

**ANNUAL FINANCIAL REPORT
OF
GRUNDY COUNTY, TENNESSEE
AND
GRUNDY 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
GRUNDY 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

MICHAEL FORD, CPA, CGFM
Auditor 4

JUNE ROGERS, CGFM
DEVAN N. FLYNN
JENI BOYETTE
State Auditors

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

GRUNDY COUNTY, TENNESSEE

TABLE OF CONTENTS

	Exhibit/Table	Page
Audit Highlights		i
<u>INTRODUCTORY SECTION</u>		
Grundy County Officials		1
<u>FINANCIAL SECTION</u>		
Independent Auditor's Report		5
BASIC FINANCIAL STATEMENTS:		
Fund Financial Statements:		
Governmental Funds:		
Balance Sheet	A	11
Statement of Revenues, Expenditures, and Changes in Fund Balances	B	12
Fiduciary Funds:		
Statement of Fiduciary Assets and Liabilities	C	14
Notes to the Financial Statements		15
REQUIRED SUPPLEMENTARY INFORMATION:		
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Actual (Budgetary Basis) and Budget:		
General Fund	D-1	33
Solid Waste/Sanitation Fund	D-2	35
Highway/Public Works Fund	D-3	36
Notes to the Required Supplementary Information		37
COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES:		
Nonmajor Governmental Funds:		
Combining Balance Sheet	E-1	43
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	E-2	44
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Actual (Budgetary Basis) and Budget:		
Courthouse and Jail Maintenance Fund	E-3	45
Industrial/Economic Development Fund	E-4	46
Drug Control Fund	E-5	47

	Exhibit/Table	Page
Major Governmental Fund:		
Schedule of Revenues, Expenditures, and		
Changes in Fund Balance – Actual and Budget:		
General Debt Service Fund	F	51
Agency Funds:		
Combining Statement of Fiduciary Assets and		
Liabilities	G-1	55
Combining Statement of Changes in Assets and		
Liabilities	G-2	56
Miscellaneous Schedules:		
Schedule of Changes in Long-term Notes,		
Other Loans, and Bonds	H-1	59
Schedule of Bond and Interest Requirements by Year	H-2	60
Schedule of Transfers – All Funds	H-3	61
Schedule of Salaries and Official Bonds of Principal		
Officials	H-4	62
Schedule of Detailed Revenues – All Governmental		
Fund Types	H-5	63
Schedule of Detailed Expenditures – All		
Governmental Fund Types	H-6	67
Schedule of Detailed Receipts, Disbursements, and		
Changes in Cash Balance – City Agency Fund	H-7	81

STATISTICAL SECTION

Uncollected Taxes Filed in Chancery Court	1	85
Tax Rates and Assessments – Last Ten Years	2	86

Audit Highlights

Annual Financial Report
Grundy 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 Grundy County as of and for the year ended June 30, 2005.

Results

Our report on Grundy 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 seven findings and recommendations, which we have reviewed with Grundy County management. Detailed findings and recommendations are included in the Single Audit Report.

Findings

The following are summaries of the audit findings:

GRUNDY 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 office accounted for the transactions of the county-owned sewer system through the county's General Fund instead of an enterprise fund.

OFFICE OF COUNTY CLERK

- ◆ The juvenile court officer did not issue receipts for juvenile court restitution, or deposit these collections to the office bank account, or disburse the restitution by official prenumbered checks.
-

OFFICE OF SHERIFF

- ◆ Funds were not deposited within three days of collections.
 - ◆ The Sheriff's Department did not maintain inventory records for seized property.
-

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

Grundy County Officials
June 30, 2005

Officials:

LaDue Bouldin, County Mayor
Hubert Hargis, Highway Superintendent
Lucyle Hampton, Trustee
Joanne Childers, Assessor of Property
Jimmy Rogers, County Clerk
Marcia Bess, Circuit and General Sessions Courts Clerk
Phyllis Dent, Clerk and Master
Gayle VanHooser, Register
Robert Meeks, Sheriff

Board of County Commissioners:

Ralph E. Rieben, Chairman	David Griswold
Robert Borne	Tim Layne
Gary Brewer	David Lockhart
David Gallagher	Monte Meeks
Earl Geary, Jr.	

