ANNUAL FINANCIAL REPORT
OF
CLAY COUNTY, TENNESSEE
AND
CLAY COUNTY SCHOOL DEPARTMENT

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2005

Comptroller of the Treasury
Department of Audit
Division of County Audit
Nashville, Tennessee

ANNUAL FINANCIAL REPORT

CLAY COUNTY, TENNESSEE

FOR THE YEAR ENDED JUNE 30, 2005

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CLAY COUNTY, TENNESSEE
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Audit Highlights

Annual Financial Report
Clay County, Tennessee
For the Year Ended June 30, 2005

Scope

We have audited the financial statements of each major fund and the aggregate remaining fund information of Clay County as of and for the year ended June 30, 2005.

Results

Our report on Clay County's financial statements expresses an adverse opinion because government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34.

Our audit resulted in 13 findings and recommendations, which we have reviewed with Clay County management. Detailed findings and recommendations are included in the Single Audit Report.

Findings

The following are summaries of the audit findings:

CLAY COUNTY

- Government-wide financial statements were not presented in accordance with generally accepted accounting principles, resulting in an adverse opinion.

OFFICE OF COUNTY MAYOR

- The Solid Waste/Sanitation Fund had a fund deficit of $26,992 and a cash overdraft of $29,779 at June 30, 2005.
- Receivables were not determined and recorded in the General, Solid Waste/Sanitation, and General Debt Service Funds at June 30, 2005.
- The office had not established a formal purchase order system, and several invoices were paid without documentation that goods had been received and/or services had been rendered. Also, some invoices were not on file to support the purchases, and some invoices did not adequately describe the purchases.
- General Fund expenditures exceeded appropriations approved by the County Commission in six major appropriation categories (legal level of control). Appropriations exceeded estimated available funds in the Solid Waste/Sanitation Fund by $29,413. Also, the actual fund balance in the General Fund at July 1, 2004, exceeded the estimated fund balance by $250,321.

- Inventory records were not maintained for assets owned by the general county government as required by generally accepted accounting principles.

OFFICE OF HIGHWAY SUPERINTENDENT

- The Highway Department had not established a formal purchase order system, and several invoices were paid without documentation that goods had been received and/or services had been rendered.
- The actual fund balance in the Highway/Public Works Fund at July 1, 2004, exceeded the estimated fund balance by $376,720.

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

- The cash journal did not properly reflect the operations of the office. Bank statements were not reconciled with cash journal accounts. Several receipts were voided without an explanation or the original receipt on file. Funds were not deposited to the bank within three days, and receipts were not deposited intact.
- Trial balances of execution docket cause balances for Circuit and General Sessions Courts did not reconcile with the general ledger.
- Short-term accounts held for litigants were not reconciled with the general ledger control accounts. Also, several interest checks earned on litigant accounts which had not been receipted or deposited were found in the office. Furthermore, amounts held for litigants were not disbursed by official prenumbered checks.

OTHER FINDINGS

- County officials had not adopted a central system of accounting, budgeting, and purchasing.
- Duties were not segregated adequately in the Offices of County Mayor, Highway Superintendent, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff.

INTRODUCTORY SECTION

Clay County Officials
June 30, 2005

Officials:

Luke Collins, County Mayor
Ernest Garrison, Highway Superintendent
Charlie Key, Trustee
Billy Smith, Assessor of Property
Patricia Hix, County Clerk
Peggy Ballard, Circuit and General Sessions Courts Clerk
Corinne McLerran, Clerk and Master
Brenda Browning, Register
Jerry Rhoton, Sheriff

Board of County Commissioners:

Luke Collins, Chairman
Michael Boles
Denzil Cherry
Dorothy Forney
Ronnie Parsons
Harlon Sherrell
Jean Smith
Malcolm Spivey
Bobby Watson
Clint Watson
Winton Young

FINANCIAL SECTION

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0269
PHONE (615) 401-7841

INDEPENDENT AUDITOR'S REPORT

November 8, 2005

Clay County Mayor and
Board of County Commissioners
Clay County, Tennessee

To the County Mayor and Board of County Commissioners:

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Clay County, Tennessee, as of and for the year ended June 30, 2005, as shown on pages 11 through 29, which collectively comprise a portion of the county's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Clay County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 opinions.

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities and discretely presented component units. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial

statements. The amounts that would be reported in government-wide financial statements for the county's governmental activities and discretely presented component units are not reasonably determinable.

As described in Note I, Clay County, Tennessee, has prepared its financial statements on a prescribed basis of accounting that demonstrates compliance with financial reporting standards adopted by the Comptroller of the Treasury of the State of Tennessee. These standards require county governments that do not present government-wide financial statements to present fund financial statements in conformity with all the accounting principles generally accepted in the United States of America that are applicable to fund financial statements, including the notes to the financial statements. These standards also require some additional disclosures to be included in the notes to the financial statements, as described in Note I.

In our opinion, because of the effects of the matters discussed in the two preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Clay County, Tennessee, as of June 30, 2005, or the changes in its financial position for the year then ended.

However, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Clay County, Tennessee, as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting prescribed by the Comptroller of the Treasury of the State of Tennessee.

In accordance with Government Auditing Standards, we have also issued our report dated November 8, 2005, on our consideration of Clay County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 and should be considered in assessing the results of our audit.

As described in Note IV.B., Clay County has implemented Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures which modifies the county's disclosures for custodial credit risk and adds disclosures about other types of risk.

The budgetary comparison information on pages 33 through 38 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clay County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the General Debt Service Fund, miscellaneous schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the General Debt Service Fund, and the miscellaneous schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Very truly yours,

John G. Morgan
Comptroller of the Treasury

JGM/sb

BASIC FINANCIAL STATEMENTS

Exhibit A

Clay County, Tennessee
Balance Sheet
Governmental Funds
June 30, 2005

	Major Funds				Nonmajor Funds	
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern-mental Funds	Total Govern-mental Funds
ASSETS						
Cash	$ 0	$ 0	$ 0	$ 0	$ 35,933	$ 35,933
Equity in Pooled Cash and Investments	929,334	0	595,214	541,268	20,676	2,086,492
Accounts Receivable	12,299	8,772	0	7,258	24	28,353
Allowance for Uncollectibles	0	(263)	0	0	0	(263)
Due from Other Governments	96,009	0	231,953	0	0	327,962
Due from Other Funds	5,210	0	0	0	0	5,210
Property Taxes Receivable	847,272	332,574	0	31,674	0	1,211,520
Allowance for Uncollectible Property Taxes	(23,678)	(9,294)	0	(885)	0	(33,857)
Total Assets	$ 1,866,446	$ 331,789	$ 827,167	$ 579,315	$ 56,633	$ 3,661,350
LIABILITIES AND FUND BALANCES						
Liabilities						
Cash Overdraft	$ 0	$ 29,779	$ 0	$ 0	$ 0	$ 29,779
Due to Other Funds	0	0	0	0	5,210	5,210
Deferred Revenue - Current Property Taxes	763,850	299,829	0	28,555	0	1,092,234
Deferred Revenue - Delinquent Property Taxes	59,744	23,451	0	2,234	0	85,429
Other Deferred Revenues	60,285	5,722	113,909	0	0	179,916
Total Liabilities	$ 883,879	$ 358,781	$ 113,909	$ 30,789	$ 5,210	$ 1,392,568
Fund Balances						
Reserved for Computer System - Register	$ 7,469	$ 0	$ 0	$ 0	$ 0	$ 7,469
Unreserved, Reported In:						
General Fund	975,098	0	0	0	0	975,098
Special Revenue Funds (Deficit)	0	(26,992)	713,258	0	51,423	737,689
Debt Service Funds	0	0	0	548,526	0	548,526
Total Fund Balances	$ 982,567	$ (26,992)	$ 713,258	$ 548,526	$ 51,423	$ 2,268,782
Total Liabilities and Fund Balances	$ 1,866,446	$ 331,789	$ 827,167	$ 579,315	$ 56,633	$ 3,661,350

The notes to the financial statements are an integral part of this statement.

Exhibit B

Clay County, Tennessee
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	Major Funds				Nonmajor Funds	
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern-mental Funds	Total Governmental Funds
Revenues						
Local Taxes	$ 1,629,731	$ 330,468	$ 13,849	$ 65,329	$ 1,484	$ 2,040,861
Licenses and Permits	2,204	0	0	0	0	2,204
Fines, Forfeitures and Penalties	29,256	0	0	0	14,908	44,164
Charges for Current Services	8,474	66,905	0	0	149,247	224,626
Other Local Revenues	48,528	18,209	33,359	104,013	2,108	206,217
Fees Received from County Officials	161,546	0	0	0	0	161,546
State of Tennessee	512,571	0	1,443,114	0	0	1,955,685
Federal Government	705,837	0	56,899	0	2,755	765,491
Total Revenues	$ 3,098,147	$ 415,582	$ 1,547,221	$ 169,342	$ 170,502	$ 5,400,794
Expenditures						
Current:						
General Government	$ 338,631	$ 0	$ 0	$ 0	$ 1,299	$ 339,930
Finance	96,097	0	0	0	148,369	244,466
Administration of Justice	241,318	0	0	0	1,319	242,637
Public Safety	705,851	0	0	0	35,934	741,785
Public Health and Welfare	190,408	498,199	0	0	0	688,607
Social, Cultural, and Recreational Services	105,281	0	0	0	0	105,281
Agricultural and Natural Resources	95,283	0	0	0	0	95,283
Other Operations	1,205,879	6,619	0	0	15	1,212,513
Highways	44,680	0	1,592,589	0	0	1,637,269
Debt Service:						
Principal	0	0	0	16,329	0	16,329
Interest	0	0	0	994	0	994
Other Debt Service	0	0	0	849	0	849
Total Expenditures	$ 3,023,428	$ 504,818	$ 1,592,589	$ 18,172	$ 186,936	$ 5,325,943
Excess (Deficiency) of Revenues Over Expenditures	$ 74,719	$ (89,236)	$ (45,368)	$ 151,170	$ (16,434)	$ 74,851
Net Change in Fund Balances	$ 74,719	$ (89,236)	$ (45,368)	$ 151,170	$ (16,434)	$ 74,851
Fund Balance, July 1, 2004	907,848	62,244	758,626	397,356	67,857	2,193,931
Fund Balance, June 30, 2005	$ 982,567	$ (26,992)	$ 713,258	$ 548,526	$ 51,423	$ 2,268,782

The notes to the financial statements are an integral part of this statement.

Exhibit C

Clay County, Tennessee
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2005

	Agency Funds
ASSETS	
Cash	$ 454,083
Due from Other Governments	52,332
Total Assets	$ 506,415
LIABILITIES	
Due to Other Taxing Units	$ 52,332
Due to Litigants, Heirs, and Others	454,083
Total Liabilities	$ 506,415

The notes to the financial statements are an integral part of this statement.

CLAY COUNTY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Clay County's financial statements are not presented in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments.

Clay County has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities and discretely presented component units. The two government-wide financial statements, the statement of net assets and the statement of activities, should be included in the basic financial statements to conform with the provisions of GASB Statement 34 and accounting principles generally accepted in the United States of America. Clay County has elected instead only to implement the provisions of the statement and other accounting principles generally accepted in the United States of America that relate to the fund financial statements. This departure from GAAP results in an incomplete presentation and has caused Clay County's auditor to issue an adverse opinion on the county's financial statements.

Although Clay County's financial statements are not presented in conformity with GAAP, the financial statements have been presented in conformity with financial reporting standards adopted by the Comptroller of the Treasury of the State of Tennessee. The Comptroller of the Treasury has adopted financial reporting standards for local governments in Tennessee that do not implement the provisions of GASB Statement 34. These standards require fund financial statements that are presented in conformity with all the provisions of GASB Statement 34 that are applicable to fund financial statements, including the notes to the financial statements. These standards also require the fund financial statements to be presented in conformity with all other accounting principles generally accepted in the United States of America that are applicable to fund financial statements, including the notes to the financial statements.

The following are the more significant accounting policies of Clay County:

A. Reporting Entity

Clay County is a public municipal corporation governed by an elected ten-member board. As required by GAAP, these financial statements present Clay County (the primary government).

Blended Component Units – There are no legally separate component units of Clay County that meet the criteria for being reported as part of the primary government by the blending method.

Excluded Component Units – The following entities meet the criteria for discretely presented component units of the county. Since Clay County is presenting fund financial statements only, the financial information of entities that meet the criteria for discretely presented component units is not included in the fund financial statements, as required by generally accepted accounting principles. These entities would have been presented as separate columns in those statements to emphasize that they are legally separate from the county.

The Clay County School Department operates the public school system in the county, and the voters of Clay County elect its board. The School Department is fiscally dependent on the county because it may not issue debt without county approval, and its budget and property tax levy are subject to the County Commission's approval. The School Department's taxes are levied under the taxing authority of the county and are included as part of the county's total tax levy.

The Clay County Emergency Communications District provides a simplified means of securing emergency services through a uniform emergency number for the residents of Clay County, and the Clay County Commission appoints its governing body. The district is funded primarily through a service charge levied on telephone services. Before the issuance of most debt instruments, the district must obtain the County Commission's approval.

The Clay County School Department and the Clay County Emergency Communications District issue separate financial statements from those of the county. The School Department's financial statements are published as a separate report but under the same cover as the county's financial statements. The Clay County Emergency Communications District's financial statements are published as a separate report. Complete financial statements of the Clay County Emergency Communications District can be obtained from its administrative office at the following address:

Clay County Emergency Communications District
P.O. Box 654
400 West Lake Avenue
Celina, TN 38551

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Fund financial statements of Clay County are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. However, Clay County has no proprietary funds to report. An emphasis is placed on major funds within the governmental category.

Separate financial statements are provided for governmental funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All other governmental funds are aggregated into a single column on the fund financial statements. The fiduciary funds in total are reported in a single column.

Governmental fund financial statements 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 available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the county considers revenues other than grants to be available if they are collected within 30 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and the revenues are available. Clay County considers grant and similar revenues to be available if they are collected within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Principal and interest on long-term debt are recognized as fund liabilities when due or when amounts have been accumulated in the General Debt Service Fund for payments to be made early in the following year.

In-lieu-of tax payments, sales taxes, interest, and miscellaneous taxes are all considered to be susceptible to accrual and have been recognized as revenues of the current period. Property taxes collected within 30 days after year-end are considered to be immaterial for reporting purposes. Applicable business taxes, litigation taxes, state-shared excise taxes, fines, forfeitures, and penalties are not susceptible to accrual since they are not measurable (reasonably estimable). All other revenue items are considered to be measurable and available only when the county receives cash.

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Clay County reports the following major governmental funds:

General Fund – This is the county's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Solid Waste/Sanitation Fund – This fund accounts for transactions relating to the disposal of Clay County's solid waste.

Highway/Public Works Fund – This fund accounts for the transactions of the county Highway Department.

General Debt Service Fund – This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, Clay County reports the following fund type:

Agency Funds – These funds account for amounts collected in an agency capacity by the constitutional officers and local sales taxes received by the state to be forwarded to the various cities in Clay County. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. They do, however, use the accrual basis of accounting to recognize receivables and payables.

C. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

State statutes authorize the government to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; the county's own legally issued bonds or notes; the State Treasurer's Investment Pool; and repurchase agreements.

The county trustee maintains a cash and internal investment pool that is used by all Clay County and Clay County School Department funds. Each fund's portion of this pool is displayed on the balance sheets or statements of net assets as Equity in Pooled Cash and Investments. Most income from these pooled investments is assigned to the General Debt Service Fund. Clay County and the Clay County School Department have adopted a policy of reporting U.S. Treasury obligations, U.S. agency obligations, and repurchase agreements with maturities of one year or less when purchased on the balance sheet at amortized cost. Certificates of deposit are reported at cost. The State Treasurer's Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows SEC-registered mutual funds to use amortized cost rather than fair value to report net assets to compute share prices if certain conditions are met. State statutes require the state treasurer to administer the pool under the same terms and conditions, including collateral requirements, as prescribed for other funds invested by the state treasurer. All other investments are reported at fair value. No investments required to be reported at fair value were held at the balance sheet date.

2. Receivables and Payables

Outstanding balances between funds are reported as due to/from other funds.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Property taxes receivable are shown with an allowance for uncollectibles. The allowance for uncollectible property taxes is equal to 1.47 percent of total taxes levied.

Property taxes receivable are recognized as of the date an enforceable legal claim to the taxable property arises. This date is January 1 and is referred to as the lien date. However, revenues from property taxes are recognized in the period for which the taxes are levied, which is the ensuing fiscal year. Since the receivable is recognized before the period of revenue recognition, the entire amount of the receivable, less an estimated allowance for uncollectible taxes, is reported as deferred revenue as of June 30.

Property taxes receivable are also reported as of June 30 for the taxes that are levied, collected, and reported as revenue during the current fiscal year. These property taxes receivable are presented on the balance sheet with offsetting deferred revenue to reflect amounts not available as of June 30. Property taxes collected within 30 days of year-end are not material for financial reporting purposes and are thus not accrued. The allowance for uncollectible taxes represents the estimated amount of the receivable that will be filed in court for collection. Delinquent taxes filed in court for collection are not included in taxes receivable since they are neither measurable nor available.

Property taxes are levied as of the first Monday in October. Taxes become delinquent and begin accumulating interest and penalty the following March 1. Suit must be filed in Chancery Court between the following February 1 to April 1 for any remaining unpaid taxes. Additional costs attach to delinquent taxes after a court suit has been filed.

3. Capital Assets

Governmental funds do not capitalize the cost of capital outlays; these funds report capital outlays as expenditures upon acquisition. Clay County does not maintain capital assets records, as required by generally accepted accounting principles. Capital assets should be

reported in the government-wide statement of net assets; however, as previously noted, Clay County does not present government-wide statements.

4. Compensated Absences

It is the county's general policy to permit employees to accumulate up to 12 days each of vacation and sick leave beyond year-end. There is no liability for unpaid sick leave since the county does not have a policy to pay any amounts when employees separate from service with the government. The payment of vacation leave is guaranteed. However, accumulated unpaid vacation, sick pay, and other employee benefit amounts are not accrued in Governmental Funds (using the modified accrual basis of accounting). Any matured amounts, for example, as a result of employee resignations or retirements, are not considered material and therefore are not included in the financial statements of Clay County.

5. Long-term Obligations

Only the matured portion (the portion that has come due for payment) of long-term indebtedness, including bonds, is recognized as a liability and expenditure in the governmental fund financial statements. Liabilities and expenditures for other long-term obligations, including compensated absences, are recognized to the extent that the liabilities have matured (come due for payment) each period.

Governmental funds recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Fund Equity

Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Fund Deficit

The Solid Waste/Sanitation Fund (a special revenue fund) had a deficit fund balance of $26,992 as of June 30, 2005. This fund deficit resulted from expenditures exceeding available funds. This deficit was liquidated subsequent to June 30, 2005.

B. Cash Overdraft

The Solid Waste/Sanitation Fund had a cash overdraft of $29,779 at June 30, 2005. This cash overdraft resulted from issuing warrants that exceeded cash on deposit with the county trustee. The cash overdraft was liquidated subsequent to June 30, 2005.

C. Expenditures Exceeded Appropriations

Expenditures exceeded appropriations approved by the County Commission in the following funds' major appropriation categories (the legal level of control):

Fund	Major Appropriation Category	Amount
General	Board of Equalization	$ 50
"	General Sessions Court	1,085
"	Jail	911
"	Fire Prevention and Control	22,863
"	County Coroner/Medical Examiner	113
"	Litter and Trash Collection	2,391
Solid Waste/Sanitation	Other Charges	519

Such overexpenditures are a violation of state statutes. These overexpenditures were funded by available fund balance in the General Fund and by greater than anticipated revenues in the Solid Waste/Sanitation Fund.

