

ADMINISTRATION

Russell B. Truell
Assistant City Administrator, CFO
Finance



Dr. Ken Moore
Mayor

Eric S. Stuckey
City Administrator

HISTORIC
FRANKLIN
TENNESSEE

July 8, 2013

Mr. Steven R. Watson
Auditor
Division of Local Government Audit
Suite 1500
James K. Polk State Office Building
Nashville, Tennessee 37243-1402

Dear Mr. Watson,

Thank you for your review of the City's annual financial report for the fiscal year ended June 30, 2012. We appreciate your bringing these to our attention for future reporting and would like to take the opportunity to reply to the items you noted.

Item 1: The statement of activities did not appropriately report certain general revenues (i.e. "other locally assessed taxes") by type of tax (e.g., sales tax, property tax, franchise tax, income tax, etc.)

Sales tax, property tax, and franchise tax referenced are listed individually. (As you know, there is no locally assessed income tax). Other locally assessed taxes of \$4,718,374 were combined on the statement due to space constraints. The amount is comprised of 6 sources:

Wholesale beer tax	\$1,503,877
Beer privilege tax	21,195
Wholesale liquor tax	915,105
Liquor privilege tax	75,205
Business tax	9,882
Hotel/motel taxes	<u>2,193,109</u>
Total	<u>\$4,718,373</u>

Although this itemization is not detailed in the statement of activities, this information appears elsewhere in the financial report. If the State deems these distinctions to be significant, we will redesign the statement to show each type of tax in future reports.

Item 2: The financial report did not include sufficient detail and/or proper names of certain revenues for general and state street aid funds (e.g. "petroleum special", "gas 1989", "gas 3 cent", etc. – see revenue source captions on the municipality's 2012 state shared revenues confirmation) as required by the *Audit Manual*. The municipality's revenues should be presented by source (e.g., taxes, intergovernmental revenues, licenses and permits, fines and forfeits, etc.). Taxes and intergovernmental revenues should be further detailed by source (e.g., property tax, TVA-in lieu of tax, beer tax, gasoline and motor fuel tax, etc.)



HISTORIC
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TENNESSEE

The report listed gasoline and motor fuel tax as Gasoline tax, State of Tennessee. The amount for 2012 was \$1,748,202. This amount is comprised of 4 sources:

Gas & motor fuel	\$1,109,864
Petroleum special	128,251
Gas 1989	178,600
Gas 3 cent	<u>331,488</u>
Total	<u>\$1,748,202</u>

City staff and our outside auditors did not consider the legislative origin and nomenclature of these taxes to be meaningful to the reader of the financial report, since all four categories are fuel taxes collected by the State. In future reports, we will list these revenues individually and by their proper names.

Item 3: The financial report did not include sufficient detail of expenditures as required by the *Audit Manual*. Expenditures should be presented by function (or program) and character (e.g., current, capital outlay, debt service and intergovernmental expenditures) and further detailed by object class. Excessively detailed object classifications for expenditures should be avoided. Please refer to the *Audit Manual*, pages C-2 and C-3 for reporting guidance.

The City currently lists expenditures in the following detail:

1. By fund,
2. By function (or program)
3. By current and non-current, and
4. By object (personnel, operations, debt service, transfers, and capital outlay).

As recommended in the audit manual, the City has avoided listing its expenditures by excessively detailed object classifications. The City has attempted to provide the reader of our financial reports with a reasonable and understandable level of detail, knowing that other documents prepared by the City (annual budget document, quarterly financial reports, etc.) would provide more extensive details. We would be willing to change the level of detail in future reports if an example of another municipality employing a preferred level of detail could be provided to us.

Item 4: Certain costs apparently paid by the General Fund and subsequently allocated to and reimbursed by other funds appear inappropriately reported in the statement of revenues, expenditures, and changes in fund balance – budget and actual general fund, as general fund revenues (i.e., intergovernmental: admin charges to other funds, \$2,144,913). It appears that the general fund revenues and expenditures, as reflected in the financial statements, were overstated due to an error in recording the reimbursement. Reimbursements between funds should be treated as adjustments to expenses and/or expenditures, i.e., reported as an increase in expenditures or expenses in the reimbursing fund and a corresponding decrease in expenditures or expenses in the reimbursed fund. Please refer to the *Codification of Governmental Accounting and Financial Reporting Standards*, Section 1800.102 and the GFOA's 2012, *Governmental Accounting, Auditing and Financial Reporting* (GAAFR), page 53, for reporting guidance.