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

September 1, 2005

Grundy County Mayor and
Board of County Commissioners
Grundy 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 Grundy County, Tennessee, as of and for the year ended June 30, 2005, as shown on pages 11 through 30, 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 Grundy County'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 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, Grundy 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 effect 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 Grundy County, Tennessee, as of June 30, 2005, or the changes in its financial position, where applicable for the year then ended.

Transactions pertaining to the operations of the county-owned sewer system were accounted for through the General Fund (major fund). These transactions should be accounted for in an enterprise fund using the accrual basis of accounting in accordance with state statutes. The effects on the financial statements are not reasonably determinable.

However, in our opinion, except for the effect of the matter discussed in the preceding paragraph, 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 Grundy 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 September 1, 2005, on our consideration of Grundy 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 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 III.B., Grundy 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 37 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 Grundy 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,

A handwritten signature in black ink that reads "John G. Morgan" with a long horizontal flourish extending to the right.

John G. Morgan
Comptroller of the Treasury

JGM/sb

BASIC FINANCIAL STATEMENTS

Exhibit A

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

	Major Funds				Nonmajor	Total
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern- mental Funds	
<u>ASSETS</u>						
Cash	\$ 521	\$ 0	\$ 0	\$ 0	\$ 0	521
Equity in Pooled Cash and Investments	1,130,085	1,416,164	1,286,453	1,847,541	925,310	6,605,553
Due from Other Governments	8,268	0	257,002	78,400	0	343,670
Due from Other Funds	4,559	0	0	0	0	4,559
Property Taxes Receivable	1,373,581	280,959	0	249,742	0	1,904,282
Allowance for Uncollectible Property Taxes	(59,013)	(12,071)	0	(10,730)	0	(81,814)
Total Assets	\$ 2,458,001	\$ 1,685,052	\$ 1,543,455	\$ 2,164,953	\$ 925,310	\$ 8,776,771
<u>LIABILITIES AND FUND BALANCES</u>						
<u>Liabilities</u>						
Accounts Payable	\$ 4,398	\$ 0	\$ 0	\$ 0	\$ 0	4,398
Payroll Deductions Payable	1	0	0	0	0	1
Deferred Revenue - Current Property Taxes	1,224,066	250,377	0	222,557	0	1,697,000
Deferred Revenue - Delinquent Property Taxes	90,502	18,511	0	16,455	0	125,468
Other Deferred Revenues	0	0	130,000	39,079	0	169,079
Total Liabilities	\$ 1,318,967	\$ 268,888	\$ 130,000	\$ 278,091	\$ 0	\$ 1,995,946
<u>Fund Balances</u>						
Reserved for Purchase of Electronic Fingerprint Imaging System	\$ 0	\$ 0	\$ 0	\$ 0	\$ 28,007	\$ 28,007
Reserved for Alcohol and Drug Treatment	17,826	0	0	0	0	17,826
Reserved for Drug Court	602	0	0	0	0	602
Reserved for Courthouse and Jail Maintenance	111,630	0	0	0	0	111,630
Reserved for Computer System - Register	685	0	0	0	0	685
Reserved for Other General Purposes	14,019	0	0	0	0	14,019
Unreserved, Reported In:						
General Fund	994,272	0	0	0	0	994,272
Special Revenue Funds	0	1,416,164	1,413,455	0	384,833	3,214,452
Debt Service Funds	0	0	0	1,886,862	0	1,886,862
Capital Projects Funds	0	0	0	0	512,470	512,470
Total Fund Balances	\$ 1,139,034	\$ 1,416,164	\$ 1,413,455	\$ 1,886,862	\$ 925,310	\$ 6,780,825
Total Liabilities and Fund Balances	\$ 2,458,001	\$ 1,685,052	\$ 1,543,455	\$ 2,164,953	\$ 925,310	\$ 8,776,771