D. Actual Fund Balances Exceeded Estimated Beginning Fund Balances by Material Amounts

The actual fund balances in the General Fund and the Highway/Public Works Fund exceeded the estimated fund balances at July 1, 2004, presented to the County Commission during the budget approval process as follows:

Fund	Actual Fund Balance 7-1-04	Budgeted Fund Balance 7-1-04	Variance
General	$ 907,848	$ 657,527	$ 250,321
Highway/Public Works	758,626	381,906	376,720

E. Appropriations Exceeded Estimated Available Funds

Appropriations of the Solid Waste/Sanitation Fund exceeded the estimated available funds by $29,413.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Clay County and the Clay County School Department participate in an internal cash and investment pool through the Office of Trustee. The Clay County School Department meets the criteria for a discretely presented component unit of Clay County. Since Clay County is presenting fund financial statements only, the financial information for the Clay County School Department is not included in these fund financial statements. The county trustee is the treasurer of the county and in this capacity is responsible for receiving, disbursing, depositing, and investing most county funds. Each fund's portion of this pool is displayed on the balance sheets or statements of net assets as Equity in Pooled Cash and Investments. Cash reflected in the fund financial statements represents nonpooled amounts held separately by individual funds.

Deposits

Legal Provisions. All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public fund accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for the purposes of credit risk disclosure.

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the county.

Investments

Legal Provisions. Counties are authorized to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; and the county's own legally issued bonds or notes. These investments may not have a maturity greater than two years. The county

may make investments with longer maturities if various restrictions set out in state law are followed. Counties are also authorized to make investments in the State Treasurer's Investment Pool and in repurchase agreements. Repurchase agreements must be approved by the state director of Local Finance and executed in accordance with procedures established by the State Funding Board. Securities purchased under a repurchase agreement must be obligations of the U.S. government, or obligations guaranteed by the U.S. government, or any of its agencies. When repurchase agreements are executed, the purchase of the securities must be priced at least two percent below the market value of the securities on the day of purchase. Clay County had no pooled or nonpooled investments at June 30, 2005.

B. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2005, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental	$ 5,210

This balance resulted from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur and payments between funds are made.

C. Capital Lease

On November 13, 2000, Clay County entered into a six-year lease-purchase agreement for a garbage truck. The terms of the agreement require total lease payments of $149,750 plus interest of 6.36 percent. Title to the garbage truck transfers to Clay County at the end of the lease period.

Since Clay County is presenting fund financial statements only, the present value of minimum lease payments under the lease agreement has not been reported as a liability in the financial statements of the governmental funds. Long-term debt for governmental funds is required to be reported as a liability in the government-wide financial statements, but Clay County is not presenting government-wide financial statements. Future minimum lease payments and the net present value these minimum lease payments as of June 30, 2005, were as follows:

Year Ending June 30	Governmental Funds
2006	$ 29,746
2007	7,436
Total Minimum Lease Payments	$ 37,182
Less: Amounts Representing Interest	(1,710)
Present Value of Minimum Lease Payments	$ 35,472

D. Long-term Debt

Since Clay County is presenting fund financial statements only, long-term debt is not reported as a liability in the financial statements of the governmental funds. Long-term debt for governmental funds is required to be reported as a liability in government-wide financial statements, but Clay County is not presenting government-wide financial statements.

Capital Outlay Note

Capital outlay notes are issued to fund capital facilities and other capital outlay purchases, such as equipment.

Capital outlay notes are a direct obligation and pledge the full faith and credit of the government. The capital outlay note outstanding was issued for the original term of three years. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. The note included in long-term debt as of June 30, 2005, will be retired from the General Debt Service Fund.

The capital outlay note and capital lease outstanding as of June 30, 2005, is as follows:

Type	Interest Rate	Original Amount of Issue	Balance 6-30-05
Capital Outlay Note	3 %	$ 49,000	$ 16,818
Capital Lease	6.36	149,750	35,472

The annual requirements to amortize the note outstanding as of June 30, 2005, including interest payments, are presented in the following table:

Year Ending June 30	Note Principal	Note Interest
2006	$ 16,818	$ 505

There is $548,526 available in the General Debt Service Fund to service long-term debt. Total debt per capita amounted to $7, based on the 2000 federal census.

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

Governmental Activities:

	Note	Capital Lease
Balance, July 1, 2004	$ 33,147	$ 55,451
Deductions	(16,329)	(19,979)
Balance, June 30, 2005	$ 16,818	$ 35,472
Balance Due Within One Year	$ 16,818	$ 28,152

IV. OTHER INFORMATION

A. Risk Management

The county is exposed to various risks related to general liability, property, casualty, and workers' compensation losses. The county's risk of loss relating to general liability, property, casualty, and workers' compensation is covered by participation in the Local Government Property and Casualty Fund (LGPCF) and the Local Government Workers' Compensation Fund, which are public entity risk pools established by the Tennessee County Services Association, an association of member counties. The county pays annual premiums to these pools for their general liability, property, casualty, and workers' compensation insurance coverage. The creation of these pools provides for it to be self-sustaining through member premiums. The LGPCF reinsures through commercial insurance companies for claims exceeding $100,000 for each insured event.

B. Accounting Change

During the year, Clay County adopted the provisions of Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures. These provisions modified the county's previous custodial risk disclosures for deposits and investments and related collateral. These provisions also added disclosures about other types of risk, including credit

risk, interest rate risk, foreign currency risk, and concentrations of credit risk. Governments are also required to provide brief disclosures about their deposit and investment policies that are related to any of the risks required to be disclosed.

C. Subsequent Event

On June 21, 2005, the County Commission approved a $2,000,000 public building authority loan to construct a new courthouse, renovate the county's community center, acquire a garbage truck and dumpsters, and improve the sanitation building. As of the date of this report, the county has not entered into an agreement with the public building authority for the loan.

D. Contingent Liabilities

Clay County and several other Tennessee counties have been named as defendants in a lawsuit demanding compliance with the requirements of the Americans with Disabilities Act (ADA). This lawsuit applies to all Clay County facilities. As of the date of this report, Clay County has not completed any studies of the estimated costs to renovate the existing county facilities to bring them into compliance with the ADA. Therefore, a reasonable estimate, or range of potential loss to the county, resulting from this lawsuit cannot be made.

The county is involved in several pending lawsuits. The county attorney estimates that the potential claims against the county not covered by insurance resulting from such litigation would not materially affect the county's financial statements.

E. Joint Ventures

The Tri-County Vocational School Board operates the Cooperative Vocational School, which is jointly owned by Clay, Jackson, and Macon Counties. The board comprises 17 members, 11 of whom are the three directors of schools, three county mayors, and five high school principals from Clay, Jackson, and Macon counties. The remaining six members are each appointed by the three county school boards and county commissions. Clay, Jackson, and Macon counties have control over budgeting and financing the joint venture only to the extent of representation by the six board members appointed. The counties are responsible for funding operations and any deficits from operations based on their participation in the joint venture, which is 24 percent (Clay), 30 percent (Jackson), and 46 percent (Macon); however, the counties do not retain an equity interest in the joint venture. Clay County contributed $53,152 to the operations of the board during the year. Complete financial statements for the Tri-County Vocational School can be obtained from its administrative offices:

Tri-County Vocational School
P.O. Box 214, Highway 151
Red Boiling Springs, TN 37150

F. Jointly Governed Organization

The Board of County Commissioners is responsible for appointing five of the nine board members of the Industrial Development Board of Clay County and Celina, Tennessee. The remaining four members are appointed by the City of Celina Board of Aldermen. However, the county's accountability for this organization does not extend beyond making the appointments.

G. Retirement Commitments

Plan Description

Employees of Clay County are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service, and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Clay County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at http://www.treasury.state.tn.us/tcrs/PS/.

Funding Policy

Clay County requires employees to contribute five percent of earnable compensation. The county is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2005, was 6.29 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Clay County is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2005, Clay County's annual pension cost of $131,689 to TCRS was equal to the county's required and actual contributions. The required contribution was determined as part of the July 1, 2003, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post-retirement increases of three percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Clay County's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2003, was 21 years.

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6-30-05	$131,689	100%	$0
6-30-04	106,141	100	0
6-30-03	98,450	100	0

Required Supplementary Information
Schedule of Funding Progress for Clay County

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6-30-03	$3,078	$3,352	$274	91.83%	$1,684	16.27%
6-30-01	2,693	3,005	312	89.62	1,566	19.92
6-30-99	2,242	2,465	223	90.95	1,430	15.59

H. Purchasing Laws

Office of County Mayor

Purchasing procedures for the Clay County Mayor's Office are governed by the County Purchasing Law of 1983, Section 5-14-201, Tennessee Code Annotated. This act provides for all purchases exceeding $5,000 (excluding emergency purchases) to be made based on competitive bids solicited through newspaper advertisement.

Office of Highway Superintendent

Chapter 565, Private Acts of 1951, as amended, and Section 54-7-113, Tennessee Code Annotated (Uniform Road Law), govern purchasing procedures for the Highway Department. Provisions of the Uniform Road Law require all purchases exceeding $10,000 to be made on the basis of publicly advertised competitive bids.

REQUIRED SUPPLEMENTARY INFORMATION

Exhibit D-1

Clay County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
General Fund
For the Year Ended June 30, 2005

	Actual	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Revenues				
Local Taxes	$ 1,629,731	$ 1,571,415	$ 1,571,415	$ 58,316
Licenses and Permits	2,204	1,700	1,700	504
Fines, Forfeitures and Penalties	29,256	27,865	27,865	1,391
Charges for Current Services	8,474	3,500	3,500	4,974
Other Local Revenues	48,528	18,900	41,717	6,811
Fees Received from County Officials	161,546	136,900	136,900	24,646
State of Tennessee	512,571	452,286	648,480	(135,909)
Federal Government	705,837	330,826	751,074	(45,237)
Total Revenues	$ 3,098,147	$ 2,543,392	$ 3,182,651	$ (84,504)
Expenditures				
General Government				
County Commission	$ 30,774	$ 31,906	$ 36,263	$ 5,489
Board of Equalization	1,050	1,000	1,000	(50)
Beer Board	48	275	275	227
County Mayor	104,576	104,776	106,448	1,872
County Attorney	3,600	3,600	3,600	0
Election Commission	76,766	81,584	81,584	4,818
Register of Deeds	49,681	50,691	50,691	1,010
County Buildings	72,136	68,633	72,713	577
Finance				
Property Assessor's Office	71,302	72,304	72,304	1,002
County Trustee's Office	8,499	8,653	8,653	154
County Clerk's Office	16,296	16,857	16,857	561
Administration of Justice				
Circuit Court	126,330	124,701	127,500	1,170
General Sessions Court	48,265	47,180	47,180	(1,085)
Chancery Court	46,443	46,901	46,901	458
Juvenile Court	10,723	11,258	11,258	535
Judicial Commissioners	9,557	9,257	9,557	0
Public Safety				
Sheriff's Department	490,503	462,702	491,218	715
Jail	94,180	49,029	93,269	(911)
Correctional Incentive Program Improvements	7,200	7,200	7,200	0
Fire Prevention and Control	84,534	20,000	61,671	(22,863)
Rescue Squad	2,500	2,500	2,500	0
Other Emergency Management	11,191	10,900	11,200	9
County Coroner/Medical Examiner	15,743	3,000	15,630	(113)
Public Health and Welfare				
Local Health Center	32,950	28,000	33,000	50
Ambulance/Emergency Medical Services	145,000	145,000	145,000	0
Crippled Children Services	700	700	700	0
Other Local Health Services	1,158	0	3,800	2,642

(Continued)

Exhibit D-1

Clay County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
General Fund (Cont.)

	Actual	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Expenditures (Cont.)				
Public Health and Welfare (Cont.)				
Appropriation to State	$ 10,600	$ 10,600	$ 10,600	$ 0
Social, Cultural and Recreational Services				
Senior Citizens Assistance	43,811	42,402	45,902	2,091
Libraries	47,852	48,874	48,874	1,022
Other Social, Cultural and Recreational	13,618	10,510	15,510	1,892
Agriculture & Natural Resources				
Agriculture Extension Service	61,680	62,097	62,097	417
Forest Service	0	1,000	1,000	1,000
Soil Conservation	33,603	34,258	34,258	655
Other Operations				
Tourism	6,605	6,799	6,799	194
Industrial Development	29,075	29,500	29,500	425
Other Economic and Community Development	862,040	431,913	1,059,161	197,121
Other Charges	91,839	98,500	98,500	6,661
Contributions to Other Agencies	53,772	43,236	54,652	880
Employee Benefits	162,548	148,575	163,835	1,287
Highways				
Litter and Trash Collection	44,680	42,289	42,289	(2,391)
Total Expenditures	$ 3,023,428	$ 2,419,160	$ 3,230,949	$ 207,521
Excess (Deficiency) of Revenues Over Expenditures	$ 74,719	$ 124,232	$ (48,298)	$ 123,017
Net Change in Fund Balance	$ 74,719	$ 124,232	$ (48,298)	$ 123,017
Fund Balance, July 1, 2004	907,848	657,527	657,527	250,321
Fund Balance, June 30, 2005	$ 982,567	$ 781,759	$ 609,229	$ 373,338

Exhibit D-2

Clay County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Solid Waste/Sanitation Fund
For the Year Ended June 30, 2005

	Actual	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Revenues				
Local Taxes	$ 330,468	$ 322,390	$ 322,390	$ 8,078
Charges for Current Services	66,905	72,000	72,000	(5,095)
Other Local Revenues	18,209	11,000	11,000	7,209
State of Tennessee	0	6,097	6,097	(6,097)
Total Revenues	$ 415,582	$ 411,487	$ 411,487	$ 4,095
Expenditures				
Public Health and Welfare				
Waste Pickup	$ 498,199	$ 416,254	$ 501,455	$ 3,256
Other Operations				
Other Charges	6,619	6,100	6,100	(519)
Total Expenditures	$ 504,818	$ 422,354	$ 507,555	$ 2,737
Excess (Deficiency) of Revenues Over Expenditures	$ (89,236)	$ (10,867)	$ (96,068)	$ 6,832
Net Change in Fund Balance	$ (89,236)	$ (10,867)	$ (96,068)	$ 6,832
Fund Balance, July 1, 2004	62,244	66,655	66,655	(4,411)
Fund Balance, June 30, 2005	$ (26,992)	$ 55,788	$ (29,413)	$ 2,421

Exhibit D-3

Clay County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Highway/Public Works Fund
For the Year Ended June 30, 2005

	Actual	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Revenues				
Local Taxes	$ 13,849	$ 21,185	$ 20,347	$ (6,498)
Other Local Revenues	33,359	1,500	1,500	31,859
State of Tennessee	1,443,114	1,453,326	1,453,326	(10,212)
Federal Government	56,899	0	0	56,899
Total Revenues	$ 1,547,221	$ 1,476,011	$ 1,475,173	$ 72,048
Expenditures				
Highways				
Administration	$ 90,777	$ 92,130	$ 93,630	$ 2,853
Highway and Bridge Maintenance	1,094,852	1,065,225	1,203,550	108,698
Operation and Maintenance of Equipment	148,905	157,650	174,900	25,995
Other Charges	86,270	91,400	91,400	5,130
Employee Benefits	59,503	54,960	63,360	3,857
Capital Outlay	112,282	120,000	120,000	7,718
Total Expenditures	$ 1,592,589	$ 1,581,365	$ 1,746,840	$ 154,251
Excess (Deficiency) of Revenues Over Expenditures	$ (45,368)	$ (105,354)	$ (271,667)	$ 226,299
Net Change in Fund Balance	$ (45,368)	$ (105,354)	$ (271,667)	$ 226,299
Fund Balance, July 1, 2004	758,626	381,906	381,906	376,720
Fund Balance, June 30, 2005	$ 713,258	$ 276,552	$ 110,239	$ 603,019

CLAY COUNTY, TENNESSEE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2005

A. BUDGETARY INFORMATION

The county is required by state statute to adopt annual budgets. Annual budgets are prepared on the basis in which current available funds must be sufficient to meet current expenditures. Expenditures and encumbrances may not legally exceed appropriations authorized by the County Commission and any authorized revisions. Unencumbered appropriations lapse at the end of each fiscal year.

The budgetary level of control is at the major category level established by the State Uniform Chart of Accounts, as prescribed by the Comptroller of the Treasury of the State of Tennessee. Major categories are at the department level (examples of General Fund major categories: County Commission, Board of Equalization, County Mayor, County Attorney, etc.). Management may make revisions within major categories, but only the governing body may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

The county's budgetary basis of accounting is consistent with generally accepted accounting principles (GAAP), except instances in which encumbrances are treated as budgeted expenditures. The difference between the budgetary basis and the GAAP basis is presented on the face of each budgetary statement.

B. FUND DEFICIT

The Solid Waste/Sanitation Fund (a special revenue fund) had a deficit fund balance of $26,992 as of June 30, 2005. This fund deficit resulted from expenditures exceeding available funds. This deficit was liquidated subsequent to June 30, 2005.

C. CASH OVERDRAFT

The Solid Waste/Sanitation Fund had a cash overdraft of $29,779 at June 30, 2005. This cash overdraft resulted from issuing warrants that exceeded cash on deposit with the county trustee. The cash overdraft was liquidated subsequent to June 30, 2005.

D. EXPENDITURES EXCEEDED APPROPRIATIONS

Expenditures and encumbrances exceeded appropriations approved by the County Commission in the following funds' major appropriation categories (the legal level of control):

Fund	Major Appropriation Category	Amount
General	Board of Equalization	$ 50
"	General Sessions Court	1,085
"	Jail	911

Fund (Cont.)	Major Appropriation Category	Amount
General	Fire Prevention and Control	$22,863
"	County Coroner/Medical Examiner	113
"	Litter and Trash Collection	2,391
Solid Waste/Sanitation	Other Charges	519

Such overexpenditures are a violation of state statutes. These overexpenditures were funded by available fund balance in the General Fund and by greater than anticipated revenues in the Solid Waste/Sanitation Fund.

E. ACTUAL FUND BALANCES EXCEEDED ESTIMATED BEGINNING FUND BALANCES BY MATERIAL AMOUNTS

The actual fund balances in the General Fund and the Highway/Public Works Fund exceeded the estimated fund balances at July 1, 2004, presented to the County Commission during the budget approval process.

Fund	Actual Fund Balance 7-1-04	Budgeted Fund Balance 7-1-04	Variance
General	$ 907,848	$ 657,527	$ 250,321
Highway/Public Works	758,626	381,906	376,720

F. APPROPRIATIONS EXCEEDED ESTIMATED AVAILABLE FUNDS

Appropriations of the Solid Waste/Sanitation Fund exceeded the estimated available funds by $29,413.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

Nonmajor Governmental Funds

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

Courthouse and Jail Maintenance Fund – The Courthouse and Jail Maintenance Fund is used to account for a special tax levied by private act on litigation and the recording of certain instruments. The proceeds of the tax must be used to pay for improvements or maintenance of the courthouse and jail.

Drug Control Fund – The Drug Control Fund is used to account for revenues received from drug-related fines, forfeitures, and seizures.

Constitutional Officers - Fees Fund – The Constitutional Officers - Fees Fund is used to account for operating expenses paid directly from the fee and commission accounts of the trustee, clerks, register, and sheriff.

