577
Infrastructure	660,472	-	-	660,472
Equipment	<u>77,058</u>	<u>-</u>	<u>-</u>	<u>77,058</u>
Total	<u>\$ 1,057,107</u>	<u>-</u>	<u>-</u>	<u>1,057,107</u>
Accumulated depreciation	<u>307,192</u>			<u>346,918</u>
Capital Assets - net	<u>749,915</u>			<u>710,189</u>



**CITY OF OAK HILL, TENNESSEE**

Notes to Financial Statements

June 30, 2013

**(5) Capital Assets, Continued**

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

General Fund:	
General Government	\$ 14,927
Highways and streets	<u>24,799</u>
Total	<u>39,726</u>

All assets are being depreciated.

**(6) Risk Management**

The City of Oak Hill is exposed to various risks to general liability and property and casualty losses. The City has decided it is more economically feasible to be in a public entity risk pool as opposed to purchasing commercial insurance for general liability and property and casualty coverage. The City participates in the TML Insurance Pool which is a public entity risk pool established by the Tennessee Municipal League, and association of member municipalities. The City pays an annual premium to the TML for its general liability and property and casualty insurance coverage. The pool reinsures through commercial insurance companies. The City has not had claims in excess of insurance coverage during the last three years.

**(7) Retirement Plan**

The City opened a Governmental 457B retirement plan for all of its full-time employees through the City of Oak Hill Retirement Plan, a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. The plan allows employees to contribute up to a maximum of \$15,000. The City's contribution for each employee is to match dollar for dollar up to 6% of the employee's salary. Additionally, the City contributes to an individual IRA for the employees. Total retirement plan expense for the year was \$39,634.

**(8) Commitments and Contingencies**

Grants:

Amounts received from Grantor agencies are subject to audit and adjustment by Grantor agencies, principally the State of Tennessee and the Federal government. Any disallowed claims including amounts already collected, could become a liability of the applicable fund.

## SUPPLEMENTAL INFORMATION

Financial schedules are used to demonstrate finance related legal and contractual compliance, provide details of data summarized in the financial statements and present other information deemed useful.

CITY OF OAK HILL, TENNESSEE

Capital Assets Used in the Operation of Governmental Funds

Schedule of Capital Assets by Function and Activity

June 30, 2013

	<u>General Government</u>	<u>Highways and Streets</u>	<u>Total</u>
Building	\$319,577	0	\$319,577
Infrastructure	0	660,472	660,472
Equipment	<u>77,058</u>	<u>0</u>	<u>77,058</u>
Total	<u>\$396,635</u>	<u>\$660,472</u>	<u>\$1,057,107</u>

CITY OF OAK HILL, TENNESSEE

Capital Assets Used in the Operation of Governmental Funds

Schedule of Changes in Capital Assets

June 30, 2013

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Building	\$319,577	0	0	\$319,577
Infrastructure	660,472	0	0	660,472
Equipment	<u>77,058</u>	<u>0</u>	<u>0</u>	<u>77,058</u>
Total	<u>\$1,057,107</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,057,107</u>

CITY OF OAK HILL, TENNESSEE

Schedule of Cash and Cash Equivalents and Investments  
All Funds

June 30, 2013

	<u>Carrying Value</u>
General Fund:	
Petty cash	\$150
Demand deposits - Pinnacle	234,228
State of Tennessee - local government investment pool	1,122
Investments	4,098,081
Total General Fund	<u>4,333,581</u>
Total - All funds	<u>\$4,333,581</u>

CITY OF OAK HILL, TENNESSEE

Schedule of Insurance Coverage

June 30, 2013

Type of Coverage

General Liability	\$250,000
Errors and Omissions Liability	1,000,000
Property	Blanket Coverage
Crime	100,000
Workers Compensation	Statutory

Employee Dishonesty Policy

Mayor	100,000
Recorder	100,000
All other employees	100,000

CITY OF OAK HILL, TENNESSEE

Schedule of State and Federal Financial Assistance

For the Year Ended June 30, 2013

CFDA Number	State Grant Number	Program Name	Grantor Agency	Receivable (Deferred) Balance July 1, 2012	Grant Receipts	Other Receipts	Grant Expenditures	Receivable (Deferred) Balance June 30, 2013
97.036	FEMA1909DRTN	Presidential Declaration FEMA Severe Flooding and Storms	Department of Homeland Security thru TN Emergency Management Agency - Military	0	53,556	0	53,556	0
			Total	0	53,556	0	53,556	0

Federal Program:

**COMPLIANCE AND  
INTERNAL CONTROL**



**JOHN R. POOLE, CPA**  
**CERTIFIED PUBLIC ACCOUNTANT**

134 NORTHLAKE DRIVE  
HENDERSONVILLE, TN 37075

(615) 822-4177

**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 Commissioners  
City of Oak Hill, Tennessee  
Oak Hill, Tennessee

I have audited 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, the financial statements of the governmental activities and each major fund as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Oak Hill's basic financial statements, and have issued a report thereon dated October 31, 2013.

**Internal Control Over Financial Reporting**

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

My consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, I identified a deficiency in internal control that I consider to be a material weakness (2002-01 Lack of segregation of Duties).

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 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. I consider the deficiency described below (2002-01) to be a material weakness.

The material weakness is as follows:

2002-01 Separation of Duties

Due to the limited number of personnel employed by the City, several functions, which ideally should be performed by different individuals, are regularly performed by one or two persons. I recommend that the City strengthen its internal control in cash receipts, cash disbursements, and reconciliation of cash.

Management Response:

Due to the size of the office, a complete separation of duties is not possible. However we are continuing to monitor office responsibilities and segregate duties as needed.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Oak Hill's financial statements are free of material misstatement, I 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 the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of the audit and, accordingly, I do not express such an opinion. The results of the tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Response to Findings**

The City of Oak Hill's response to the finding identified in the audit is described above. The City of Oak Hill's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

**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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*John R. Podo, CPA*

October 31, 2013