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

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

Exhibit B

	Major Funds				Nonmajor	Total
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Governmental Funds	
<u>Revenues</u>						
Local Taxes	\$ 1,988,455	\$ 489,675	\$ 0	\$ 625,862	\$ 33,602	\$ 3,137,594
Licenses and Permits	5,048	0	0	0	0	5,048
Fines, Forfeitures, and Penalties	26,316	0	0	0	78,244	104,560
Charges for Current Services	48,840	0	69,858	0	36,036	154,734
Other Local Revenues	41,056	11,316	19,080	149,076	86,330	306,858
Fees Received from County Officials	472,053	0	0	0	0	472,053
State of Tennessee	154,463	0	1,538,401	0	10,260	1,703,124
Federal Government	13,481	0	0	0	61,730	75,211
Other Governments and Citizens Groups	4,500	10,000	0	500,000	0	514,500
Total Revenues	\$ 2,754,212	\$ 510,991	\$ 1,627,339	\$ 1,274,938	\$ 306,202	\$ 6,473,682
<u>Expenditures</u>						
Current:						
General Government	\$ 377,300	\$ 0	\$ 0	\$ 0	\$ 33,745	\$ 411,045
Finance	294,419	0	0	0	0	294,419
Administration of Justice	354,004	0	0	0	9,156	363,160
Public Safety	827,766	0	0	0	2,399	830,165
Public Health and Welfare	216,041	461,212	0	0	0	677,253
Social, Cultural, and Recreational Services	35,935	0	0	0	0	35,935
Agricultural and Natural Resources	67,844	0	0	0	0	67,844
Other Operations	456,691	9,775	0	0	5,890	472,356
Highways	0	0	1,913,513	0	0	1,913,513
Debt Service:						
Principal	15,708	0	0	618,150	39,487	673,345
Interest	2,340	0	0	571,606	20,513	594,459
Other Debt Service	0	0	0	25,837	0	25,837
Capital Projects	0	0	0	0	27,100	27,100
Total Expenditures	\$ 2,648,048	\$ 470,987	\$ 1,913,513	\$ 1,215,593	\$ 138,290	\$ 6,386,431
Excess (Deficiency) of Revenues Over Expenditures	\$ 106,164	\$ 40,004	\$ (286,174)	\$ 59,345	\$ 167,912	\$ 87,251
<u>Other Financing Sources (Uses)</u>						
Transfers In	\$ 0	\$ 9,920	\$ 0	\$ 0	\$ 0	\$ 9,920
Transfers Out	0	0	0	0	(9,920)	(9,920)
Total Other Financing Sources (Uses)	\$ 0	\$ 9,920	\$ 0	\$ 0	\$ (9,920)	\$ 0

(Continued)

Grundy County, Tennessee
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds (Cont.)

Exhibit B

	Major Funds				Nonmajor	Total
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Funds Other Govern- mental Funds	
Net Change in Fund Balances	\$ 106,164	\$ 49,924	\$ (286,174)	\$ 59,345	\$ 157,992	\$ 87,251
Fund Balance, July 1, 2004	1,032,870	1,366,240	1,699,629	1,827,517	767,318	6,693,574
Fund Balance, June 30, 2005	<u>\$ 1,139,034</u>	<u>\$ 1,416,164</u>	<u>\$ 1,413,455</u>	<u>\$ 1,886,862</u>	<u>\$ 925,310</u>	<u>\$ 6,780,825</u>

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

Exhibit C

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

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash	\$ 638,330
Accounts Receivable	307
Due from Other Governments	<u>82,585</u>
Total Assets	<u>\$ 721,222</u>
<u>LIABILITIES</u>	
Due to Other Funds	\$ 4,559
Due to Other Taxing Units	82,585
Due to Litigants, Heirs, and Others	<u>634,078</u>
Total Liabilities	<u>\$ 721,222</u>

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Grundy 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.