Exhibit E-1

Clay County, Tennessee
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

	Special Revenue Funds			
	Courthouse and Jail Maintenance	Drug Control	Constitutional Officers - Fees	Total Nonmajor Governmental Funds
ASSETS				
Cash	$ 0	$ 0	$ 35,933	$ 35,933
Equity in Pooled Cash and Investments	9,627	11,049	0	20,676
Accounts Receivable	0	0	24	24
Total Assets	$ 9,627	$ 11,049	$ 35,957	$ 56,633
LIABILITIES AND FUND BALANCES				
Liabilities				
Due to Other Funds	$ 0	$ 0	$ 5,210	$ 5,210
Total Liabilities	$ 0	$ 0	$ 5,210	$ 5,210
Fund Balances				
Unreserved	$ 9,627	$ 11,049	$ 30,747	$ 51,423
Total Fund Balances	$ 9,627	$ 11,049	$ 30,747	$ 51,423
Total Liabilities and Fund Balances	$ 9,627	$ 11,049	$ 35,957	$ 56,633

Exhibit E-2

Clay County, Tennessee
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2005

	Special Revenue Funds			
	Courthouse and Jail Maintenance	Drug Control	Constitutional Officers - Fees	Total Nonmajor Governmental Funds
Revenues				
Local Taxes	$ 1,484	$ 0	$ 0	$ 1,484
Fines, Forfeitures and Penalties	0	14,908	0	14,908
Charges for Current Services	0	0	149,247	149,247
Other Local Revenues	0	2,108	0	2,108
Federal Government	0	2,755	0	2,755
Total Revenues	$ 1,484	$ 19,771	$ 149,247	$ 170,502
Expenditures				
Current:				
General Government	$ 1,299	$ 0	$ 0	$ 1,299
Finance	0	0	148,369	148,369
Administration of Justice	0	0	1,319	1,319
Public Safety	0	35,934	0	35,934
Other Operations	15	0	0	15
Total Expenditures	$ 1,314	$ 35,934	$ 149,688	$ 186,936
Excess (Deficiency) of Revenues Over Expenditures	$ 170	$ (16,163)	$ (441)	$ (16,434)
Net Change in Fund Balances	$ 170	$ (16,163)	$ (441)	$ (16,434)
Fund Balance, July 1, 2004	9,457	27,212	31,188	67,857
Fund Balance, June 30, 2005	$ 9,627	$ 11,049	$ 30,747	$ 51,423

Exhibit E-3

Clay County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Courthouse & Jail Maintenance Fund
For the Year Ended June 30, 2005

	Actual	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Revenues				
Local Taxes	$ 1,484	$ 1,550	$ 1,550	$ (66)
Total Revenues	$ 1,484	$ 1,550	$ 1,550	$ (66)
Expenditures				
General Government				
County Buildings	$ 1,299	$ 1,400	$ 1,400	$ 101
Other Operations				
Other Charges	15	20	20	5
Total Expenditures	$ 1,314	$ 1,420	$ 1,420	$ 106
Excess (Deficiency) of Revenues Over Expenditures	$ 170	$ 130	$ 130	$ 40
Net Change in Fund Balance	$ 170	$ 130	$ 130	$ 40
Fund Balance, July 1, 2004	9,457	9,547	9,547	(90)
Fund Balance, June 30, 2005	$ 9,627	$ 9,677	$ 9,677	$ (50)

Exhibit E-4

Clay County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Drug Control Fund
For the Year Ended June 30, 2005

	Actual	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Revenues				
Fines, Forfeitures and Penalties	$ 14,908	$ 17,400	$ 17,400	$ (2,492)
Other Local Revenues	2,108	3,700	3,700	(1,592)
Federal Government	2,755	0	2,755	0
Total Revenues	$ 19,771	$ 21,100	$ 23,855	$ (4,084)
Expenditures				
Public Safety				
Drug Enforcement	$ 35,934	$ 41,900	$ 44,655	$ 8,721
Total Expenditures	$ 35,934	$ 41,900	$ 44,655	$ 8,721
Excess (Deficiency) of Revenues Over Expenditures	$ (16,163)	$ (20,800)	$ (20,800)	$ 4,637
Net Change in Fund Balance	$ (16,163)	$ (20,800)	$ (20,800)	$ 4,637
Fund Balance, July 1, 2004	27,212	46,208	46,208	(18,996)
Fund Balance, June 30, 2005	$ 11,049	$ 25,408	$ 25,408	$ (14,359)

Major Governmental Fund

General Debt Service Fund

The General Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

Exhibit F

Clay County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
General Debt Service Fund
For the Year Ended June 30, 2005

	Actual	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Revenues				
Local Taxes	$ 65,329	$ 35,880	$ 35,880	$ 29,449
Other Local Revenues	104,013	87,000	87,000	17,013
Total Revenues	$ 169,342	$ 122,880	$ 122,880	$ 46,462
Expenditures				
Principal				
General Government	$ 16,329	$ 47,075	$ 46,022	$ 29,693
Interest				
General Government	994	4,310	4,363	3,369
Other Debt Service				
General Government	849	0	1,000	151
Education	0	200	200	200
Total Expenditures	$ 18,172	$ 51,585	$ 51,585	$ 33,413
Excess (Deficiency) of Revenues Over Expenditures	$ 151,170	$ 71,295	$ 71,295	$ 79,875
Net Change in Fund Balance	$ 151,170	$ 71,295	$ 71,295	$ 79,875
Fund Balance, July 1, 2004	397,356	433,308	433,308	(35,952)
Fund Balance, June 30, 2005	$ 548,526	$ 504,603	$ 504,603	$ 43,923

Fiduciary Funds

Agency Funds are used to account for assets held by the county in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Cities - Sales Tax Fund – The Cities - Sales Tax Fund is used to account for the second half of the sales tax revenues collected inside incorporated cities of the county. These revenues are received by the county from the State of Tennessee and forwarded to the various cities on a monthly basis.

Constitutional Officers - Agency Fund – The Constitutional Officers - Agency Fund is used to account for amounts collected in an agency capacity by the county clerk, circuit and general sessions courts clerk, clerk and master, register, and sheriff. Such collections include amounts due the state, cities, other county funds, litigants, heirs, and others.

Exhibit G-1

Clay County, Tennessee
Combining Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2005

	Agency Funds		
	Cities - Sales Tax	Constitutional Officers - Agency	Total
ASSETS			
Cash	$ 0	$ 454,083	$ 454,083
Due from Other Governments	52,332	0	52,332
Total Assets	$ 52,332	$ 454,083	$ 506,415
LIABILITIES			
Due to Other Taxing Units	$ 52,332	$ 0	$ 52,332
Due to Litigants, Heirs, and Others	0	454,083	454,083
Total Liabilities	$ 52,332	$ 454,083	$ 506,415

Exhibit G-2

Clay County, Tennessee
Combining Statement of Changes in Assets and Liabilities - All Agency Funds
For the Year Ended June 30, 2005

	Beginning Balance	Additions	Deductions	Ending Balance
Cities - Sales Tax Fund				
Assets				
Equity in Pooled Cash and Investments	$ 0	$ 264,637	$ 264,637	$ 0
Due From Other Governments	43,515	52,332	43,515	52,332
Total Assets	$ 43,515	$ 316,969	$ 308,152	$ 52,332
Liabilities				
Due to Other Taxing Units	$ 43,515	$ 316,969	$ 308,152	$ 52,332
Total Liabilities	$ 43,515	$ 316,969	$ 308,152	$ 52,332
Constitutional Officers - Agency Fund				
Assets				
Cash	$ 475,535	$ 4,468,519	$ 4,489,971	$ 454,083
Total Assets	$ 475,535	$ 4,468,519	$ 4,489,971	$ 454,083
Liabilities				
Due to Litigants, Heirs, and Others	$ 475,535	$ 4,468,519	$ 4,489,971	$ 454,083
Total Liabilities	$ 475,535	$ 4,468,519	$ 4,489,971	$ 454,083
Totals - All Agency Funds				
Assets				
Equity in Pooled Cash and Investments	$ 0	$ 264,637	$ 264,637	$ 0
Cash	475,535	4,468,519	4,489,971	454,083
Due From Other Governments	43,515	52,332	43,515	52,332
Total Assets	$ 519,050	$ 4,785,488	$ 4,798,123	$ 506,415
Liabilities				
Due to Other Taxing Units	$ 43,515	$ 316,969	$ 308,152	$ 52,332
Due to Litigants, Heirs, and Others	475,535	4,468,519	4,489,971	454,083
Total Liabilities	$ 519,050	$ 4,785,488	$ 4,798,123	$ 506,415

MISCELLANEOUS SCHEDULES

Exhibit H-1

Clay County, Tennessee
Schedule of Changes in Long-term Notes and Capital Leases
For the Year Ended June 30, 2005

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-04	Paid and/or Matured During Period	Outstanding 6-30-05
NOTE PAYABLE							
Payable through General Debt Service Fund							
Emergency Vehicles	$ 49,000	3%	12-20-02	12-20-05	$ 33,147	$ 16,329	$ 16,818
CAPITAL LEASE							
Payable through Solid Waste/Sanitation Fund							
Garbage Truck	149,750	6.36	11-13-00	7-6-06	$ 55,451	$ 19,979	$ 35,472

Exhibit H-2

Clay County, Tennessee
Schedule of Salaries and Official Bonds of Principal Officials
For the Year Ended June 30, 2005

Official	Authorization for Salary	Salary Paid During Period		Bond	Surety
County Mayor	Section 8-24-102, TCA	$ 49,051		$ 25,000	RLI Insurance Company
Highway Superintendent	Section 8-24-102, TCA	46,715		100,000	"
Trustee	Section 8-24-102, TCA	42,469		313,600	"
Assessor of Property	Section 8-24-102, TCA	42,469		10,000	"
County Clerk	Section 8-24-102, TCA	42,469		35,000	"
Circuit Court Clerk	Section 8-24-102, TCA and Circuit Court Judge	42,769	(1)	35,000	"
Clerk and Master	Section 8-24-102, TCA and Chancery Court Judge	43,788	(2)	40,000	U.S. Fidelity and Guaranty Company
Register	Section 8-24-102, TCA	42,469		15,000	RLI Insurance Company
Sheriff	Section 8-24-102, TCA	46,715		25,000	"
Employee Blanket Bond Coverage:					
General County Employees				150,000	Tennessee School Boards Risk Management Trust

(1) Includes traffic school compensation of $300.
(2) Includes special commissioner fees of $1,319.

Exhibit H-3

Clay County, Tennessee
Schedule of Detailed Revenues -
All Governmental Fund Types
For the Year Ended June 30, 2005

		Special Revenue Funds					Debt Service Fund	
	General	Courthouse and Jail Maintenance	Solid Waste / Sanitation	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	Total
Local Taxes								
County Property Taxes								
Current Property Tax	$ 785,743	$ 0	$ 307,125	$ 0	$ 0	$ 0	$ 28,600	$ 1,121,468
Trustee's Collections - Prior Year	37,263	0	12,204	0	0	0	0	49,467
Circuit/Clerk & Master Collections - Prior Years	8,684	0	3,824	0	0	0	0	12,508
Interest and Penalty	8,647	0	2,882	0	0	0	29	11,558
Payments in Lieu of Taxes - T.V.A.	38,970	0	0	0	0	0	0	38,970
Payments in Lieu of Taxes - Local Utilities	877	0	344	0	0	0	33	1,254
County Local Option Taxes								
Local Option Sales Tax	254,837	0	0	0	0	0	0	254,837
Wheel Tax	191,454	0	0	0	0	0	0	191,454
Litigation Tax - General	55,115	0	0	0	0	0	0	55,115
Litigation Tax - Special Purpose	0	1,484	0	0	0	0	7,449	8,933
Mineral Severance Tax	0	0	0	0	0	13,849	0	13,849
Other County Local Option Taxes	1,005	0	0	0	0	0	0	1,005
Statutory Local Taxes								
Bank Excise Tax	10,421	0	4,089	0	0	0	388	14,898
Wholesale Beer Tax	236,715	0	0	0	0	0	28,830	265,545
Total Local Taxes	$ 1,629,731	$ 1,484	$ 330,468	$ 0	$ 0	$ 13,849	$ 65,329	$ 2,040,861
Licenses and Permits								
Licenses								
Cable TV Franchise	$ 1,492	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 1,492
Permits								
Beer Permits	712	0	0	0	0	0	0	712
Total Licenses and Permits	$ 2,204	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 2,204
Fines, Forfeitures and Penalties								
Circuit Court								
Fines	$ 3,237	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 3,237
Officers Costs	335	0	0	0	0	0	0	335
Drug Control Fines	0	0	0	1,975	0	0	0	1,975
Data Entry Fee - Circuit Court	104	0	0	0	0	0	0	104

(Continued)

Exhibit H-3

Clay County, Tennessee
Schedule of Detailed Revenues -
All Governmental Fund Types (Cont.)

		Special Revenue Funds					Debt Service Fund	
	General	Courthouse and Jail Maintenance	Solid Waste / Sanitation	Drug Control	Constitu-tional Officers - Fees	Highway / Public Works	General Debt Service	Total
Fines, Forfeitures and Penalties (Cont.)								
General Sessions Court								
Fines	$ 7,183	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 7,183
Officers Costs	13,560	0	0	0	0	0	0	13,560
Drug Control Fines	0	0	0	4,596	0	0	0	4,596
Drug Court Fees	277	0	0	0	0	0	0	277
DUI Treatment Fines	2,356	0	0	0	0	0	0	2,356
Data Entry Fee - General Sessions Court	1,218	0	0	0	0	0	0	1,218
Juvenile Court								
Fines	936	0	0	0	0	0	0	936
Chancery Court								
Data Entry Fee - Chancery Court	50	0	0	0	0	0	0	50
Judicial District Drug Program								
Drug Task Force Forfeitures and Seizures	0	0	0	691	0	0	0	691
Other Fines, Forfeitures, and Penalties								
Proceeds from Confiscated Property	0	0	0	7,646	0	0	0	7,646
Total Fines, Forfeitures and Penalties	$ 29,256	$ 0	$ 0	$ 14,908	$ 0	$ 0	$ 0	$ 44,164
Charges for Current Services								
General Service Charges								
Tipping Fees	$ 0	$ 0	$ 66,905	$ 0	$ 0	$ 0	$ 0	$ 66,905
Work Release Charges for Board	3,320	0	0	0	0	0	0	3,320
Fees								
Constitutional Officers' Fees and Commissions	0	0	0	0	147,928	0	0	147,928
Special Commissioner Fees/Special Master Fees	0	0	0	0	1,319	0	0	1,319
Data Processing Fee - Register	4,794	0	0	0	0	0	0	4,794
Sexual Offender Registration Fee	360	0	0	0	0	0	0	360
Total Charges for Current Services	$ 8,474	$ 0	$ 66,905	$ 0	$ 149,247	$ 0	$ 0	$ 224,626
Other Local Revenues								
Recurring Items								
Investment Income	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 104,013	$ 104,013
Lease/Rentals	19,500	0	0	0	0	0	0	19,500
Sale of Recycled Materials	0	0	13,709	0	0	0	0	13,709

(Continued)

Exhibit H-3

Clay County, Tennessee
Schedule of Detailed Revenues -
All Governmental Fund Types (Cont.)

		Special Revenue Funds					Debt Service Fund	
	General	Courthouse and Jail Maintenance	Solid Waste / Sanitation	Drug Control	Constitu-tional Officers - Fees	Highway / Public Works	General Debt Service	Total
Other Local Revenues (Cont.)								
Recurring Items (Cont.)								
Miscellaneous Refunds	$ 5,228	$ 0	$ 0	$ 8	$ 0	$ 125	$ 0	$ 5,361
Nonrecurring Items								
Insurance Recovery	0	0	0	350	0	7,924	0	8,274
Sale of Equipment	0	0	4,500	0	0	25,310	0	29,810
Damages Recovered from Individuals	400	0	0	0	0	0	0	400
Contributions & Gifts	0	0	0	1,750	0	0	0	1,750
Other Local Revenues								
Other Local Revenues	23,400	0	0	0	0	0	0	23,400
Total Other Local Revenues	$ 48,528	$ 0	$ 18,209	$ 2,108	$ 0	$ 33,359	$ 104,013	$ 206,217
Fees Received from County Officials								
Excess Fees								
County Clerk	$ 31,672	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 31,672
Trustee	27,203	0	0	0	0	0	0	27,203
Fees In Lieu of Salary								
Circuit Court Clerk	14,827	0	0	0	0	0	0	14,827
General Sessions Court Clerk	32,780	0	0	0	0	0	0	32,780
Clerk and Master	23,109	0	0	0	0	0	0	23,109
Register	30,644	0	0	0	0	0	0	30,644
Sheriff	1,311	0	0	0	0	0	0	1,311
Total Fees Received from County Officials	$ 161,546	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 161,546
State of Tennessee								
General Government Grants								
Juvenile Services Program	$ 9,000	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 9,000
Aging Programs	11,766	0	0	0	0	0	0	11,766
State Reappraisal Grant	3,457	0	0	0	0	0	0	3,457
Solid Waste Grants	148,779	0	0	0	0	0	0	148,779
Public Safety Grants								
Law Enforcement Training Programs	5,587	0	0	0	0	0	0	5,587
Public Works Grants								
State Aid Program	0	0	0	0	0	137,805	0	137,805

(Continued)

Exhibit H-3

Clay County, Tennessee
Schedule of Detailed Revenues -
All Governmental Fund Types (Cont.)

		Special Revenue Funds					Debt Service Fund	
	General	Courthouse and Jail Maintenance	Solid Waste / Sanitation	Drug Control	Constitu-tional Officers - Fees	Highway / Public Works	General Debt Service	Total
State of Tennessee (Cont.)								
Public Works Grants (Cont.)								
Litter Program	$ 36,351	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 36,351
Other State Revenues								
Income Tax	1,569	0	0	0	0	0	0	1,569
Beer Tax	16,778	0	0	0	0	0	0	16,778
Alcoholic Beverage Tax	13,683	0	0	0	0	0	0	13,683
State Revenue Sharing - T.V.A.	159,258	0	0	0	0	0	0	159,258
Contracted Prisoner Boarding	82,513	0	0	0	0	0	0	82,513
Gasoline and Motor Fuel Tax	0	0	0	0	0	1,298,893	0	1,298,893
Petroleum Special Tax	0	0	0	0	0	6,416	0	6,416
Registrar's Salary Supplement	16,380	0	0	0	0	0	0	16,380
Other State Grants	1,200	0	0	0	0	0	0	1,200
Other State Revenues	6,250	0	0	0	0	0	0	6,250
Total State of Tennessee	$ 512,571	$ 0	$ 0	$ 0	$ 0	$ 1,443,114	$ 0	$ 1,955,685
Federal Government								
Federal Through State								
Community Development	$ 646,782	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 646,782
Medicaid	200	0	0	0	0	0	0	200
Other Federal through State	38,614	0	0	0	0	56,899	0	95,513
Direct Federal Revenue								
Police Service (Lake Area)	20,241	0	0	0	0	0	0	20,241
Other Direct Federal Revenue	0	0	0	2,755	0	0	0	2,755
Total Federal Government	$ 705,837	$ 0	$ 0	$ 2,755	$ 0	$ 56,899	$ 0	$ 765,491
Total	$ 3,098,147	$ 1,484	$ 415,582	$ 19,771	$ 149,247	$ 1,547,221	$ 169,342	$ 5,400,794

Exhibit H-4

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
For the Year Ended June 30, 2005

General Fund				
General Government				
County Commission				
Board and Committee Members Fees	$	23,359		
Other Per Diem & Fees		1,900		
Audit Services		1,875		
Consultants		528		
Contracts with Government Agencies		1,055		
Dues and Memberships		950		
Legal Services		1,107		
Total County Commission			$	30,774
Board of Equalization				
Board and Committee Members Fees	$	1,050		
Total Board of Equalization				1,050
Beer Board				
Legal Notices, Recording and Court Costs	$	48		
Total Beer Board				48
County Mayor				
County Official/Administrative Officer	$	49,051		
Accountants/Bookkeepers		22,558		
Clerical Personnel		15,318		
Communication		2,718		
Data Processing Services		4,294		
Dues and Memberships		917		
Legal Notices, Recording and Court Costs		1,000		
Maintenance Agreements		560		
Postal Charges		994		
Printing, Stationery and Forms		291		
Travel		5,000		
Office Supplies		1,300		
Premiums on Corporate Surety Bonds		75		
Office Equipment		500		
Total County Mayor				104,576
County Attorney				
County Official/Administrative Officer	$	3,600		
Total County Attorney				3,600
Election Commission				
County Official/Administrative Officer	$	33,975		

(Continued)

Exhibit H-4

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)				
General Government (Cont.)				
Election Commission (Cont.)				
Other Salaries & Wages	$	11,005		
Election Commission		4,879		
Election Workers		8,689		
In-Service Training		1,776		
Communication		1,383		
Legal Notices, Recording and Court Costs		477		
Maintenance & Repair Services- Buildings		264		
Maintenance & Repair Services- Equipment		1,350		
Postal Charges		26		
Printing, Stationery and Forms		3,666		
Travel		690		
Office Supplies		601		
Office Equipment		7,985		
Total Election Commission			$	76,766
Register of Deeds				
County Official/Administrative Officer	$	42,469		
Communication		888		
Data Processing Services		3,000		
Dues and Memberships		257		
Maintenance Agreements		1,116		
Postal Charges		204		
Printing, Stationery and Forms		979		
Office Supplies		212		
Premiums on Corporate Surety Bonds		75		
Office Equipment		481		
Total Register of Deeds				49,681
County Buildings				
Custodial Personnel	$	37,407		
Maintenance & Repair Services- Buildings		10,830		
Maintenance & Repair Services- Vehicles		1,334		
Custodial Supplies		2,918		
Electricity		14,578		
Gasoline		558		
Natural Gas		2,556		
Water and Sewer		1,955		
Total County Buildings				72,136