In the GAAFR on page 53, there is a reference to Interfund reimbursements with the reporting outlined above. Also, on pages 50-51, there is a reference to Interfund services provided and used. The City used the latter method of reporting instead of the interfund reimbursement approach because the transaction seemed to fit best as services (finance, engineering, human resources, revenue management, purchasing, etc.) that were actually provided to the other funds rather than as an interfund reimbursement



HISTORIC
FRANKLIN
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(e.g., the General Fund pays a \$100 invoice for which another fund reimburses some portion of the amount).

The City is willing to change the reporting in future reports to an interfund reimbursement. However, the impact of the change will be to reduce revenues and expenditures/expenses in both the City's adopted budget as well as the annual report, which artificially masks the level of spending in the General Fund. Some years ago, we were questioned by our auditors about handling reimbursements in that way and, at their suggestion, changed to the current approach. Our choice in taking this approach was to err on the side of disclosing the higher expenditure amount in the General Fund in order to avoid any criticism of disguising these sometimes sizable expenditures. The State did not object to this method of reporting in prior financial reports so our method was simply continued in the FY12 CAFR.

Item 5: The schedule of state financial assistance reflected that the municipality received \$435,497 in assistance from the Capitalization Grants for Clean Water State RLF program. However, the financial report did not appropriately reflect that \$208,602 of the amount received was federal funding (CFDA # 66.458). The schedule should include federal assistance and state grants and loans with the minimum information required by the *Audit Manual*.

In 2011, the City received a letter dated August 31, 2011 from the Tennessee Department of Environment and Conservation indicating the receipts for the year ended June 30, 2011 of \$2,032,869 included \$1,573,500 of ARRA federal funds. This represented 100% of the federal funds (\$314,700 ARRA loan and \$1,258,800 for ARRA principal forgiveness) for the program. To be consistent with the guidance the City received in 2011, no federal funds were shown for 2012.

Please let me know if you have questions or require clarification of these responses.

Respectively yours,

Russell B. Truell
Assistant City Administrator/Chief Financial Officer

Cc: Mayor Ken Moore, City Administrator Eric Stuckey



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF LOCAL GOVERNMENT AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7841

June 28, 2013

Honorable Mayor and Board
City of Franklin
PO Box 305
109 Third Avenue South
Franklin, TN 37065

Honorable Mayor and Board:

I have performed a limited review of the annual financial report on the City of Franklin for the fiscal year ended June 30, 2012, as audited by Crosslin and Associates, PC, Certified Public Accountants. This report has been filed as part of the public records of the State of Tennessee.

I would like to bring certain applicable reporting requirements to your attention. Although current financial report revisions are not being required, responsible officials should ensure that future financial reports comply with the following reporting requirements.

The statement of activities did not appropriately report certain general revenues (i.e., "other locally assessed taxes") by type of tax (e.g., sales tax, property tax, franchise tax, income tax, etc.). Please refer to the *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2200.140, for reporting guidance.

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Honorable Mayor and Board
June 19, 2013
Page 2 of 2

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Certain costs apparently paid by the general fund and subsequently allocated to and reimbursed by other funds appear inappropriately reported in the statement of revenues, expenditures and changes in fund balance – budget and actual general fund, as general fund revenues (i.e., intergovernmental: admin charges to other funds, \$2,144,913). It appears that the general fund revenues and expenditures, as reflected in the financial statements, were overstated due to an error in recording the reimbursement. Reimbursements between funds should be treated as adjustments to expenses and/or expenditures, i.e., reported as an increase in expenditures or expenses in the reimbursing fund and a corresponding decrease in expenditures or expenses in the reimbursed fund. Please refer to the *Codification of Governmental Accounting and Financial Reporting Standards*, Section 1800.102 and the GFOA's 2012, *Governmental Accounting, Auditing and Financial Reporting* (GAAFR), page 53, for reporting guidance.

The schedule of state financial assistance reflected that the municipality received \$435,497 in assistance from the Capitalization Grants for Clean Water State RLF program. However, the financial report did not appropriately reflect that \$208,602 of the amount received was federal funding (CFDA # 66.458). The schedule should include federal assistance and state grants and loans with the minimum information required by the *Audit Manual*.

If you have any questions concerning the above, please contact this office.

Sincerely,



Steven R. Watson, Auditor
Division of Local Government Audit

1683

xc: Crosslin and Associates, PC
Certified Public Accountants
2525 West End Avenue, Suite 1100
Nashville, TN 37203-1741