Grundy 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. Grundy 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 Grundy County's auditor to issue an adverse opinion on the county's financial statements.

Although Grundy 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 to be 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 Grundy County:

A. Reporting Entity

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

Blended Component Units – There are no legally separate component units of Grundy 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 Grundy 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 Grundy County School Department operates the public school system in the county, and the voters of Grundy 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 Grundy County Emergency Communications District provides a simplified means of securing emergency services through a uniform emergency number for the residents of Grundy County, and its governing body is appointed by Grundy County's Board of County Commissioners. 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 Grundy County School Department and the Grundy 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 Grundy County Emergency Communications District's financial statements are published as a separate report. Complete financial statements of the Grundy County Emergency Communications District can be obtained from its administrative office at the following address:

Grundy County Emergency Communications District
P. O. Box 177
Altamont, TN 37301

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

Fund financial statements of Grundy 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. An emphasis is placed on major funds within the governmental category. Grundy County has no proprietary funds to report.

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. Grundy 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.

Grundy 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 is used to account for transactions relating to the disposal of Grundy County’s solid waste.

Highway/Public Works Fund – This fund accounts for 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 government funds.

Grundy County also reports the following fund types:

Capital Projects Fund – The General Capital Projects Fund is used to account for various capital projects within the county.

Agency Funds – These funds account for amounts collected in an agency capacity by the constitutional officers and local sales taxes received from the state to be forwarded to the various cities in the 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 Grundy County and Grundy 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. Grundy County and the Grundy 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 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

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 2.36 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 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; they report capital outlays as expenditures upon acquisition. Grundy 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, Grundy County does not present government-wide statements.

4. Compensated Absences

General policy of Grundy County does not allow for the accumulation of vacation and sick days beyond the year-end, except for the Highway Department, which permits the accumulation of vacation and sick leave exceeding a normal year's accumulation. Payment of vacation leave is guaranteed; however, this guaranteed amount is not considered material to the financial statements of this report.

5. Long-term Obligations

Only the matured portion (the portion that has come due for payment) of long-term indebtedness, including bonds and notes 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, and landfill postclosure cost 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 specified purpose.

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Grundy County and the Grundy County School Department participate in an internal cash and investment pool through the Office of Trustee. The Grundy County School Department meets the criteria for a discretely presented component unit of Grundy County. Since Grundy County is presenting fund financial statements only, the financial information for the Grundy 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 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 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.

Investment Balances. As of June 30, 2005, Grundy County had the following investments carried at or cost. All investments are in the county trustee's investment pool. Separate disclosures concerning pooled investments cannot be made for Grundy County and the discretely presented Grundy County School Department since both pool their deposits and investments through the county trustee.

<u>Investment</u>	<u>Maturities</u>	<u>Cost</u>
State Treasurer's Investment Pool	Daily	<u>\$ 4,126,656</u>
Total		<u><u>\$ 4,126,656</u></u>

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. State statutes limit the maturities of certain investments as previously disclosed. Grundy County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statutes limit the ratings of certain investments as previously explained. Grundy County has no investment policy that would further limit its investment choices. As of June 30, 2005, Grundy County's investment in the State Treasurer's Investment Pool was unrated.

B. Interfund Receivables, Payables, and Transfers

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

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Agency	\$ 4,559

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:

<u>Transfers Out</u>	<u>Transfers In</u> Solid Waste/ Sanitation Fund
Nonmajor governmental fund	\$ 9,920
Total	<u>\$ 9,920</u>

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.

C. Long-term Debt

Since Grundy 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 Grundy County is not presenting government-wide financial statements.