(Continued)

Exhibit H-4

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)				
Finance				
Property Assessor's Office				
County Official/Administrative Officer	$	42,469		
Deputy(ies)		18,200		
In-Service Training		386		
Communication		1,264		
Contracts with Private Agencies		4,226		
Data Processing Services		1,427		
Dues and Memberships		250		
Legal Notices, Recording and Court Costs		75		
Postal Charges		660		
Printing, Stationery and Forms		346		
Travel		635		
Office Supplies		1,098		
Premiums on Corporate Surety Bonds		266		
Total Property Assessor's Office			$	71,302
County Trustee's Office				
Data Processing Services	$	3,296		
Dues and Memberships		257		
Legal Notices, Recording and Court Costs		123		
Postal Charges		1,827		
Printing, Stationery and Forms		1,000		
Office Supplies		796		
Premiums on Corporate Surety Bonds		1,200		
Total County Trustee's Office				8,499
County Clerk's Office				
Communication	$	1,738		
Dues and Memberships		257		
Postal Charges		1,900		
Rentals		7,800		
Electricity		1,154		
Office Supplies		2,347		
Premiums on Corporate Surety Bonds		100		
Office Equipment		1,000		
Total County Clerk's Office				16,296
Administration of Justice				
Circuit Court				
County Official/Administrative Officer	$	42,469		
Deputy(ies)		22,837		

(Continued)

Exhibit H-4

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)				
Administration of Justice (Cont.)				
Circuit Court (Cont.)				
Clerical Personnel	$	35,438		
Other Salaries & Wages		1,125		
Jury and Witness Fees		5,806		
Communication		2,388		
Data Processing Services		7,132		
Dues and Memberships		257		
Legal Notices, Recording and Court Costs		424		
Postal Charges		1,006		
Printing, Stationery and Forms		1,500		
Office Supplies		2,000		
Premiums on Corporate Surety Bonds		150		
Data Processing Equipment		3,298		
Office Equipment		500		
Total Circuit Court			$	126,330
General Sessions Court				
Judge(s)	$	48,265		
Total General Sessions Court				48,265
Chancery Court				
County Official/Administrative Officer	$	42,469		
Communication		1,089		
Data Processing Services		599		
Dues and Memberships		257		
Postal Charges		322		
Office Supplies		1,707		
Total Chancery Court				46,443
Juvenile Court				
Supervisor/Director	$	9,200		
Social Security		619		
Unemployment Compensation		154		
Other Contracted Services		750		
Total Juvenile Court				10,723
Judicial Commissioners				
County Official/Administrative Officer	$	9,257		
Other Salaries & Wages		300		
Total Judicial Commissioners				9,557

(Continued)

Exhibit H-4

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)			
Public Safety			
Sheriff's Department			
County Official/Administrative Officer	$ 46,715		
Assistant(s)	22,992		
Deputy(ies)	208,562		
Accountants/Bookkeepers	9,857		
Dispatchers/Radio Operators	81,423		
Cafeteria Personnel	22,215		
Other Salaries & Wages	20,016		
In-Service Training	4,122		
Communication	6,700		
Evaluation and Testing	600		
Legal Notices, Recording and Court Costs	33		
Maintenance & Repair Services- Equipment	4,334		
Maintenance & Repair Services- Vehicles	16,832		
Postal Charges	595		
Travel	3,063		
Gasoline	30,648		
Office Supplies	3,193		
Tires and Tubes	3,241		
Uniforms	4,664		
Premiums on Corporate Surety Bonds	698		
Total Sheriff's Department		$	490,503
Jail			
Maintenance & Repair Services- Buildings	$ 7,799		
Custodial Supplies	1,797		
Drugs and Medical Supplies	45,195		
Electricity	11,515		
Food Preparation Supplies	2,055		
Food Supplies	25,080		
Water and Sewer	739		
Total Jail			94,180
Correctional Incentive Program Improvements			
Other Equipment	$ 7,200		
Total Correctional Incentive Program Improvements			7,200
Fire Prevention and Control			
Contributions	$ 23,056		
Other Capital Outlay	61,478		
Total Fire Prevention and Control			84,534

(Continued)

Exhibit H-4

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)		
Public Safety (Cont.)		
Rescue Squad		
Contributions	$ 2,500	
Total Rescue Squad		$ 2,500
Other Emergency Management		
Maintenance & Repair Services- Equipment	$ 8,400	
Road Signs	2,791	
Total Other Emergency Management		11,191
County Coroner/Medical Examiner		
Other Per Diem & Fees	$ 15,743	
Total County Coroner/Medical Examiner		15,743
Public Health and Welfare		
Local Health Center		
Other Salaries & Wages	$ 3,600	
Communication	3,600	
Maintenance & Repair Services- Buildings	7,200	
Postal Charges	2,000	
Custodial Supplies	1,000	
Drugs and Medical Supplies	750	
Office Supplies	1,300	
Utilities	13,500	
Total Local Health Center		32,950
Ambulance/Emergency Medical Services		
Other Contracted Services	$ 145,000	
Total Ambulance/Emergency Medical Services		145,000
Crippled Children Services		
Other Contracted Services	$ 700	
Total Crippled Children Services		700
Other Local Health Services		
Other Salaries & Wages	$ 708	
Social Security	258	
Travel	192	
Total Other Local Health Services		1,158
Appropriation to State		
Other Contracted Services	$ 10,600	
Total Appropriation to State		10,600

(Continued)

Exhibit H-4

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)			
Social, Cultural and Recreational Services			
Senior Citizens Assistance			
Supervisor/Director	$ 15,858		
Social Security	1,213		
Unemployment Compensation	154		
Communication	873		
Postal Charges	37		
Travel	227		
Utilities	25,322		
Other Supplies and Materials	127		
Total Senior Citizens Assistance		$	43,811
Libraries			
Supervisor/Director	$ 18,401		
Other Salaries & Wages	13,781		
In-Service Training	113		
Communication	1,670		
Dues and Memberships	235		
Postal Charges	799		
Travel	250		
Custodial Supplies	510		
Electricity	4,643		
Library Books/Media	3,833		
Office Supplies	2,003		
Water and Sewer	614		
Office Equipment	1,000		
Total Libraries			47,852
Other Social, Cultural and Recreational			
Contributions	$ 13,618		
Total Other Social, Cultural and Recreational			13,618
Agriculture & Natural Resources			
Agriculture Extension Service			
Salary Supplements	$ 42,491		
Social Security	6,838		
Extension Service Medicare	179		
Communication	2,502		
Contributions	5,460		
Travel	1,710		
Data Processing Equipment	2,500		
Total Agriculture Extension Service			61,680

(Continued)

Exhibit H-4

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)				
Agriculture & Natural Resources (Cont.)				
Soil Conservation				
Secretary(s)	$	16,186		
Other Salaries & Wages		15,009		
Communication		965		
Utilities		1,443		
Total Soil Conservation			$	33,603
Other Operations				
Tourism				
Clerical Personnel	$	4,224		
Communication		2,167		
Postal Charges		214		
Total Tourism				6,605
Industrial Development				
Consultants	$	24,000		
Travel		2,462		
Other Charges		2,613		
Total Industrial Development				29,075
Other Economic and Community Development				
Other Charges	$	2,972		
Other Construction		420,249		
Other Capital Outlay		438,819		
Total Other Economic and Community Development				862,040
Other Charges				
Liability Insurance	$	53,968		
Trustee's Commission		22,685		
Other Charges		15,186		
Total Other Charges				91,839
Contributions to Other Agencies				
Contracts with Government Agencies	$	53,152		
Other Charges		620		
Total Contributions to Other Agencies				53,772
Employee Benefits				
Social Security	$	89,561		
State Retirement		63,404		
Unemployment Compensation		9,583		
Total Employee Benefits				162,548

(Continued)

Exhibit H-4

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)			
Highways			
Litter and Trash Collection			
Supervisor/Director	$ 23,191		
Laborers	21,189		
Other Charges	300		
Total Litter and Trash Collection		$ 44,680	
Total General Fund			$ 3,023,428
Courthouse & Jail Maintenance Fund			
General Government			
County Buildings			
Maintenance & Repair Services- Buildings	$ 1,299		
Total County Buildings		$ 1,299	
Other Operations			
Other Charges			
Trustee's Commission	$ 15		
Total Other Charges		15	
Total Courthouse & Jail Maintenance Fund			1,314
Solid Waste/Sanitation Fund			
Public Health and Welfare			
Waste Pickup			
Truck Drivers	$ 57,958		
Laborers	71,766		
Social Security	9,912		
Unemployment Compensation	2,475		
Communication	637		
Contracts with Private Agencies	202,508		
Maintenance & Repair Services- Buildings	5,196		
Maintenance & Repair Services- Vehicles	24,459		
Rentals	1,356		
Custodial Supplies	813		
Electricity	5,155		
Gasoline	24,025		
Tires and Tubes	5,819		
Water and Sewer	1,547		
Other Charges	1,409		
Principal on Capitalized Leases	19,979		
Interest on Capitalized Leases	2,331		

(Continued)

Exhibit H-4

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

Solid Waste/Sanitation Fund (Cont.)			
Public Health and Welfare (Cont.)			
Waste Pickup (Cont.)			
Site Development	$ 20,690		
Solid Waste Equipment	40,164		
Total Waste Pickup		$ 498,199	
Other Operations			
Other Charges			
Trustee's Commission	$ 6,619		
Total Other Charges		6,619	
Total Solid Waste/Sanitation Fund			$ 504,818
Drug Control Fund			
Public Safety			
Drug Enforcement			
Contributions	$ 2,629		
Confidential Drug Enforcement Payments	5,500		
Other Supplies and Materials	2,667		
Other Charges	2,500		
Law Enforcement Equipment	9,616		
Motor Vehicles	13,022		
Total Drug Enforcement		$ 35,934	
Total Drug Control Fund			35,934
Constitutional Officers - Fees Fund			
Finance			
County Trustee's Office			
County Official/Administrative Officer	$ 42,469		
Deputy(ies)	25,416		
Constitutional Officers' Operating Expenses	1,009		
Total County Trustee's Office		$ 68,894	
County Clerk's Office			
County Official/Administrative Officer	$ 42,469		
Deputy(ies)	36,644		
Constitutional Officers' Operating Expenses	362		
Total County Clerk's Office		79,475	

(Continued)

Exhibit H-4

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

Constitutional Officers - Fees Fund (Cont.)			
Administration of Justice			
Chancery Court			
Special Commissioner Fees/Special Master Fees	$ 1,319		
Total Chancery Court		$ 1,319	
Total Constitutional Officers - Fees Fund			$ 149,688
Highway/Public Works Fund			
Highways			
Administration			
County Official/Administrative Officer	$ 46,715		
Accountants/Bookkeepers	26,525		
Advertising	636		
Communication	1,136		
Consultants	857		
Data Processing Services	3,769		
Dues and Memberships	1,622		
Legal Notices, Recording and Court Costs	36		
Postal Charges	300		
Other Contracted Services	6,762		
Other Charges	1,700		
Administration Equipment	419		
Data Processing Equipment	300		
Total Administration		$ 90,777	
Highway and Bridge Maintenance			
Equipment Operators	$ 100,826		
Truck Drivers	106,684		
Laborers	148,264		
Evaluation and Testing	10,633		
Rentals	1,021		
Asphalt - Hot Mix	297,958		
Asphalt - Liquid	146,972		
Concrete	2,270		
Crushed Stone	188,712		
General Construction Materials	252		
Pipe	16,303		
Road Signs	988		
Salt	4,101		
Structural Steel	904		
Wood Products	2,494		
Other Supplies and Materials	1,297		

(Continued)

Exhibit H-4

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

Highway/Public Works Fund (Cont.)			
Highways (Cont.)			
Highway and Bridge Maintenance (Cont.)			
Other Charges	$ 421		
Other Construction	64,752		
Total Highway and Bridge Maintenance		$ 1,094,852	
Operation and Maintenance of Equipment			
Mechanic(s)	$ 42,933		
Maintenance & Repair Services- Equipment	2,959		
Other Contracted Services	40		
Diesel Fuel	40,229		
Equipment and Machinery Parts	28,073		
Gasoline	11,523		
Lubricants	4,543		
Natural Gas	1,345		
Small Tools	635		
Tires and Tubes	15,487		
Other Supplies and Materials	763		
Other Charges	375		
Total Operation and Maintenance of Equipment		148,905	
Other Charges			
Electricity	$ 2,436		
Water and Sewer	500		
Premiums on Corporate Surety Bonds	289		
Trustee's Commission	13,008		
Vehicle and Equipment Insurance	15,924		
Workers' Compensation Insurance	52,501		
Other Charges	1,612		
Total Other Charges		86,270	
Employee Benefits			
Social Security	$ 28,025		
State Retirement	17,605		
Unemployment Compensation	7,017		
Employer Medicare	6,856		
Total Employee Benefits		59,503	
Capital Outlay			
Highway Equipment	$ 112,282		
Total Capital Outlay		112,282	
Total Highway/Public Works Fund			$ 1,592,589

(Continued)

Exhibit H-4

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Debt Service Fund			
Principal			
General Government			
Principal on Notes	$ 16,329		
Total General Government		$ 16,329	
Interest			
General Government			
Interest on Notes	$ 994		
Total General Government		994	
Other Debt Service			
General Government			
Trustee's Commission	$ 849		
Total General Government		849	
Total General Debt Service Fund			$ 18,172
Total Governmental Funds - Primary Government			$ 5,325,943

Exhibit H-5

Clay County, Tennessee
Schedule of Detailed Receipts, Disbursements,
and Changes in Cash Balance - City Agency Fund
For the Year Ended June 30, 2005

	Cities - Sales Tax Fund
Cash Receipts	
Local Option Sales Tax	$ 264,637
Total Cash Receipts	$ 264,637
Cash Disbursements	
Remittance of Revenues Collected	$ 261,991
Trustee's Commission	2,646
Total Cash Disbursements	$ 264,637
Excess of Cash Receipts Over (Under) Cash Disbursements	$ 0
Cash Balance, July 1, 2004	0
Cash Balance, June 30, 2005	$ 0

STATISTICAL SECTION

Table 1

Clay County, Tennessee
Uncollected Taxes Filed in Chancery Court
June 30, 2005

Year	Amount
1994	$ 801
1995	1,111
1996	1,423
1997	1,877
1998	1,474
1999	5,523
2000	6,929
2001	7,225
2002	21,156
2003	36,360
Total	$ 83,879

Table 2

Clay County, Tennessee
Tax Rates and Assessments
Last Ten Years

Fund	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
General	$ 1.20	$ 1.93	$ 1.26	$ 1.16	$ 1.45	$ 1.23	$ 1.20	$ 1.20	$ 1.16	$ 1.07
Solid Waste/Sanitation	0.00	0.00	0.50	0.45	0.35	0.11	0.28	0.34	0.38	0.42
General Purpose School	1.72	1.80	1.66	1.66	1.46	1.36	1.36	1.36	1.36	1.36
General Debt Service	0.00	0.20	0.18	0.13	0.13	0.08	0.06	0.00	0.00	0.04
Total Tax Rate	$ 2.92	$ 3.93	$ 3.60	$ 3.40	$ 3.39	$ 2.78	$ 2.90	$ 2.90	$ 2.90	$ 2.89
Assessed Valuations										
Real and Personal	$ 43,693,883	$ 44,309,943	$ 48,378,398	$ 50,486,496	$ 51,811,777	$ 64,962,819	$ 69,287,812	$ 70,454,082	$ 71,085,766	$ 72,470,701
Public Utilities	4,818,091	4,654,310	5,591,040	5,783,556	4,479,517	5,805,360	6,009,916	6,294,570	5,971,084	6,261,689
Total Assessed Valuation	$ 48,511,974	$ 48,964,253	$ 53,969,438	$ 56,270,052	$ 56,291,294	$ 70,768,179	$ 75,297,728	$ 76,748,652	$ 77,056,850	$ 78,732,390

ANNUAL FINANCIAL REPORT

CLAY COUNTY SCHOOL DEPARTMENT

A COMPONENT UNIT OF CLAY COUNTY, TENNESSEE

FOR THE YEAR ENDED JUNE 30, 2005

DEPARTMENT OF AUDIT
JOHN G. MORGAN
Comptroller of the Treasury

DIVISION OF COUNTY AUDIT
RICHARD V. NORMENT
Assistant to the Comptroller

ARTHUR L. ALEXANDER
Director

CARL LOWE, CGFM
Audit Manager

ANITA SCARLETT, CPA
Auditor 4

CHRISTY N. TENNANT, CPA
KELLEY J. McNEAL, CPA, CGFM
State Auditors

This financial report is available at www.comptroller.state.tn.us

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Audit Highlights

Annual Financial Report
Clay County School Department
For the Year Ended June 30, 2005

Scope

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Clay County School Department as of and for the year ended June 30, 2005.

Results

Our report on the Clay County School Department's financial statements was unqualified.

Our audit resulted in four findings and recommendations, which we have reviewed with Clay County School Department's management. Detailed findings and recommendations are included in the Single Audit Report.

Findings

The following is a summary of the audit findings:

- The actual fund balance in the General Purpose School Fund at July 1, 2004, exceeded the estimated fund balance by $613,296.
- School Department officials did not maintain adequate controls over inventory. Assets were not always tagged or marked as school property. Some assets that were tagged were not identified by the tag number on the inventory lists, and no procedures were in place to ensure new assets were added to the inventory lists or that the lists were verified by personnel independent of maintaining inventory records.
- Officials had not adopted a central system of accounting, budgeting, and purchasing.
- Duties were not segregated adequately among the official and employees at the School Department.

State of Tennessee
Comptroller of the Treasury
Department of Audit
Division of County Audit

INTRODUCTORY SECTION

Clay County School Officials
June 30, 2005

Official:

Alan West, Director of Schools

Board of Education:

John C. Donaldson, Chairman
Susan Bailey
Elizabeth Boles
Russell Cherry
Robert Cox
Patricia Hatcher
Terry Meadows
David Ogletree
Richard Roberts
Harold Wix

FINANCIAL SECTION

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0269
PHONE (615) 401-7841

INDEPENDENT AUDITOR'S REPORT

November 8, 2005

Clay County Director of Schools and
Board of Education
Clay County, Tennessee

To the Director of Schools and Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Clay County School Department, a component unit of Clay County, Tennessee, as of and for the year ended June 30, 2005, which collectively comprise the Clay County School Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Clay County School Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the auditing 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Clay County School Department as of June 30, 2005, and the respective changes in financial position 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 November 8, 2005, on our consideration of the Clay County School Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 and should be considered in assessing the results of our audit.

As described in Note V.B., the Clay County School Department has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. For the first time, the financial statements include government-wide financial statements.

As described in Note V.B., the Clay County School Department has implemented GASB Statement No. 40, Deposit and Investment Risk Disclosures, which modifies the School Department's disclosures for custodial credit risk and adds disclosures about other types of risk.

The management of the Clay County School Department did not prepare the management's discussion and analysis. The management's discussion and analysis section is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

The budgetary comparison information on pages 35 through 37 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Clay County School Department's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds, and miscellaneous schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds, and the

miscellaneous schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Very truly yours,

John G. Morgan
Comptroller of the Treasury

JGM/sb

BASIC FINANCIAL STATEMENTS

Exhibit A

Clay County, Tennessee
Statement of Net Assets
Clay County School Department
June 30, 2005

		Governmental Activities
ASSETS		
Equity in Pool Cash and Investments	$	2,129,997
Cash		1,248
Due from Other Governments		136,311
Property Taxes Receivable		1,076,906
Allowance for Uncollectible Property Taxes		(30,094)
Assets Not Depreciated:		
Land		338,698
Assets Net of Accumulated Depreciation:		
Buildings and Improvements		8,179,562
Infrastructure		554,260
Other Capital Assets		578,771
Total Assets	$	12,965,659
LIABILITIES		
Deferred Revenue - Current Property Taxes	$	970,875
Noncurrent Liabilities:		
Due Within One Year		186,000
Due In More Than One Year		7,742,000
Total Liabilities	$	8,898,875
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$	1,723,291
Restricted for:		
Other Purposes		1,398,001
Unrestricted		945,492
Total Net Assets	$	4,066,784

The notes to the financial statements are an integral part of this statement.

Exhibit B

Clay County, Tennessee
Statement of Activities
Clay County School Department
For the Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets: Total Governmental Activities
Governmental Activities:				
Instruction	$ 5,516,133	$ 34,235	$ 1,082,450	$ (4,399,448)
Support Services	2,542,045	0	0	(2,542,045)
Operation of Non-Instructional Services	594,270	131,934	408,465	(53,871)
Other Debt Service	189,988	0	0	(189,988)
Total Governmental Activities	$ 8,842,436	$ 166,169	$ 1,490,915	$ (7,185,352)
General Revenues:				
Taxes:				
Property taxes levied for general purposes				$ 1,073,525
Local option sales tax				547,848
Other local taxes				1,662
Grants & Contributions not restricted for specific programs				5,456,515
Interest Income				2,227
Miscellaneous				211,714
Sale of Land/Equipment				930
Total General Revenues				$ 7,294,421
Change in net assets				$ 109,069
Net assets, July 1, 2004				3,957,715
Net assets, June 30, 2005				$ 4,066,784

The notes to the financial statements are an integral part of this statement.

Exhibit C-1

Clay County, Tennessee
Balance Sheet - Governmental Funds
Clay County School Department
June 30, 2005

	Major Funds		Nonmajor Funds	
	General Purpose School	Education Capital Projects	Other Govern-mental Funds	Total Govern-mental Funds
ASSETS				
Cash	$ 0	$ 0	$ 1,248	$ 1,248
Equity in Pooled Cash and Investments	1,813,584	128,218	188,195	2,129,997
Due from Other Governments	133,224	0	3,087	136,311
Due from Other Funds	128,218	0	0	128,218
Property Taxes Receivable	1,076,906	0	0	1,076,906
Allowance for Uncollectible Property Taxes	(30,094)	0	0	(30,094)
Total Assets	$ 3,121,838	$ 128,218	$ 192,530	$ 3,442,586
LIABILITIES AND FUND BALANCES				
Liabilities				
Due to Other Funds	$ 0	$ 128,218	$ 0	$ 128,218
Deferred Revenue - Current Property Taxes	970,875	0	0	970,875
Deferred Revenue - Delinquent Property Taxes	75,937	0	0	75,937
Other Deferred Revenues	59,503	0	0	59,503
Total Liabilities	$ 1,106,315	$ 128,218	$ 0	$ 1,234,533
Fund Balances				
Reserved for Career Ladder - Extended Contract	$ 12,110	$ 0	$ 0	$ 12,110
Reserved for Career Ladder Program	1,130	0	0	1,130
Reserved for Basic Education Program	1,332,352	0	0	1,332,352
Reserved for Title I Grants to Local Education Agencies	0	0	27,160	27,160
Reserved for Innovative Education Program Strategies	0	0	10,079	10,079
Reserved for Special Education - Grants to States	0	0	12,957	12,957
Other Federal Reserves	0	0	2,213	2,213
Unreserved, Reported In:				
General Fund	669,931	0	0	669,931
Special Revenue Funds	0	0	140,121	140,121
Total Fund Balances	$ 2,015,523	$ 0	$ 192,530	$ 2,208,053
Total Liabilities and Fund Balances	$ 3,121,838	$ 128,218	$ 192,530	$ 3,442,586

The notes to the financial statements are an integral part of this statement.

Exhibit C-2

Clay County, Tennessee
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
Clay County School Department
June 30, 2005

Amounts reported for governmental activities in the statement of net assets are different because (Exhibit A):

Total fund balances - balance sheet - governmental funds (Exhibit C-1)	$ 2,208,053
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	9,651,291
(2) Long-term liabilities are not due in the current period and therefore are not reported in the funds.	(7,928,000)
(3) Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	135,440
Net assets of governmental activities (Exhibit A)	$ 4,066,784

The notes to the financial statements are an integral part of this statement.

Exhibit D-1

Clay County, Tennessee
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
Clay County School Department
For the Year Ended June 30, 2005

	Major Funds		Nonmajor Funds	
	General Purpose School	Education Capital Projects	Other Govern-mental Funds	Total Governmental Funds
Revenues				
Local Taxes	$ 1,606,186	$ 0	$ 0	$ 1,606,186
Licenses and Permits	1,034	0	0	1,034
Charges for Current Services	31,928	0	131,934	163,862
Other Local Revenues	51,042	156,622	11,844	219,508
State of Tennessee	5,727,410	0	0	5,727,410
Federal Government	94,213	0	1,076,022	1,170,235
Total Revenues	$ 7,511,813	$ 156,622	$ 1,219,800	$ 8,888,235
Expenditures				
Current:				
Instruction	$ 4,582,900	$ 0	$ 512,810	$ 5,095,710
Support Services	2,372,331	0	199,770	2,572,101
Operation of Non-Instructional Services	95,859	0	462,292	558,151
Capital Outlay	66,595	0	0	66,595
Debt Service:				
Principal	180,000	0	0	180,000
Interest	160,460	0	0	160,460
Other Debt Service	29,528	0	0	29,528
Capital Projects	0	117,172	0	117,172
Total Expenditures	$ 7,487,673	$ 117,172	$ 1,174,872	$ 8,779,717
Excess (Deficiency) of Revenues Over Expenditures	$ 24,140	$ 39,450	$ 44,928	$ 108,518
Other Financing Sources (Uses)				
Transfers In	$ 168,557	$ 0	$ 0	$ 168,557
Transfers Out	0	(128,218)	(40,339)	(168,557)
Total Other Financing Sources (Uses)	$ 168,557	$ (128,218)	$ (40,339)	$ 0
Net Change in Fund Balances	$ 192,697	$ (88,768)	$ 4,589	$ 108,518
Fund Balance, July 1, 2004	1,822,826	88,768	187,941	2,099,535
Fund Balance, June 30, 2005	$ 2,015,523	$ 0	$ 192,530	$ 2,208,053

The notes to the financial statements are an integral part of this statement.

Exhibit D-2

Clay County, Tennessee
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Clay County School Department
For the Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities (Exhibit B) are different because:

Net change in fund balances - total governmental funds (Exhibit D-1)	$	108,518
(1) 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. This is the amount by which capital outlays was less than depreciation in the current period.		(209,200)
(2) Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		29,751
(3) The issuance of long-term debt (e.g., bonds, notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		180,000
Change in net assets of governmental activities (Exhibit B)	$	109,069

The notes to the financial statements are an integral part of this statement.

CLAY COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF CLAY COUNTY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Clay County School Department's financial statements are presented in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments.

The following are the more significant accounting policies of the School Department:

A. Reporting Entity

The Clay County School Department operates the public school system in the county, and the voters of Clay County elect its board. The School Department is fiscally dependent on the county because it may not issue debt without county approval, and its budget and property tax levy are subject to the Clay County Commission's approval. The School Department's taxes are levied under the taxing authority of the county and are included as part of the county's total tax levy.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the School Department. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities, which rely to a significant extent on fees and charges, are required to be reported separately from governmental activities in government-wide financial statements. However, the School Department does not have any business-type activities to report.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

C. 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund financial statements of the School Department are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. However, the School Department has no proprietary or fiduciary funds to report. An emphasis is placed on major funds within the governmental category. The major individual governmental funds are reported as separate columns in the fund financial statements. All other governmental funds are aggregated into a single column on the fund financial statements.

Governmental fund financial statements 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 available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School Department considers revenues other than grants to be available if they are collected within 30 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and the revenues are available. The School Department considers grant and similar revenues to be available if they are collected within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Principal and interest on long-term debt are recognized as fund liabilities when due or when amounts have been accumulated in the General Purpose School Fund for payments to be made early in the following year.

In-lieu-of tax payments, sales taxes, interest, and miscellaneous taxes are all considered to be susceptible to accrual and have been recognized as revenues of the current period. Property taxes collected within 30 days after year-end are considered to be immaterial for reporting purposes. Applicable business taxes, litigation taxes, state-shared excise taxes, fines, forfeitures, and penalties are not susceptible to accrual since they are not measurable (reasonably estimable). All other revenue items are considered to be measurable and available only when the School Department receives cash.

The School Department reports the following major governmental funds:

General Purpose School Fund – This is the primary operating fund of the School Department. It is used to account for general operations of the School Department.

Education Capital Projects Fund – This fund is used to account for construction projects of the School Department.

Additionally, the School Department reports the following fund type:

Special Revenue Funds – These funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted revenues first, them unrestricted resources as they become available.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

State statutes authorize the counties to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; the county's own legally issued bonds or notes; the State Treasurer's Investment Pool; and repurchase agreements.

The county trustee maintains a cash and internal investment pool that is used by all funds of Clay County, the primary government, and the School Department. Each fund's portion of this pool is displayed on the balance sheets or statements of net assets as Equity in Pooled Cash and Investments. Most income from these pooled investments is assigned to the Clay County General Debt Service Fund. Clay County and the School Department have adopted a policy of reporting U.S. Treasury obligations, U.S. agency obligations, and repurchase agreements with maturities of one year or less when purchased on the balance sheet at amortized cost. Certificates of deposit and investments in the State Treasurer's Investment Pool are reported at cost. The State Treasurer's Investment Pool is not registered with the

Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows SEC-registered mutual funds to use amortized cost rather than fair value to report net assets to compute share prices if certain conditions are met. State statutes require the state treasurer to administer the pool under the same terms and conditions, including collateral requirements, as prescribed for other funds invested by the state treasurer. All other investments are reported at fair value. No investments required to be reported at fair value were held at the balance sheet date.

2. Receivables and Payables

All property taxes receivable are shown with an allowance for uncollectibles. The allowance for uncollectible property taxes is equal to 1.47 percent of total taxes levied.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Property taxes receivable are recognized as of the date an enforceable legal claim to the taxable property arises. This date is January 1 and is referred to as the lien date. However, revenues from property taxes are recognized in the period for which the taxes are levied, which is the ensuing fiscal year. Since the receivable is recognized before the period of revenue recognition, the entire amount of the receivable, less an estimated allowance for uncollectible taxes, is reported as deferred revenue as of June 30.

Property taxes receivable are also reported as of June 30 for the taxes that are levied, collected, and reported as revenue during the current fiscal year. These property taxes receivable are presented on the balance sheet with offsetting deferred revenue to reflect amounts not available as of June 30. Property taxes collected within 30 days of year-end are not material for financial reporting purposes and are thus not accrued. The allowance for uncollectible taxes represents the estimated amount of the receivable that will be filed in court for collection. Delinquent taxes filed in court for collection are not included in taxes receivable since they are neither measurable nor available.

Property taxes are levied as of the first Monday in October. Taxes become delinquent and begin accumulating interest and penalty the following March 1. Suit must be filed in Chancery Court between the following February 1 to April 1 for any remaining unpaid taxes.

Additional costs attach to delinquent taxes after a court suit has been filed.

3. Capital Assets

Governmental funds do not capitalize the cost of capital outlays; these funds report capital outlays as expenditures upon acquisition.

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of $10,000 or more and an estimated useful life of more than five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, equipment, and infrastructure of the School Department are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and Improvements	20-40
Other Capital Assets	5-15
Infrastructure	20-40

4. Compensated Absences

The general policy of the School Department does not allow for the accumulation of vacation days beyond year-end. All professional personnel (teachers) of the School Department are allowed to accumulate unlimited sick leave days. The granting of sick leave has no guaranteed payment attached, and therefore, is not required to be accrued or recorded.

5. 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 activities statement of net assets.

In the fund financial statements, governmental funds recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Only the matured portion (the portion that has come due for payment) of long-term indebtedness, including bonds payable, is recognized as a liability and expenditure in the governmental fund financial statements. Liabilities and expenditures for other long-term obligations, including compensated absences are recognized to the extent that the liabilities have matured (come due for payment) each period.

6. Net Assets and Fund Equity

In the government-wide financial statements, equity is classified as net assets and displayed in three components:

a. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.
c. Unrestricted net assets – All other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

Exhibit C-2 presents a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that

reconciliation explains that long-term liabilities, including debt payable, are not due and payable in the current period and therefore are not reported in the funds. The $7,928,000 adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities is the long-term liability for other loans payable.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

Exhibit D-2 presents a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that 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. The details of this $209,200 difference are as follows:

Capital outlay	$ 116,359
Depreciation expense	(325,559)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	$ (209,200)

Another element of that reconciliation states that the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The $180,000 difference is for principal repayments on other loans payable.

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Expenditures Exceeded Appropriations

Expenditures exceeded appropriations in the Regular Instruction Program ($5,028) and the Other Debt Service – Education ($29,528) major appropriation categories (the legal level of control) of the General Purpose School Fund. Such overexpenditures are a violation of state statutes. These overexpenditures were funded by available fund balance.

B. The Actual Fund Balance Exceeded the Estimated Beginning Fund Balance by a Material Amount

The actual fund balance and reserves in the General Purpose School Fund was $1,822,826 at July 1, 2004; however, the estimated fund balance and reserves reflected in the School Department's budget was $1,209,530. Therefore, the actual fund balance and reserves was $613,296 more than the estimated fund balance and reserves presented to the County Commission during the budget approval process.

IV. DETAILED NOTES ON ALL FUNS

A. Deposits and Investments

Clay County and the School Department participate in an internal cash and investment pool through the Office of Trustee. The county trustee is the treasurer of the county and in this capacity is responsible for receiving, disbursing, and investing most county funds. Each fund's portion of this pool is displayed on the balance sheets or statements of net assets as Equity in Pooled Cash and Investments. Cash and Investments reflected on the balance sheets or statements of net assets represent nonpooled amounts held separately by individual funds.

Deposits

Legal Provisions. All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Public fund accounts covered by the pool are considered to be insured for purposes of custodial credit risk exposure.

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the county.

Investments

Legal Provisions. Counties are authorized to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; and the county's own legally issued bonds or notes. These investments may not have a maturity greater than two years. The county may make investments with longer maturities if various restrictions set out in state law are followed. Counties are also authorized to make investments in the State Treasurer's Investment Pool and in repurchase agreements.

Repurchase agreements must be approved by the state director of Local Finance and executed in accordance with procedures established by the State Funding Board. Securities purchased under a repurchase agreement must be obligations of the U.S. government or obligations guaranteed by the U.S. government or any of its agencies. When repurchase agreements are executed, the purchase of the securities must be priced at least two percent below the market value of the securities on the day of purchase.

The School Department had no pooled and nonpooled investments at June 30, 2005.

B. Capital Assets

Capital asset activity for the year ended June 30, 2005, was as follows:

Governmental Activities:

	Balance 7-1-04	Increases	Decreases	Balance 6-30-05
Capital Assets Not Depreciated:				
Land	$ 338,698	$ 0	$ 0	$ 338,698
Total Capital Assets Not Depreciated	$ 338,698	$ 0	$ 0	$ 338,698
Capital Assets Depreciated:				
Buildings and Improvements	$ 10,678,816	$ 0	$ 0	$ 10,678,816
Infrastructure	648,860	0	0	648,860
Other Capital Assets	1,228,287	116,356	(190,020)	1,154,623
Total Capital Assets Depreciated	$ 12,555,963	$ 116,356	$ (190,020)	$ 12,482,299
Less Accumulated Depreciated For:				
Buildings and Improvements	$ 2,261,344	$ 237,910	$ 0	$ 2,499,254
Infrastructure	72,480	22,120	0	94,600
Other Capital Assets	700,346	65,526	(190,020)	575,852
Total Accumulated Depreciation	$ 3,034,170	$ 325,556	$ (190,020)	$ 3,169,706

Governmental Activities: (Cont.)

	Balance 7-1-04	Increases	Decreases	Balance 6-30-05
Total Capital Assets Depreciated, Net	$ 9,521,793	$ (209,200)	$ 0	$ 9,312,593
Governmental Activities Capital Assets, Net	$ 9,860,491	$ (209,200)	$ 0	$ 9,651,291

Depreciation expense was charged to functions of the School Department as follows:

Governmental Activities:	
Instruction	$ 237,910
Support Services	85,049
Operation of Non-Instructional Services	2,600
Total Depreciation Expense - Governmental Activities	$ 325,559

C. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2005, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Purpose School	Education Capital Projects	$ 128,218

This balance resulted from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur and payments between funds are made.

Interfund Transfers:

Interfund transfers for the year ended June 30, 2005, consisted of the following amounts:

Transfers Out	Transfers In General Purpose School Fund
Education Capital Projects	$ 128,218
Nonmajor governmental funds	40,339
Total	$ 168,557

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them in accordance with budgetary authorizations.

The School Department made a $128,218 one-time transfer of unexpended debt proceeds from the Education Capital Projects Fund to the General Purpose School Fund to retire the debt.

D. Long-term Debt

Other Loans

The county issues other loans to provide for the acquisition and construction of major capital facilities.

Other loans are direct obligations and pledge the full faith and credit of the government. Other loans were issued for original terms of up to 29 years. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All other loans included in long-term debt as of June 30, 2005, will be retired from the General Purpose School Fund.

Other loans outstanding as of June 30, 2005, are as follows:

Type	Interest Rate	Original Amount of Issue	Balance 6-30-05
Other Loans	Variable	$ 8,400,000	$ 7,928,000

In prior years, Clay County entered into loan agreements with the Montgomery County Public Building Authority. Under these loan agreements, the authority loaned $6,900,000 and $1,500,000 to Clay County for construction of the high school and the high school athletic facilities. These loans are repayable at an interest rate that is a tax-exempt variable rate determined by the remarketing agent daily or weekly, depending on the particular program. In addition, the School Department pays various other

fees (trustee fees, letter of credit fees, and debt remarketing fees) in connection with these loans. At June 30, 2005, the variable interest rate was 2.18 percent, and other fees amounted to approximately .25 percent (letter of credit fee) and .08 percent (remarketing fee) of the outstanding loan principal, in addition to a trustee fee of $1,200 annually.

The annual requirements to amortize all other loans outstanding as of June 30, 2005, including interest payments and other fees, are presented in the following table:

Year Ending June 30	Other Loan ($6,900,000) Principal	Interest	Other Fees	Total
2006	$ 151,000	$ 141,591	$ 22,634	$ 315,225
2007	157,000	138,299	22,135	317,434
2008	163,000	134,877	21,618	319,495
2009	169,000	131,323	21,079	321,402
2010	175,000	127,639	20,522	323,161
2011-2015	981,000	577,917	93,483	1,652,400
2016-2020	1,181,000	462,618	76,031	1,719,649
2021-2025	1,423,000	323,708	55,002	1,801,710
2026-2030	1,713,000	156,394	29,677	1,899,071
2031	382,000	8,328	2,361	392,689
Total	$ 6,495,000	$ 2,202,694	$ 364,542	$ 9,062,236

Year Ending June 30	Other Loan ($1,500,000) Principal	Interest	Other Fees	Total
2006	$ 35,000	$ 31,239	$ 5,929	$ 72,168
2007	36,000	30,476	5,813	72,289
2008	38,000	29,692	5,695	73,387
2009	39,000	28,863	5,569	73,432
2010	40,000	28,013	5,441	73,454
2011-2015	224,000	126,265	25,115	375,380
2016-2020	263,000	100,193	21,168	384,361
2021-2025	310,000	69,541	16,526	396,067
2026-2030	367,000	33,331	11,046	411,377
2031	81,000	1,766	1,368	84,134
Total	$ 1,433,000	$ 479,379	$ 103,670	$ 2,016,049

Total debt per capita amounted to $994, based on the 2000 federal census.