General Obligation Bonds, Notes and Other Loans

The county issues general obligation bonds, capital outlay notes, and other loans to provide funds for the acquisition and construction of major capital facilities. In addition, general obligation bonds have been issued to refund other general obligation bonds.

General obligation bonds, capital outlay notes, and other loans are direct obligations and pledge the full faith and credit of the government. General obligation bonds, capital outlay notes, and other loans outstanding were issued for original terms of up to 25 years for bonds, six years for notes, and

up to 20 years for other loans. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All bonds and notes included in the long-term debt as of June 30, 2005, will be retired from the General Debt Service Fund. Other loans included in the long-term debt as of June 30, 2005, will be retired from the General Fund (\$177,401) and the Industrial/Economic Development Fund (\$388,252).

General obligation bonds, capital outlay notes, and other loans outstanding as of June 30, 2005, are as follows:

Purpose	Interest Rate	Original Amount of Issue	Balance 6-30-05
General Obligation Bonds	3.4 to 6%	\$ 14,311,000	\$ 2,252,921
General Obligation Bonds - Refunding	3.5 to 5	9,555,000	9,310,000
Capital Outlay Notes	5.3	350,000	66,000
Other Loans	1.26 to 3	746,719	388,252

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

Year Ending June 30	Bonds		Notes	
	Principal	Interest	Principal	Interest
2006	\$ 580,395	\$ 539,677	\$ 66,000	\$ 1,749
2007	610,651	511,360	0	0
2008	635,919	481,257	0	0
2009	661,201	454,490	0	0
2010	691,495	426,079	0	0
2011-2015	3,738,260	1,645,340	0	0
2016-2020	3,775,000	792,470	0	0
2021	870,000	43,500	0	0
Total	\$ 11,562,921	\$ 4,894,173	\$ 66,000	\$ 1,749

Year Ending June 30	Other Loans	
	Principal	Interest
2006	\$ 41,979	\$ 20,298
2007	48,256	12,370
2008	49,438	11,188
2009	50,661	9,976
2010	51,904	8,722
2011-2015	279,484	23,691
2016	43,931	555
Total	<u>\$ 565,653</u>	<u>\$ 86,800</u>

There is \$1,886,862 available in the General Debt Service Fund to service long-term debt. General bonded debt per capita amounted to \$807, based on the 2000 federal census. Total debt per capita, including bonds, notes, and other loans amounted to \$851, 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:	Bonds	Notes	Other Loans
Balance July 1, 2004	\$ 12,118,071	\$ 129,000	\$ 620,848
Deductions	(555,150)	(63,000)	(55,195)
Balance June 30, 2005	<u>\$ 11,562,921</u>	<u>\$ 66,000</u>	<u>\$ 565,653</u>
Balance Due Within One Year	<u>\$ 580,395</u>	<u>\$ 66,000</u>	<u>\$ 41,979</u>

	Landfill Postclosure Care Costs
Balance July 1, 2004	\$ 248,000
Deductions	(9,920)
Balance June 30, 2005	<u>\$ 238,080</u>
Balance Due Within One Year	<u>\$ 9,920</u>

On September 19, 2003, the county assumed \$427,739 of a Community Development Block Grant Industrial Development Loan. The original loan (\$699,000) had passed through Grundy County to an industrial corporation located in the county. This loan, along with interest of \$74,644, will be repaid over the next 11 years.

During February 2004, Grundy County entered into a revocable contact with a private firm to provide postclosure care for the county's closed landfill. Terms of this agreement require the county to pay an annual fee of \$9,920 for postclosure care costs. The county is required to provide postclosure care of this closed landfill for the next 24 years. The June 30, 2005, postclosure care cost balance is based on the revocable contract of \$9,920 per year for the next 24 years.