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

Governmental Activities:

	Other Loans
Balance, July 1, 2004	$ 8,108,000
Deductions	(180,000)
Balance, June 30, 2005	$ 7,928,000
Balance Due Within One Year	$ 186,000

Analysis of Noncurrent Liabilities Presented on Exhibit A:

Total Noncurrent Liabilities, June 30, 2005	$ 7,928,000
Less: Balance Due Within One Year	(186,000)
Noncurrent Liabilities - Due In More Than One Year - Exhibit A	$ 7,742,000

V. OTHER INFORMATION

A. Risk Management

The School Department is exposed to various risks related to general liability, property, casualty, and workers' compensation losses. The School Department decided it was more economically feasible to join a public entity risk pool as opposed to purchasing commercial insurance for general liability, property, casualty, and workers' compensation coverage. The School Department joined the Tennessee School Boards Risk Management Trust (TSB-RMT), which is a public entity risk pool established by an association of member school boards. The School Department pays annual premiums to the TSB-RMT for its general liability, property, casualty, and workers' compensation insurance coverage. The creation of TSB-RMT provides for it to be self-sustaining through member premiums.

The School Department provides health insurance to its employees through the Local Government Group Insurance (LGGIF), a public entity risk pool established to provide a program of health insurance coverage for employees of local governments and quasi-governmental entities that were established for the primary purpose of providing services for or on behalf of state and local governments. In accordance with Section 8-27-207, Tennessee Code Annotated, all local governments and quasi-governmental entities described above are eligible to participate. The LGGIF is included in the Comprehensive Annual Report of the State of Tennessee, but the state does

not retain any risk for losses by this fund. The state statute provides for the LGGIF to be self-sustaining through member premiums.

B. Accounting Changes

At the beginning of the year, the School Department implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. In the prior year, the School Department had only elected to implement the provisions of Statement 34 that related to the fund financial statements.

During the year, the School Department adopted the provisions of Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures. These provisions modified the School Department's previous custodial risk disclosures for deposits and investments and related collateral. These provisions also added disclosures about other types of risk, including credit risk, interest rate risk, foreign currency risk, and concentrations of credit risk. Governments are also required to provide brief disclosures about their deposit and investment policies that are related to any of the risks required to be disclosed.

C. Subsequent Event

Alan West left the Office of Director of Schools on June 30, 2005, and was succeeded by Dr. Doug Young on July 1, 2005.

D. Contingent Liabilities

The School Department attorney advised that the School Department is not involved in any pending lawsuits.

E. Retirement Commitments

Plan Description

Employees of Clay County, including the School Department, are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become

vested after five years of service, and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Clay County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at http://www.treasury.state.tn.us/tcrs/PS/.

Since the School Department participates in Clay County's plan, retirement information for the School Department is not available separately from the retirement information provided for the county. Complete disclosure for the county's participation in the TCRS is described in footnote IV.G. of the Annual Financial Report of Clay County, Tennessee.

SCHOOL TEACHERS

Plan Description

The School Department contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979, are vested after five years of service. Members joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. A cost of living adjustment (COLA) is provided

to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at http://www.treasury.state.tn.us/tcrs/Schools/.

Funding Policy

Most teachers are required by state statute to contribute five percent of their salaries to the plan. The employer contribution rate for the School Department is established at an actuarially determined rate. The employer rate for the fiscal year ended June 30, 2005, was 5.5 percent of annual covered payroll. The employer contribution requirement for the School Department is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ended June 30, 2005, 2004, and 2003, were $236,829, $138,058, and $124,312, respectively, equal to the required contributions for each year.

F. Purchasing Law

Purchasing procedures for the School Department are governed by purchasing laws applicable to schools as set forth in Section 49-2-203, Tennessee Code Annotated, which provides for the county Board of Education, through its executive committee (director of schools and chairman of the Board of Education), to make all purchases. This statute also requires competitive bids to be solicited through newspaper advertisement on all purchases exceeding $5,000.

REQUIRED SUPPLEMENTARY INFORMATION

Exhibit E

Clay County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Clay County School Department
General Purpose School Fund
For the Year Ended June 30, 2005

	Actual	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Revenues				
Local Taxes	$ 1,606,186	$ 1,562,230	$ 1,562,230	$ 43,956
Licenses and Permits	1,034	1,300	1,300	(266)
Charges for Current Services	31,928	21,400	21,400	10,528
Other Local Revenues	51,042	30,500	36,900	14,142
State of Tennessee	5,727,410	5,742,160	5,747,160	(19,750)
Federal Government	94,213	175,065	175,065	(80,852)
Total Revenues	$ 7,511,813	$ 7,532,655	$ 7,544,055	$ (32,242)
Expenditures				
Instruction				
Regular Instruction Program	$ 3,545,115	$ 3,662,220	$ 3,722,220	$ 177,105
Alternative Instruction Program	91,759	95,195	96,105	4,346
Special Education Program	574,417	588,870	595,370	20,953
Vocational Education Program	299,901	279,335	306,780	6,879
Adult Education Program	71,708	77,935	77,935	6,227
Support Services				
Attendance	56,858	60,155	63,155	6,297
Health Services	40,930	41,870	41,870	940
Other Student Support	136,042	136,620	136,620	578
Regular Instruction Program	266,203	257,975	261,175	(5,028)
Special Education Program	97,943	100,535	100,535	2,592
Adult Programs	16,882	18,835	18,835	1,953
Board of Education	124,577	128,280	135,535	10,958
Director of Schools	100,271	97,415	103,737	3,466
Office of the Principal	240,728	241,325	241,325	597
Fiscal Services	49,479	50,385	50,385	906
Operation of Plant	639,809	673,530	689,530	49,721
Maintenance of Plant	92,815	83,830	92,830	15
Transportation	509,794	497,120	520,915	11,121
Operation of Non-Instructional Services				
Food Service	54,388	54,430	54,430	42
Community Services	41,471	46,335	46,335	4,864
Capital Outlay				
Regular Capital Outlay	66,595	120,000	120,000	53,405
Principal				
Education	180,000	211,000	211,000	31,000
Interest				
Education	160,460	378,115	378,115	217,655
Other Debt Service				
Education	29,528	0	0	(29,528)
Total Expenditures	$ 7,487,673	$ 7,901,310	$ 8,064,737	$ 577,064

(Continued)

Exhibit E

Clay County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Clay County School Department
General Purpose School Fund (Cont.)

	Actual	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Excess (Deficiency) of Revenues Over Expenditures	$ 24,140	$ (368,655)	$ (520,682)	$ 544,822
Other Financing Sources (Uses)				
Transfers In	$ 168,557	$ 35,500	$ 35,500	$ 133,057
Total Other Financing Sources (Uses)	$ 168,557	$ 35,500	$ 35,500	$ 133,057
Net Change in Fund Balance	$ 192,697	$ (333,155)	$ (485,182)	$ 677,879
Fund Balance, July 1, 2004	1,822,826	1,209,530	1,209,530	613,296
Fund Balance, June 30, 2005	$ 2,015,523	$ 876,375	$ 724,348	$ 1,291,175

CLAY COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF CLAY COUNTY, TENNESSEE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2005

A. BUDGETARY INFORMATION

The School Department is required by state statute to adopt annual budgets. Annual budgets are prepared on the basis in which current available funds must be sufficient to meet current expenditures. Expenditures and encumbrances may not legally exceed appropriations authorized by the Clay County Commission and any authorized revisions. Unencumbered appropriations lapse at the end of each fiscal year.

The budgetary level of control is at the major category level established by the State Uniform Chart of Accounts, as prescribed by the Comptroller of the Treasury of the State of Tennessee. Major categories are at the department level (examples of General Purpose School Fund major categories: Regular Instruction Program, Special Education Program, Board of Education, Director of Schools, etc.). Management may make revisions within major categories, but only the Clay County Commission may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

The School Department's budgetary basis of accounting is consistent with generally accepted accounting principles (GAAP), except instances in which encumbrances are treated as budgeted expenditures. The difference between the budgetary basis and the GAAP basis is presented on the face of each budgetary statement.

B. EXPENDITURES EXCEEDED APPROPRIATIONS

Expenditures exceeded appropriations approved by the Clay County Commission in the Regular Instruction Program ($5,028) and the Other Debt Service - Education ($29,528) major appropriation categories (the legal level of control) of the General Purpose School Fund. Such overexpenditures are a violation of state statutes. These overexpenditures were funded by available fund balance.

C. THE ACTUAL FUND BALANCE EXCEEDED THE ESTIMATED BEGINNING FUND BALANCE AND RESERVES BY A MATERIAL AMOUNT

The actual fund balance and reserves in the General Purpose School Fund was $1,822,826 at July 1, 2004; however, the estimated fund balance and reserves reflected in the county's budget was $1,209,530. Therefore, the actual fund balance and reserves were $613,296 more than the estimated fund balance and reserves presented to the Clay County Commission during the budget approval process.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

Nonmajor Governmental Funds

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

School Federal Projects Fund – The School Federal Projects Fund is used to account for restricted federal revenues which must be expended on specific education programs.

Central Cafeteria Fund – The Central Cafeteria Fund is used to account for the cafeteria operations in each of the schools.

Exhibit F-1

Clay County, Tennessee
Combining Balance Sheet - Nonmajor Governmental Funds
Clay County School Department
June 30, 2005

	Special Revenue Funds		
	School Federal Projects	Central Cafeteria	Total Nonmajor Governmental Funds
ASSETS			
Cash	$ 0	$ 1,248	$ 1,248
Equity in Pooled Cash and Investments	52,409	135,786	188,195
Due from Other Governments	0	3,087	3,087
Total Assets	$ 52,409	$ 140,121	$ 192,530
FUND BALANCES			
Reserved for Title I Grants to Local Education Agencies	$ 27,160	$ 0	$ 27,160
Reserved for Innovative Education Program Strategies	10,079	0	10,079
Reserved for Special Education - Grants to States	12,957	0	12,957
Other Federal Reserves	2,213	0	2,213
Unreserved	0	140,121	140,121
Total Fund Balances	$ 52,409	$ 140,121	$ 192,530

Exhibit F-2

Clay County, Tennessee
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Nonmajor Governmental Funds
Clay County School Department
For the Year Ended June 30, 2005

	Special Revenue Funds		
	School Federal Projects	Central Cafeteria	Total Nonmajor Governmental Funds
Revenues			
Charges for Current Services	$ 0	$ 131,934	$ 131,934
Other Local Revenues	0	11,844	11,844
Federal Government	708,331	367,691	1,076,022
Total Revenues	$ 708,331	$ 511,469	$ 1,219,800
Expenditures			
Current:			
Instruction	$ 512,810	$ 0	$ 512,810
Support Services	199,770	0	199,770
Operation of Non-Instructional Services	0	462,292	462,292
Total Expenditures	$ 712,580	$ 462,292	$ 1,174,872
Excess (Deficiency) of Revenues Over Expenditures	$ (4,249)	$ 49,177	$ 44,928
Other Financing Sources (Uses)			
Transfers Out	$ (9,491)	$ (30,848)	$ (40,339)
Total Other Financing Sources (Uses)	$ (9,491)	$ (30,848)	$ (40,339)
Net Change in Fund Balances	$ (13,740)	$ 18,329	$ 4,589
Fund Balance, July 1, 2004	66,149	121,792	187,941
Fund Balance, June 30, 2005	$ 52,409	$ 140,121	$ 192,530

Exhibit F-3

Clay County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Clay County School Department
School Federal Projects Fund
For the Year Ended June 30, 2005

	Actual	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Revenues				
Federal Government	$ 708,331	$ 946,168	$ 996,738	$ (288,407)
Total Revenues	$ 708,331	$ 946,168	$ 996,738	$ (288,407)
Expenditures				
Instruction				
Regular Instruction Program	$ 318,962	$ 426,635	$ 452,677	$ 133,715
Special Education Program	161,209	187,445	190,559	29,350
Vocational Education Program	32,639	30,784	32,848	209
Support Services				
Regular Instruction Program	120,769	200,848	222,262	101,493
Special Education Program	66,662	71,479	71,479	4,817
Vocational Education Program	1,346	3,200	1,136	(210)
Transportation	10,993	13,523	13,523	2,530
Total Expenditures	$ 712,580	$ 933,914	$ 984,484	$ 271,904
Excess (Deficiency) of Revenues Over Expenditures	$ (4,249)	$ 12,254	$ 12,254	$ (16,503)
Other Financing Sources (Uses)				
Transfers Out	$ (9,491)	$ (12,254)	$ (12,254)	$ 2,763
Total Other Financing Sources (Uses)	$ (9,491)	$ (12,254)	$ (12,254)	$ 2,763
Net Change in Fund Balance	$ (13,740)	$ 0	$ 0	$ (13,740)
Fund Balance, July 1, 2004	66,149	0	0	66,149
Fund Balance, June 30, 2005	$ 52,409	$ 0	$ 0	$ 52,409

Exhibit F-4

Clay County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Clay County School Department
Central Cafeteria Fund
For the Year Ended June 30, 2005

	Actual	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Revenues				
Charges for Current Services	$ 131,934	$ 127,900	$ 127,900	$ 4,034
Other Local Revenues	11,844	3,330	3,330	8,514
Federal Government	367,691	352,200	352,200	15,491
Total Revenues	$ 511,469	$ 483,430	$ 483,430	$ 28,039
Expenditures				
Operation of Non-Instructional Services				
Food Service	$ 462,292	$ 521,194	$ 528,444	$ 66,152
Total Expenditures	$ 462,292	$ 521,194	$ 528,444	$ 66,152
Excess (Deficiency) of Revenues Over Expenditures	$ 49,177	$ (37,764)	$ (45,014)	$ 94,191
Other Financing Sources (Uses)				
Transfers Out	$ (30,848)	$ (30,848)	$ (30,848)	$ 0
Total Other Financing Sources (Uses)	$ (30,848)	$ (30,848)	$ (30,848)	$ 0
Net Change in Fund Balance	$ 18,329	$ (68,612)	$ (75,862)	$ 94,191
Fund Balance, July 1, 2004	121,792	119,736	119,736	2,056
Fund Balance, June 30, 2005	$ 140,121	$ 51,124	$ 43,874	$ 96,247

MISCELLANEOUS SCHEDULES

Exhibit G-1

Clay County, Tennessee
Schedule of Changes in Other Loans
Clay County School Department
For the Year Ended June 30, 2005

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-04	Paid and/or Matured During Period	Outstanding 6-30-05
OTHER LOANS PAYABLE							
Public Building Authority Loan Agreement							
Payable through General Purpose School Fund							
School Construction	$ 6,900,000	variable	6-28-02	5-25-31	$ 6,641,000	$ 146,000	$ 6,495,000
Athletic Facility	1,500,000	variable	9-29-03	5-25-31	1,467,000	34,000	1,433,000
Total Other Loans Payable					$ 8,108,000	$ 180,000	$ 7,928,000

Exhibit G-2

Clay County, Tennessee
Schedule of Transfers - All Funds
Clay County School Department
For the Year Ended June 30, 2005

From Fund	To Fund	Purpose	Amount
School Federal Projects	General Purpose School	Indirect costs	$ 9,491
Central Cafeteria	General Purpose School	Supervisor's salary reimbursement	30,848
Education Capital Projects	General Purpose School	To retire debt	128,218
Total Transfers			$ 168,557

Exhibit G-3

Clay County, Tennessee
Schedule of Salaries and Official Bonds of Principal Officials
Clay County School Department
For the Year Ended June 30, 2005

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
Director of Schools	State Board of Education and Clay County Board of Education	$ 64,240 (1)	$ 50,000	RLI Insurance Company
Employee Blanket Bond Coverage:				
School Department Employees			150,000	Tennessee School Boards Risk Management Trust

(1) Includes chief executive officer training supplement of $1,000.

Exhibit G-4

Clay County, Tennessee
Schedule of Detailed Revenues -
All Governmental Fund Types
Clay County School Department
For the Year Ended June 30, 2005

	General Purpose School	School Federal Projects	Central Cafeteria	Education Capital Projects	Total
Local Taxes					
County Property Taxes					
Current Property Tax	$ 997,884	$ 0	$ 0	$ 0	$ 997,884
Trustee's Collections - Prior Year	43,691	0	0	0	43,691
Circuit/Clerk & Master Collections - Prior Years	13,517	0	0	0	13,517
Interest and Penalty	10,215	0	0	0	10,215
County Local Option Taxes					
Local Option Sales Tax	526,330	0	0	0	526,330
Statutory Local Taxes					
Bank Excise Tax	13,243	0	0	0	13,243
Interstate Telecommunications Tax	1,306	0	0	0	1,306
Total Local Taxes	$ 1,606,186	$ 0	$ 0	$ 0	$ 1,606,186
Licenses and Permits					
Licenses					
Marriage Licenses	$ 693	$ 0	$ 0	$ 0	$ 693
Permits					
Other Permits	341	0	0	0	341
Total Licenses and Permits	$ 1,034	$ 0	$ 0	$ 0	$ 1,034
Charges for Current Services					
Education Charges					
Lunch Payments - Children	$ 0	$ 0	$ 76,861	$ 0	$ 76,861
Lunch Payments - Adults	0	0	24,211	0	24,211
Income from Breakfast	0	0	6,877	0	6,877
Special Milk Sales	0	0	1,373	0	1,373
A la carte Sales	0	0	22,612	0	22,612
Receipts from Individual Schools	23,435	0	0	0	23,435
TBI Criminal Background Fee	2,544	0	0	0	2,544
Other Charges for Services					
Other Charges for Services	5,949	0	0	0	5,949
Total Charges for Current Services	$ 31,928	$ 0	$ 131,934	$ 0	$ 163,862
Other Local Revenues					
Recurring Items					
Investment Income	$ 0	$ 0	$ 2,227	$ 0	$ 2,227
Sale of Materials and Supplies	2,307	0	0	0	2,307
Miscellaneous Refunds	21,746	0	9,617	156,622	187,985
Nonrecurring Items					
Insurance Recovery	23,634	0	0	0	23,634
Sale of Property	50	0	0	0	50
Damages Recovered from Individuals	95	0	0	0	95
Contributions & Gifts	3,210	0	0	0	3,210
Total Other Local Revenues	$ 51,042	$ 0	$ 11,844	$ 156,622	$ 219,508
State of Tennessee					
State Education Funds					
Basic Education Program	$ 5,380,531	$ 0	$ 0	$ 0	$ 5,380,531
School Food Service	7,255	0	0	0	7,255
Driver Education	7,155	0	0	0	7,155

(Continued)

Exhibit G-4

Clay County, Tennessee
Schedule of Detailed Revenues -
All Governmental Fund Types
Clay County School Department (Cont.)

	General Purpose School	School Federal Projects	Central Cafeteria	Education Capital Projects	Total
State of Tennessee (Cont.)					
State Education Funds (Cont.)					
Other State Education Funds	$ 100,666	$ 0	$ 0	$ 0	$ 100,666
Career Ladder Program	85,085	0	0	0	85,085
Career Ladder - Extended Contract	51,010	0	0	0	51,010
Other State Revenues					
Flood Control	87,769	0	0	0	87,769
Other State Grants	7,939	0	0	0	7,939
Total State of Tennessee	$ 5,727,410	$ 0	$ 0	$ 0	$ 5,727,410
Federal Government					
Federal Through State					
USDA School Lunch Program	$ 0	$ 0	$ 263,437	$ 0	$ 263,437
Breakfast	0	0	104,254	0	104,254
Adult Education State Grant Program	12,235	0	0	0	12,235
Vocational Education - Basic Grants to States	0	34,193	0	0	34,193
Title I Grants to Local Education Agencies	0	323,766	0	0	323,766
Innovative Education Program Strategies	0	25,790	0	0	25,790
Special Education - Grants to States	8,140	232,401	0	0	240,541
Special Education Preschool Grants	0	11,812	0	0	11,812
Eisenhower Professional Development State Grants	0	71,792	0	0	71,792
Job Training Partnership Act	15,000	0	0	0	15,000
Other Federal through State	0	8,577	0	0	8,577
Direct Federal Revenue					
Public Law 874 - Maintenance and Operation	58,838	0	0	0	58,838
Total Federal Government	$ 94,213	$ 708,331	$ 367,691	$ 0	$ 1,170,235
Total	$ 7,511,813	$ 708,331	$ 511,469	$ 156,622	$ 8,888,235

Exhibit G-5

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Clay County School Department
For the Year Ended June 30, 2005

General Purpose School Fund		
Instruction		
Regular Instruction Program		
Teachers	$ 2,453,531	
Career Ladder Program	52,000	
Career Ladder Extended Contracts	40,399	
Educational Assistants	125,674	
Certified Substitute Teachers	79,240	
Social Security	158,815	
State Retirement	145,978	
Medical Insurance	156,307	
Unemployment Compensation	4,406	
Employer Medicare	37,142	
Maintenance & Repair Services- Equipment	2,675	
Other Contracted Services	42,081	
Instructional Supplies and Materials	79,648	
Textbooks	98,157	
Other Charges	1,800	
Regular Instruction Equipment	67,262	
Total Regular Instruction Program		$ 3,545,115
Alternative Instruction Program		
Teachers	$ 76,616	
Career Ladder Program	1,000	
Social Security	4,320	
State Retirement	4,214	
Medical Insurance	4,022	
Unemployment Compensation	84	
Employer Medicare	1,010	
Instructional Supplies and Materials	493	
Total Alternative Instruction Program		91,759
Special Education Program		
Teachers	$ 374,877	
Career Ladder Program	7,000	
Homebound Teachers	38,069	
Educational Assistants	19,955	
Certified Substitute Teachers	650	
Social Security	24,966	
State Retirement	23,722	
Medical Insurance	30,563	
Unemployment Compensation	619	

(Continued)

Exhibit G-5

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Clay County School Department (Cont.)

General Purpose School Fund (Cont.)		
Instruction (Cont.)		
Special Education Program (Cont.)		
Employer Medicare	$ 5,839	
Contracts with Private Agencies	180	
Other Contracted Services	45,197	
Instructional Supplies and Materials	1,564	
Other Charges	116	
Special Education Equipment	1,100	
Total Special Education Program		$ 574,417
Vocational Education Program		
Teachers	$ 160,249	
Career Ladder Program	2,000	
Clerical Personnel	7,023	
Certified Substitute Teachers	2,690	
Social Security	9,542	
State Retirement	8,924	
Medical Insurance	14,713	
Unemployment Compensation	225	
Employer Medicare	2,232	
Maintenance & Repair Services- Equipment	525	
Other Contracted Services	77,940	
Instructional Supplies and Materials	9,253	
Vocational Instruction Equipment	4,585	
Total Vocational Education Program		299,901
Adult Education Program		
Teachers	$ 39,682	
Other Salaries & Wages	18,193	
Social Security	3,191	
State Retirement	3,327	
Medical Insurance	5,224	
Unemployment Compensation	84	
Employer Medicare	746	
Instructional Supplies and Materials	376	
Other Charges	885	
Total Adult Education Program		71,708
Support Services		
Attendance		
Supervisor/Director	$ 41,573	

(Continued)

Exhibit G-5

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Clay County School Department (Cont.)

General Purpose School Fund (Cont.)				
Support Services (Cont.)				
Attendance (Cont.)				
Career Ladder Program	$	1,000		
Social Security		2,523		
State Retirement		2,341		
Medical Insurance		1,447		
Unemployment Compensation		32		
Employer Medicare		590		
Travel		1,828		
Other Supplies and Materials		429		
Other Charges		4,335		
Attendance Equipment		760		
Total Attendance			$	56,858
Health Services				
Medical Personnel	$	31,675		
Social Security		1,817		
State Retirement		1,742		
Medical Insurance		1,930		
Unemployment Compensation		42		
Employer Medicare		425		
Travel		1,358		
Drugs and Medical Supplies		500		
Other Supplies and Materials		1,441		
Total Health Services				40,930
Other Student Support				
Career Ladder Program	$	1,000		
Guidance Personnel		104,077		
Social Security		5,776		
State Retirement		5,779		
Medical Insurance		11,105		
Unemployment Compensation		105		
Employer Medicare		1,351		
Evaluation and Testing		6,044		
Travel		805		
Total Other Student Support				136,042
Regular Instruction Program				
Supervisor/Director	$	51,250		
Career Ladder Program		2,500		

(Continued)

Exhibit G-5

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Clay County School Department (Cont.)

General Purpose School Fund (Cont.)		
Support Services (Cont.)		
Regular Instruction Program (Cont.)		
Librarians	$ 103,322	
Instructional Computer Personnel	49,906	
Social Security	11,814	
State Retirement	10,860	
Medical Insurance	5,646	
Unemployment Compensation	205	
Employer Medicare	2,763	
Travel	7,726	
Library Books/Media	9,620	
Other Supplies and Materials	662	
In Service/Staff Development	9,529	
Other Charges	400	
Total Regular Instruction Program		$ 266,203
Special Education Program		
Supervisor/Director	$ 50,470	
Career Ladder Program	1,000	
Psychological Personnel	18,327	
Clerical Personnel	6,090	
Other Salaries & Wages	6,153	
Social Security	4,706	
State Retirement	4,609	
Medical Insurance	4,817	
Unemployment Compensation	124	
Employer Medicare	1,101	
Maintenance & Repair Services- Equipment	300	
Other Supplies and Materials	46	
Other Charges	200	
Total Special Education Program		97,943
Adult Programs		
Supervisor/Director	$ 13,976	
Social Security	820	
State Retirement	762	
Medical Insurance	482	
Unemployment Compensation	10	
Employer Medicare	192	
Travel	252	
In Service/Staff Development	185	

(Continued)

Exhibit G-5

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Clay County School Department (Cont.)

General Purpose School Fund (Cont.)		
Support Services (Cont.)		
Adult Programs (Cont.)		
Other Charges	$ 203	
Total Adult Programs		$ 16,882
Board of Education		
Board and Committee Members Fees	$ 14,500	
In-Service Training	250	
Social Security	899	
Unemployment Compensation	87	
Employer Medicare	210	
Audit Services	3,146	
Dues and Memberships	3,809	
Legal Services	5,884	
Travel	312	
Trustee's Commission	49,959	
Workers' Compensation Insurance	34,826	
Criminal Investigation of Applicants - TBI	2,160	
Refund to Applicant for Criminal Investigation	2,496	
Other Charges	6,039	
Total Board of Education		124,577
Director of Schools		
County Official/Administrative Officer	$ 63,240	
Career Ladder Program	1,000	
Social Security	3,983	
State Retirement	3,533	
Unemployment Compensation	42	
Employer Medicare	931	
Communication	16,652	
Postal Charges	1,791	
Travel	2,688	
Other Contracted Services	5,976	
Office Supplies	100	
Other Charges	335	
Total Director of Schools		100,271
Office of the Principal		
Principals	$ 155,154	
Career Ladder Program	4,000	
Secretary(s)	45,487	

(Continued)

Exhibit G-5

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Clay County School Department (Cont.)

General Purpose School Fund (Cont.)		
Support Services (Cont.)		
Office of the Principal (Cont.)		
Social Security	$ 11,997	
State Retirement	11,289	
Medical Insurance	8,677	
Unemployment Compensation	275	
Employer Medicare	2,806	
Communication	543	
Other Supplies and Materials	500	
Total Office of the Principal		$ 240,728
Fiscal Services		
Accountants/Bookkeepers	$ 32,728	
Secretary(s)	7,543	
Social Security	2,450	
State Retirement	2,533	
Medical Insurance	560	
Unemployment Compensation	67	
Employer Medicare	573	
Travel	92	
Office Supplies	2,256	
Other Charges	677	
Total Fiscal Services		49,479
Operation of Plant		
Custodial Personnel	$ 150,123	
Other Salaries & Wages	4,884	
Social Security	9,610	
State Retirement	7,600	
Unemployment Compensation	579	
Employer Medicare	2,248	
Maintenance & Repair Services- Equipment	5,503	
Other Contracted Services	73,916	
Custodial Supplies	33,755	
Electricity	265,078	
Fuel Oil	14,929	
Water and Sewer	19,352	
Other Supplies and Materials	1,260	
Building and Contents Insurance	46,089	
Other Charges	1,207	
Plant Operation Equipment	3,676	
Total Operation of Plant		639,809

(Continued)

Exhibit G-5

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Clay County School Department (Cont.)

General Purpose School Fund (Cont.)		
Support Services (Cont.)		
Maintenance of Plant		
Supervisor/Director	$ 21,478	
Other Salaries & Wages	30,832	
Social Security	3,243	
State Retirement	3,290	
Unemployment Compensation	84	
Employer Medicare	758	
Maintenance & Repair Services- Buildings	473	
Maintenance & Repair Services- Equipment	5,074	
Other Supplies and Materials	26,185	
Other Charges	327	
Maintenance Equipment	1,071	
Total Maintenance of Plant		$ 92,815
Transportation		
Bus Drivers	$ 177,203	
Other Salaries & Wages	319	
Social Security	10,994	
State Retirement	9,619	
Medical Insurance	167	
Unemployment Compensation	760	
Employer Medicare	2,571	
Communication	5,913	
Maintenance & Repair Services- Vehicles	3,468	
Medical and Dental Services	3,215	
Other Contracted Services	42,580	
Diesel Fuel	39,432	
Gasoline	34,425	
Lubricants	3,837	
Tires and Tubes	10,236	
Vehicle Parts	22,289	
Other Supplies and Materials	466	
Vehicle and Equipment Insurance	14,000	
Other Charges	1,999	
Transportation Equipment	126,301	
Total Transportation		509,794
Operation of Non-Instructional Services		
Food Service		
Supervisor/Director	$ 45,126	

(Continued)

Exhibit G-5

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Clay County School Department (Cont.)

General Purpose School Fund (Cont.)		
Operation of Non-Instructional Services (Cont.)		
Food Service (Cont.)		
Career Ladder Program	$ 1,000	
Social Security	2,860	
State Retirement	2,537	
Unemployment Compensation	42	
Employer Medicare	669	
Communication	995	
Travel	1,159	
Total Food Service		$ 54,388
Community Services		
Supervisor/Director	$ 21,000	
Other Salaries & Wages	6,195	
Social Security	1,297	
State Retirement	1,496	
Medical Insurance	5,115	
Unemployment Compensation	48	
Employer Medicare	303	
Travel	352	
Other Contracted Services	300	
Other Supplies and Materials	5,124	
Other Charges	241	
Total Community Services		41,471
Capital Outlay		
Regular Capital Outlay		
Building Improvements	$ 53,284	
Site Development	2,618	
Other Capital Outlay	10,693	
Total Regular Capital Outlay		66,595
Principal		
Education		
Principal on Other Loans Payable	$ 180,000	
Total Education		180,000
Interest		
Education		
Interest on Other Loans Payable	$ 160,460	
Total Education		160,460

(Continued)

Exhibit G-5

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Clay County School Department (Cont.)

General Purpose School Fund (Cont.)			
Other Debt Service			
Education			
Other Debt Service	$ 29,528		
Total Education		$ 29,528	
Total General Purpose School Fund			$ 7,487,673
School Federal Projects Fund			
Instruction			
Regular Instruction Program			
Teachers	$ 212,407		
Educational Assistants	28,612		
Other Salaries & Wages	4,470		
Certified Substitute Teachers	2,110		
Social Security	12,735		
State Retirement	13,624		
Medical Insurance	11,176		
Unemployment Compensation	546		
Employer Medicare	2,978		
Other Contracted Services	3,800		
Instructional Supplies and Materials	19,698		
Other Charges	112		
Regular Instruction Equipment	6,694		
Total Regular Instruction Program		$ 318,962	
Special Education Program			
Educational Assistants	$ 86,064		
Other Salaries & Wages	16,155		
Social Security	6,303		
State Retirement	4,473		
Unemployment Compensation	468		
Employer Medicare	1,475		
Contracts with Private Agencies	12,991		
Other Contracted Services	8,952		
Instructional Supplies and Materials	9,749		
Other Charges	2,044		
Special Education Equipment	12,535		
Total Special Education Program		161,209	
Vocational Education Program			
Travel	$ 6,823		

(Continued)

Exhibit G-5

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Clay County School Department (Cont.)

School Federal Projects Fund (Cont.)				
Instruction (Cont.)				
Vocational Education Program (Cont.)				
Other Contracted Services	$	4,597		
Instructional Supplies and Materials		5,646		
Vocational Instruction Equipment		15,573		
Total Vocational Education Program			$	32,639
Support Services				
Regular Instruction Program				
Supervisor/Director	$	39,911		
Secretary(s)		7,449		
Social Security		2,570		
State Retirement		2,664		
Medical Insurance		4,817		
Unemployment Compensation		68		
Employer Medicare		601		
Maintenance & Repair Services- Equipment		936		
Travel		7,973		
Other Contracted Services		4,739		
Library Books/Media		4,418		
Other Supplies and Materials		6,281		
In Service/Staff Development		27,835		
Other Charges		8,808		
Other Equipment		1,699		
Total Regular Instruction Program				120,769
Special Education Program				
Psychological Personnel	$	18,327		
Assessment Personnel		19,827		
Clerical Personnel		6,141		
Other Salaries & Wages		5,965		
Social Security		3,116		
State Retirement		2,860		
Unemployment Compensation		142		
Employer Medicare		729		
Travel		4,590		
Other Supplies and Materials		2,377		
Other Charges		500		
Other Equipment		2,088		
Total Special Education Program				66,662

(Continued)

Exhibit G-5

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Clay County School Department (Cont.)

School Federal Projects Fund (Cont.)			
Support Services (Cont.)			
Vocational Education Program			
Travel	$ 1,178		
In Service/Staff Development	168		
Total Vocational Education Program		$ 1,346	
Transportation			
Bus Drivers	$ 5,197		
Other Salaries & Wages	4,656		
Social Security	611		
State Retirement	327		
Unemployment Compensation	59		
Employer Medicare	143		
Total Transportation		10,993	
Total School Federal Projects Fund			$ 712,580
Central Cafeteria Fund			
Operation of Non-Instructional Services			
Food Service			
Cafeteria Personnel	$ 191,162		
In-Service Training	363		
Social Security	14,650		
State Retirement	10,666		
Medical Insurance	331		
Unemployment Compensation	925		
Communication	1,032		
Maintenance & Repair Services- Equipment	6,707		
Postal Charges	200		
Transportation - Other than Students	4,250		
Other Contracted Services	1,393		
Food Preparation Supplies	4,676		
Food Supplies	205,267		
Office Supplies	4,304		
Other Supplies and Materials	10,194		
Workers' Compensation Insurance	6,000		
In Service/Staff Development	172		
Total Food Service		$ 462,292	
Total Central Cafeteria Fund			462,292

(Continued)

Exhibit G-5

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Clay County School Department (Cont.)

Education Capital Projects Fund			
Capital Projects			
Education Capital Projects			
Building Construction	$ 117,172		
Total Education Capital Projects		$ 117,172	
Total Education Capital Projects Fund			$ 117,172
Total Governmental Funds - Clay County School Department			$ 8,779,717

SINGLE AUDIT REPORT

CLAY COUNTY, TENNESSEE

AND

CLAY COUNTY SCHOOL DEPARTMENT

FOR THE YEAR ENDED JUNE 30, 2005

DEPARTMENT OF AUDIT
JOHN G. MORGAN
Comptroller of the Treasury

DIVISION OF COUNTY AUDIT
RICHARD V. NORMENT
Assistant to the Comptroller

ARTHUR L. ALEXANDER
Director

CARL LOWE, CGFM
Audit Manager

ANITA SCARLETT, CPA
Auditor 4

CHRISTY N. TENNANT, CPA
TIM BRASHEARS
KELLEY J. McNEAL, CPA, CGFM
State Auditors

This report is available at www.comptroller.state.tn.us

SINGLE AUDIT REPORT
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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0269
PHONE (615) 401-7841

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

November 8, 2005

Clay County Mayor, Board of County Commissioners,
Director of Schools, and Board of Education
Clay County, Tennessee

To the County Mayor, Board of County Commissioners,
Director of Schools, and Board of Education:

We have audited the financial statements of each major fund and the aggregate remaining fund information of Clay County, Tennessee, and the governmental activities, each major fund, and the aggregate remaining fund information of the Clay County School Department, as of and for the year ended June 30, 2005, which collectively comprise a portion of Clay County's and the Clay County School Department's basic financial statements and have issued our reports thereon dated November 8, 2005. Our report on the financial statements of Clay County, Tennessee, expresses an adverse opinion because the government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34. Our report on the financial statements of the Clay County School Department expresses an unqualified opinion. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clay County's and the Clay County School Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 Clay County's and the Clay County School Department'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 and Questioned Costs as items 05.02, 05.03, 05.04, 05.05(B,C), 05.06, 05.07, 05.08, 05.09, 05.10, 05.11(A,B,C), 05.13(A,B), 05.14, and 05.15.

A material weakness is a reportable 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 caused by error or fraud 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, of the reportable conditions noted above, we consider items 05.05(C), 05.08, and 05.09 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clay County's and the Clay County School Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and are described in the accompanying Schedule of Findings and Questioned Costs as items 05.01, 05.05(A), 05.11(D), 05.12, and 05.13(C).

We also noted certain matters that we reported to the management of Clay County and the Clay County School Department in separate communications.

This report is intended solely for the information and use of the Board of County Commissioners, Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

John G. Morgan

John G. Morgan
Comptroller of the Treasury

JGM/sb

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
SUITE 1500
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PHONE (615) 401-7841

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

November 8, 2005

Clay County Mayor, Board of County Commissioners,
Director of Schools, and Board of Education
Clay County, Tennessee

To the County Mayor, Board of County Commissioners,
Director of Schools, and Board of Education:

Compliance

We have audited the compliance of Clay County and the Clay County School Department with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of their major federal programs for the year ended June 30, 2005. Clay County's and the Clay County School Department's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of their major federal programs is the responsibility of Clay County's and the Clay County School Department's management. Our responsibility is to express an opinion on Clay County's and the Clay County School Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Clay County's and the Clay County School Department's compliance with

those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Clay County's and the Clay County School Department's compliance with those requirements.

In our opinion, Clay County and the Clay County School Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Clay County and the Clay County School Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Clay County's and the Clay County School Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Federal Awards

We have audited the financial statements of each major fund and the aggregate remaining fund information of Clay County, Tennessee, and the governmental activities, each major fund, and the aggregate remaining fund information of the Clay County School Department as of and for the year ended June 30, 2005, and have issued our reports thereon dated November 8, 2005. Our report on the financial statements of Clay County, Tennessee, expresses an adverse opinion because the government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34. Our report on the financial statements of the Clay County School Department was unqualified. Our audit was performed for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and State Grants is presented for purposes of additional analysis, as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of County Commissioners, Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

John G. Morgan
Comptroller of the Treasury

JGM/sb

Clay County, Tennessee, and the Clay County School Department
Schedule of Expenditures of Federal Awards and State Grants (1)
For the Year Ended June 30, 2005

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Passed-through Entity Identifying Number	Expenditures
U.S. Department of Agriculture:			
Passed-through State Department of Agriculture:			
Food Donation (Noncash Assistance)	10.550	(2)	$ 33,519
Passed-through State Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	103,206
National School Lunch Program	10.555	N/A	261,398
Passed-through State Department of Human Services:			
Child Nutrition Cluster:			
Summer Food Service Program for Children	10.559	N/A	3,087
Total U.S. Department of Agriculture			$ 401,210
U.S. Department of Housing and Urban Development:			
Passed-through State Department of Economic and Community Development:			
Community Development Block Grant/State's Program	14.228	GG-03-10161-00	$ 226,534
Passed-through State Department of Housing Development:			
HOME Investment Partnership Program	14.239	HM-03-17	420,248
Total U.S. Department of Housing and Urban Development			$ 646,782
U.S. Department of Justice:			
Direct Programs:			
Bulletproof Vest Partnership Program	16.607	N/A	$ 2,755
Pass-through Appalachia HIDTA:			
Appalachia High Intensity Drug Trafficking Area	16.13PAPP501	N/A	10,380
Total U.S. Department of Justice			$ 13,135
U.S. Department of Labor:			
Passed-through Upper Cumberland Human Resource Agency:			
Workforce Investment Act	17.250	N/A	$ 15,000
U.S. Department of Transportation:			
Passed-through State Department of Transportation:			
Highway Planning and Construction	20.205	STP-H-1400(23)	$ 49,649
U.S. Department of Education:			
Direct Programs:			
Impact Aid	84.041	N/A	$ 58,838
Passed-through State Department of Education:			
Adult Education - State Grant Programs	84.002	Z-05-02227-00	12,235
Title I Grants to Local Educational Agencies	84.010	N/A	347,015
Special Education Cluster:			
Special Education - Grants to States - IDEA	84.027	N/A	238,172
Special Education - Grants to States - Preschool	84.173	N/A	11,335
Vocational Education - Basic Grants to States	84.048	N/A	34,193
Safe and Drug Free Schools and Communities - State Grants	84.186	(2)	9,080
State Grants for Innovative Programs	84.298	N/A	4,492
Education Technology State Grants	84.318	(2)	4,841
Rural Education	84.358	N/A	19,811
Improving Teacher Quality State Grants	84.367	N/A	61,272
Total U.S. Department of Education			$ 801,284

(Continued)

Clay County, Tennessee, and the Clay County School Department
Schedule of Expenditures of Federal Awards and State Grants (1) (Cont.)