Defeasance of Prior Debt

In prior years, Grundy County defeased certain outstanding general obligation bonds by placing the proceeds of new bonds into an irrevocable trust to provide for all future debt service payments on the old bonds. The trustee is empowered and required to pay all principal and interest on the defeased bonds as originally scheduled. Accordingly, the trust accounts and the defeased bonds are not included in the county's financial statements. At June 30, 2005, the following outstanding bonds are considered defeased:

1996 General Obligation School Bond Series	\$8,580,000
--	-------------

III. OTHER INFORMATION

A. Risk Management

Grundy County is exposed to various risks related to general liability, property, casualty, and workers' compensation. Grundy County is a member of 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 the pool for general liability, property, casualty losses 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 of more than \$100,000 for each insured event.

Grundy County provides health insurance coverage to its employees through the Local Government Group Insurance Fund (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 was 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 Financial Report of the State of Tennessee, but the state does not retain any risk for losses by the fund. The state statute provides for the LGGIF to be self-sustaining through member premiums.

B. Accounting Change

During the year, Grundy 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 August 22, 2005, Robert Meeks resigned the Office of Sheriff and was succeeded by Brent Myers.

D. Contingent Liabilities

The county attorney has advised of one pending lawsuit in which the plaintiff alleges her right to be free from illegal search and seizure was violated. The plaintiff is seeking compensatory damages of \$1,250,000 and punitive damages of \$1,000,000. The county had been represented in this matter by its insurance carrier. However, due to a policy exclusion, the insurance carrier has denied coverage to Grundy County concerning this claim and has withdrawn its defense. The county attorney has taken over the county's defense and estimates that if the plaintiff was to prevail, the county's exposure could range from \$0 to \$75,000.

In addition, there are several other pending lawsuits in which the county is involved. The county attorney estimates that the potential claims against the county not covered by insurance resulting from such litigation would not materially affect the financial statements of the county.

E. Landfill Postclosure Care Costs

State and federal laws and regulations require the county to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. These closure and postclosure care costs generally are paid near or after the date that the landfill stops accepting waste. The Grundy County landfill stopped accepting household solid waste during the 1997-98 year and has contracted with a private company for its waste disposal. The Solid Waste/Sanitation Fund (Special Revenue Fund) reports closure and postclosure care costs as expenditures in each period in which they are

incurred. The \$238,080 reported as landfill postclosure care cost liability at June 30, 2005, represents a revocable contract with a private firm for postclosure care cost of \$9,920 per year. The county is required to monitor the closed landfill for the next 24 years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

F. Joint Venture

The Twelfth Judicial District Drug Task Force (DTF) is a joint venture formed by an interlocal agreement between the district attorney general of the Twelfth Judicial District and the municipalities within the district. The district includes Bledsoe, Franklin, Grundy, Marion, Rhea, and Sequatchie Counties, and various cities within these counties. The purpose of the DTF is to provide multi-jurisdictional law enforcement to promote the investigation and prosecution of drug-related activities. Funds for the operations of the DTF come primarily from federal grants, drug fines, and the forfeiture of drug-related assets to the DTF. The DTF is overseen by the district attorney general and is governed by a Board of Directors including the district attorney general and the sheriffs and police chiefs of the participating law enforcement agencies within the judicial district. Grundy County made no contributions to the DTF for the year ended June 30, 2005, and does not have any equity interest in this joint venture. Complete financial statements for the DTF can be obtained from its administrative office at the following address:

District Attorney General's Office
Twelfth Judicial District
375 Church Street, Suite 300
Dayton, TN 37321

G. Retirement Commitments

Plan Description

Employees of Grundy 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 Grundy 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

Grundy 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 9.38 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Grundy County is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2005, Grundy County's annual pension cost of \$271,962 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. Grundy 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 12 years.