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Passed-through Entity Identifying Number	Expenditures	
U.S. Department of Homeland Security:				
Passed-though State Department of Military:				
Public Assistance Grants	97.036	Z-05-024715-01	$ 7,250	
State Domestic Preparedness Equipment Support Program	97.004	Z-03-019268-00	12,033	(3)
State Domestic Preparedness Equipment Support Program	97.004	Z-04-020080-00	16,201	(3)
Total U.S. Department of Homeland Security			$ 35,484	
Total Expenditures of Federal Awards			$ 1,962,544	
State Grants				
State Reappraisal Program - Comptroller of the Treasury	N/A	N/A	$ 3,457	
Aging Program - State Commission on Aging	N/A	N/A	11,766	
Law Enforcement Training - State Department of Safety	N/A	(2)	5,587	
Juvenile Services Program - State Children's Services Commission	N/A	Z-05-020363-00	9,000	
Litter Program - State Department of Transportation	N/A	(2)	36,351	
Waste Reduction Grant - State Department of Environment and Conservation	N/A	Z-04-018157-00	148,779	
Local Health Services - State Department of Health	N/A	Z-05-020580-00	1,200	
Adult Education - State Department of Education	N/A	Z-05-022207-00	5,222	
Family Preservation and Support Service - State Department of Education	N/A	(2)	33,300	
Touching the Lives of Children - State Department of Education	N/A	(2)	7,123	
Safe Schools Act - State Department of Education	N/A	(2)	7,939	
Total State Grants			$ 269,724	

CFDA = Catalog of Federal Domestic Assistance

N/A = Not Applicable

(1) Presented in conformity with generally accepted accounting principles using the modified accrual basis of accounting.
(2) Information not available.
(3) Total State Domestic Preparedness Support Program (CFDA #97.004) from the U.S. Department of Homeland Security was $28,234.

Clay County, Tennessee, and the Clay County School Department
Schedule of Audit Findings Not Corrected
June 30, 2005

Government Auditing Standards require auditors to report the status of uncorrected findings from prior audits. Presented below are findings from the Annual Financial Report of Clay County, Tennessee, and the Clay County School Department for the year ended June 30, 2004, which have not been corrected.

CLAY COUNTY

Finding Number	Page Number	Subject
04.01	12	Government-wide financial statements were not presented in accordance with generally accepted accounting principles

OFFICE OF COUNTY MAYOR

Finding Number	Page Number	Subject
04.02	13	The office had purchasing deficiencies
04.03(B)	13	Expenditures exceeded appropriations in major appropriation categories of the General Fund
04.04	14	Inventory records were not maintained

OFFICE OF HIGHWAY SUPERINTENDENT

Finding Number	Page Number	Subject
04.06(A, B)	15	The office had purchasing deficiencies
04.07	15	Actual fund balance of the Highway/Public Works Fund exceeded the estimated beginning fund balance by a material amount

OFFICE OF DIRECTOR OF SCHOOLS

Finding Number	Page Number	Subject
04.08	16	The School Department had inadequate controls over inventory

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

Finding Number	Page Number	Subject
04.09	17	Execution docket trial balances did not reconcile with general ledger accounts
04.10	17	Funds were not deposited within three days of collection

OTHER FINDINGS AND RECOMMENDATIONS

Finding Number	Page Number	Subject
04.11	18	A central system of accounting, budgeting, and purchasing had not been adopted
04.12	18	Duties were not segregated adequately in the Offices of County Mayor, Highway Superintendent, Director of Schools, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff

CLAY COUNTY, TENNESSEE, AND THE
CLAY COUNTY SCHOOL DEPARTMENT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2005

PART I, SUMMARY OF AUDITOR'S RESULTS

1. An adverse opinion was issued on the financial statements of Clay County, and an unqualified opinion was issued on the financial statements of the Clay County School Department.

2. The audit of the financial statements of Clay County and the Clay County School Department disclosed reportable conditions in internal control. Two of these conditions were considered to be material weaknesses in Clay County and one in the Clay County School Department.

3. The audit disclosed two instances of noncompliance that were material to the financial statements of Clay County. The audit did not disclose any instances of noncompliance that are material to the financial statements of the Clay County School Department.

4. The audit disclosed no reportable conditions in internal control over major programs.

5. An unqualified opinion was issued on compliance for major programs.

6. The audit revealed no findings that are required to be reported under Section 510(a) of OMB Circular A-133.

7. The HOME Investment Partnership Program (CFDA No. 14.239), the Title I Grants to Local Educational Agencies (CFDA No. 84.010), and the Special Education Cluster: Special Education - Grants to States and the Special Education – Preschool Grants (CFDA Nos. 84.027 and 84.173) were determined to be major programs.

8. A threshold of $300,000 was used to distinguish between Type A and Type B federal programs.

9. Clay County and the Clay County School Department did not qualify as low-risk auditees.

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

Findings and recommendations, as a result of our examination, are presented below. We reviewed these findings and recommendations with management to provide an opportunity for their response. Management offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

CLAY COUNTY

FINDING 05.01 **GOVERNMENT-WIDE FINANCIAL STATEMENTS WERE NOT PRESENTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**
(Material Noncompliance Under Government Auditing Standards)

Clay County did not identify and determine the historical value of its capital assets and the related depreciation amounts of these assets. Therefore, Clay County was unable to provide the information necessary to prepare government-wide financial statements for all of its activities, as required by Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. GASB is the standard-setting body for accounting principles that state and local governments are required to follow. As a result of this omission, Clay County's financial statements are not presented in accordance with generally accepted accounting principles; thus, we have issued adverse opinions on its financial statements.

The Office of the Comptroller of the Treasury, State of Tennessee, requires governments that do not implement GASB Statement 34 to issue a financial report in compliance with Financial Reporting Standards for County Governments, Component Units of County Governments, and Special School Districts That Do Not Implement Governmental Accounting Standards Board Statement 34, established by the Comptroller of the Treasury. Clay County's financial statements are presented in compliance with these requirements.

RECOMMENDATION

Clay County should present government-wide financial statements in conformity with generally accepted accounting principles, and should compile and maintain records that properly account for its capital assets. These records should document the historical costs of the county's capital assets and the related depreciation amounts of these assets. This information is necessary to present the financial statements in accordance with generally accepted accounting principles.

OFFICE OF COUNTY MAYOR

FINDING 05.02 **THE SOLID WASTE/SANITATION FUND HAD A FUND DEFICIT AND A CASH OVERDRAFT**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Solid Waste/Sanitation Fund had a fund deficit of $26,992 at June 30, 2005, from expenditures exceeding available funding. Also, a cash overdraft of $29,779 existed at June 30, 2005. This cash overdraft resulted from issuing warrants that exceeded cash on deposit with the county trustee.

RECOMMENDATION

Officials should monitor the financial activity of their funds to ensure that adequate funding is available to prevent the recurrence of a fund deficit. Warrants that exceed cash on deposit with the county trustee should not be issued.

FINDING 05.03 **RECEIVABLES WERE NOT DETERMINED AND RECORDED IN THE GENERAL, SOLID WASTE/SANITATION, AND GENERAL DEBT SERVICE FUNDS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Receivables were not determined and recorded on the accounting records of the General, Solid Waste/Sanitation, and General Debt Service Funds at June 30, 2005. We performed additional audit procedures to properly determine receivables at June 30, 2005. Audit adjustments were presented to management for their consideration and posting to the financial records of the General Fund ($163,647), the Solid Waste/Sanitation Fund ($8,509), and the General Debt Service Fund ($9,751). As a result of these adjustments, receivables are properly presented in the financial statements of this report.

RECOMMENDATION

Receivables should be properly determined and recorded on the accounting records each June 30.

FINDING 05.04 **THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination of purchasing procedures revealed the following deficiencies:

A. The office had not established a formal purchase order system. Purchase orders are necessary to control who has purchasing authority for the office and to document purchasing commitments.

B. Several invoices were paid without documentation that goods had been received and/or services had been rendered. This practice could result in the county paying for items not received or paying invoices more than once. We extended our audit procedures and determined that these goods and services were received.

C. Some invoices were not on file to support purchases, and some invoices did not adequately describe the purchases. We extended our audit procedures and determined that these expenditures were for the benefit of the county.

RECOMMENDATION

The office should establish a formal purchase order system to improve internal controls over the purchasing process and to document purchasing commitments. Documentation should be obtained indicating that goods have been received and/or services have been rendered before invoices are paid. Detailed invoices should be on file to support all purchases.

FINDING 05.05 **THE OFFICE HAD DEFICIENCIES IN BUDGET OPERATIONS**
(A. Noncompliance Under Government Auditing Standards; B. Internal Control – Reportable Condition Under Government Auditing Standards, C. Internal Control – Material Weakness Under Government Auditing Standards)

Our examination revealed the following deficiencies in budget operations:

A. General Fund expenditures exceeded appropriations approved by the County Commission in six major appropriation categories (legal level of control) by amounts ranging from $50 to $22,863. Section 5-9-401, Tennessee Code Annotated, states that "All funds … including, but not limited to … taxes, county aid funds, federal funds, and fines, which are to be used in the operation and respective programs of the various departments, commissions, institutions, boards, offices and agencies of the county governments shall be appropriated by the county legislative bodies."

B. The budget and subsequent amendments submitted to and approved by the County Commission for the Solid Waste/Sanitation Fund contained appropriations that exceeded estimated available funding by $29,413.

C. The General Fund's actual fund balance at July 1, 2004, was $907,848; however, the estimated fund balance reflected in the General Fund's budget at July 1, 2004, was $657,527. Therefore, the actual fund balance exceeded the estimated fund balance presented to the County Commission by $250,321.

RECOMMENDATION

Expenditures should be held within appropriations approved by the County Commission. Appropriations that exceed estimated available funds should not be submitted to the County Commission, and the County Commission should not approve such appropriations. Also, the estimate of the beginning fund balance should be made on a more realistic basis to provide county officials with accurate information to base funding decisions.

FINDING 05.06 **INVENTORY RECORDS WERE NOT MAINTAINED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Inventory records were not maintained for assets owned by the general county government. Generally accepted accounting principles require accountability for all county-owned assets, such as equipment, furniture, and vehicles.

RECOMMENDATION

The office should maintain inventory records for all assets as required by generally accepted accounting principles. Furthermore, personnel independent of maintaining the inventory should periodically verify the inventory records.

OFFICE OF HIGHWAY SUPERINTENDENT

FINDING 05.07 **THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination of purchasing procedures revealed the following deficiencies:

A. The office had not established a formal purchase order system. Purchase orders are necessary to control who has purchasing authority for the office and to document purchasing commitments.

B. Several invoices were paid without documentation that goods had been received and/or services had been rendered. This practice could result in the office paying for items not received or paying invoices more than once. We extended our audit procedures and determined that these goods and services were received.

RECOMMENDATION

The office should establish a formal purchase order system to improve internal controls over the purchasing process and to document purchasing commitments. Documentation should be obtained indicating goods were received and/or services were rendered before invoices are paid.

FINDING 05.08 **THE ACTUAL FUND BALANCE OF THE HIGHWAY/PUBLIC WORKS FUND EXCEEDED THE ESTIMATED BEGINNING FUND BALANCE BY A MATERIAL AMOUNT**
(Internal Control – Material Weakness Under Government Auditing Standards)

The Highway/Public Works Fund's actual fund balance at July 1, 2004, was $758,626; however, the estimated fund balance reflected in the Highway/Public Works Fund's budget at July 1, 2004, was $381,906. Therefore, the actual fund balance exceeded the estimated fund balance presented to the County Commission by $376,720.

RECOMMENDATION

The estimate of the beginning fund balance should be made on a more realistic basis to provide county officials with accurate information to base funding decisions.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 05.09 **THE ACTUAL FUND BALANCE AND RESERVES OF THE GENERAL PURPOSE SCHOOL FUND EXCEEDED THE ESTIMATED BEGINNING FUND BALANCE AND RESERVES BY A MATERIAL AMOUNT**
(Internal Control – Material Weakness Under Government Auditing Standards)

The General Purpose School Fund's actual fund balance and reserves at July 1, 2004, was $1,822,826; however, the estimated fund balance and reserves reflected in the General Purpose School Fund's budget at July 1, 2004, was $1,209,530. Therefore, the actual fund balance and reserves exceeded the estimated fund balance and reserves presented to the County Commission by $613,296.

RECOMMENDATION

The estimate of the beginning fund balance and reserves should be made on a more realistic basis to provide county officials with accurate information to base funding decisions.

FINDING 05.10 **THE SCHOOL DEPARTMENT HAD INADEQUATE CONTROLS OVER INVENTORY**
(Internal Control – Reportable Condition Under Government Auditing Standards)

School Department officials did not maintain adequate controls over inventory. We noted several assets that were not tagged or clearly marked as school property, and some assets that were tagged were not identified by the tag number on the inventory lists. Also, no procedures were in place to ensure that newly acquired assets were added to the inventory lists and that personnel independent of maintaining inventory records verified the lists periodically. Generally accepted accounting principles require accountability for all department-owned assets.

RECOMMENDATION

To improve controls over inventory, School Department officials should tag all assets and ensure that inventory lists include property tag and serial numbers. Also, officials should implement procedures for adding assets to inventory records and ensure that personnel independent of the recordkeeping process periodically verify inventory records.

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

FINDING 05.11 **ACCOUNTING RECORDS WERE NOT MAINTAINED PROPERLY FOR CIRCUIT AND GENERAL SESSIONS COURTS**

(A., B., and C. Internal Control – Reportable Condition Under Government Auditing Standards; D. Noncompliance Under Government Auditing Standards)

Our examination of the offices' records revealed the following deficiencies:

A. The accounting records did not accurately reflect the account balances in Circuit Court. Year-end balances were determined by substantive testing and alternative auditing procedures.

B. Bank transactions for Circuit and General Sessions Courts were not reconciled with general ledger accounts. The office attempted to reconcile the bank statements with the general ledgers; however, the reconciliations prepared by the clerk did not agree with the general ledgers on June 30, 2005, in both Circuit ($14,676) and General Sessions Courts ($11,793).

C. Several receipts were voided without explanations and/or without the original receipts on file. Also, during the clerk's month-end closing process, handwritten receipts were issued for collections using the computer receipt stock. Subsequently, these handwritten receipts were voided and duplicate receipts were issued electronically; however, the original handwritten receipts were not retained, so we could not determine if all handwritten receipts were actually duplicated electronically.

D. Routinely funds were not deposited to the office bank account within three days of collection, and receipts were not deposited intact. Section 5-8-207, Tennessee Code Annotated, requires county officials to deposit all public funds to the office bank account within three days of receipt. During the months of May, June, and July 2005, the clerk did not make a deposit for eight weeks. By not depositing collections in a timely manner, the clerk exposed the office to additional security risks from theft, robbery, or fraud.

RECOMMENDATION

The accounting records for Circuit and General Sessions Courts should accurately reflect the operations of the office. Bank statements should be reconciled with the cash journal monthly. All voided receipts should have adequate explanations and/or original receipts attached to support the transactions. Electronic receipts issued to replace handwritten receipts should have the handwritten receipt attached. Collections should be deposited to the office bank account intact and within three days of collection.

FINDING 05.12 **EXECUTION DOCKET TRIAL BALANCES DID NOT RECONCILE WITH GENERAL LEDGER ACCOUNTS FOR CIRCUIT AND GENERAL SESSIONS COURTS**
(Material Noncompliance Under Government Auditing Standards)

As of June 30, 2005, the clerk prepared trial balances of execution docket cause balances for Circuit and General Sessions Courts as required by Section 18-2-104, Tennessee Code Annotated (TCA). However, these trial balances did not reconcile with the general ledger accounts in both Circuit ($60,721) and General Sessions Courts ($22,007). Therefore, we were unable to determine if the clerk had complied with provisions of the Unclaimed Property Act, Section 66-29-110, TCA. This statute provides that any funds held by the courts for more than one year and unclaimed by the owner are considered abandoned. Section 66-29-113, TCA, further requires these funds to be reported and paid to the state Treasurer's Office.

RECOMMENDATION

The clerk should reconcile trial balances of execution docket cause balances with cash journal accounts. To comply with state statutes, the clerk should report and pay to the state Treasurer's Office any unclaimed funds held for more than one year.

FINDING 05.13 **THE OFFICE HAD DEFICIENCIES IN THE MAINTENANCE OF LITIGANTS' ACCOUNTS**
(A. and B. Internal Control – Reportable Condition Under Government Auditing Standards; C. Noncompliance Under Government Auditing Standards)

Our examination of records maintained for litigants' accounts revealed the following deficiencies:

A. Short-term accounts held for litigants were not reconciled with the general ledger control accounts. Thus, we noted several errors that were not identified and corrected. These errors would have been detected if the clerk had periodically reconciled the short-term accounts with the cash journal totals. We provided audit adjustments to management for approval and posting so the office's account balances would be presented properly in the financial statements of this report.

B. During the audit, checks for litigant's interest earnings that had not been receipted and deposited were found in the office. For example, in November 2005, we found a check for interest dated August 2005. This August check was a replacement for an interest check lost in February 2005. Another litigant interest check was located in a litigant's file, and the envelope containing the check had not been opened. These checks were presented to the clerk for receipting and depositing.

C. Short-term accounts held for litigants were not disbursed to the litigants by official prenumbered checks as required by Section 5-8-207, Tennessee Code Annotated. Instead, these funds were disbursed by cashier's checks. The office did not maintain any documentation of the disbursements to support the transactions. We also noted several of these disbursements were not posted to the dockets. We reviewed cancelled checks and documentation from the bank to determine that these funds were disbursed to litigants.

RECOMMENDATION

Short-term accounts held for litigants should be reconciled with the general ledger monthly. Also, interest earned on the short-term accounts should be receipted, deposited, and posted to the general ledger and the corresponding case in the execution docket. Furthermore, litigants' funds should be disbursed by official prenumbered checks.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 05.14 **A CENTRAL SYSTEM OF ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

County officials had not adopted a central system of accounting, budgeting, and purchasing. Establishing a central system would significantly improve internal controls over the accounting, budgeting, and purchasing processes.

RECOMMENDATION

County officials should consider adopting the County Financial Management System of 1981 or a private act which would provide for a central system of accounting, budgeting, and purchasing covering all county departments.

FINDING 05.15 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF COUNTY MAYOR, HIGHWAY SUPERINTENDENT, DIRECTOR OF SCHOOLS, TRUSTEE, COUNTY CLERK, CIRCUIT AND GENERAL SESSIONS COURTS CLERK, CLERK AND MASTER, REGISTER, AND SHERIFF**

(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among the officials and employees in the Offices of County Mayor, Highway Superintendent, Director of Schools, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff. Officials and employees responsible for maintaining accounting records were also involved in receipting, depositing, and/or disbursing funds. We realize that due to limited resources and personnel, management may not be able to properly segregate duties among employees. However, our professional standards require that we bring this matter to the reader's attention in this report.

PART III, FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

There were no findings and questioned costs for federal awards.

CLAY COUNTY, TENNESSEE, AND THE
CLAY COUNTY SCHOOL DEPARTMENT
AUDITEE REPORTING RESPONSIBILITIES
For the Year Ended June 30, 2005

There were no audit findings relative to federal awards presented in the prior audit's Schedule of Findings and Questioned Costs or the current year's Schedule of Findings and Questioned Costs.