Trend Information

Fiscal Year Ended	Annual Pension Cost(APC)	Percentage of APC Contributed	Net Pension Obligation
6-30-05	\$271,962	100%	\$0
6-30-04	206,443	100	0
6-30-03	210,421	100	0

Required Supplementary Information
Schedule of Funding Progress for Grundy County

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll ((b-a)/c)
	(a)	(b)	(b) - (a)	(a/b)	(c)	
6-30-03	\$8,598	\$9,454	\$856	90.95%	\$2,655	32.24%
6-30-01	7,933	8,890	957	89.24	2,711	35.30
6-30-99	6,984	7,516	532	92.92	2,671	19.92

H. Purchasing Laws

Office of County Mayor

Purchasing procedures for the Office of County Mayor are governed by the County Purchasing Law of 1983, Sections 5-14-201 through 5-14-206, Tennessee Code Annotated (TCA), which provide for purchases exceeding \$5,000 to be made after public advertisement and solicitation of competitive bids.

Office of Highway Superintendent

Purchasing procedures for the Highway Department are governed by provisions of Chapter 435, Private Acts of 1939, and the Uniform Road Law, Section 54-7-113, TCA, which provide for purchases exceeding \$10,000 to be made after public advertisement and solicitation of competitive bids.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit D-1

Grundy 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		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 1,988,455	\$ 1,888,743	\$ 1,888,743	\$ 99,712
Licenses and Permits	5,048	3,700	3,700	1,348
Fines, Forfeitures, and Penalties	26,316	19,050	19,050	7,266
Charges for Current Services	48,840	38,900	39,440	9,400
Other Local Revenues	41,056	31,500	41,217	(161)
Fees Received from County Officials	472,053	439,000	439,000	33,053
State of Tennessee	154,463	250,170	255,876	(101,413)
Federal Government	13,481	0	17,045	(3,564)
Other Governments and Citizens Groups	4,500	12,688	12,688	(8,188)
Total Revenues	\$ 2,754,212	\$ 2,683,751	\$ 2,716,759	\$ 37,453
<u>Expenditures</u>				
<u>General Government</u>				
County Commission	\$ 14,585	\$ 18,800	\$ 18,800	\$ 4,215
Board of Equalization	2,000	2,000	2,000	0
Beer Board	75	200	200	125
Other Boards and Committees	0	1,000	1,000	1,000
County Mayor	97,102	98,696	98,696	1,594
County Attorney	13,485	16,200	16,200	2,715
Election Commission (Including Voter Registration)	101,036	104,175	104,175	3,139
Register of Deeds	76,674	76,918	76,918	244
County Buildings	72,343	99,605	99,605	27,262
<u>Finance</u>				
Property Assessor's Office	102,584	106,728	106,728	4,144
County Trustee's Office	86,659	87,955	87,955	1,296
County Clerk's Office	105,176	105,657	105,657	481
<u>Administration of Justice</u>				
Circuit Court	172,610	182,055	182,055	9,445
General Sessions Court	0	500	500	500
General Sessions Judge	60,321	61,137	61,137	816
Chancery Court	78,378	79,179	79,179	801
Juvenile Court	42,095	46,328	46,328	4,233
Other Administration of Justice	600	1,000	1,000	400
<u>Public Safety</u>				
Sheriff's Department	490,106	487,025	496,552	6,446
Traffic Control	41,799	94,484	42,563	764
Administration of the Sexual Offender Registry	259	0	540	281
Jail	277,962	229,838	284,773	6,811
Fire Prevention and Control	9,640	12,000	12,000	2,360
Rescue Squad	4,500	4,500	4,500	0
County Coroner/Medical Examiner	1,500	2,100	2,100	600
Other Public Safety	2,000	74,996	74,996	72,996

(Continued)

Exhibit D-1

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Expenditures (Cont.)</u>				
<u>Public Health and Welfare</u>				
Local Health Center	\$ 53,989	\$ 85,716	\$ 85,716	\$ 31,727
Ambulance/Emergency Medical Services	125,000	125,000	125,000	0
Crippled Children Services	830	830	830	0
Regional Mental Health Center	7,000	7,000	7,000	0
General Welfare Assistance	2,458	2,500	2,500	42
Other Waste Disposal	26,764	36,800	36,800	10,036
<u>Social, Cultural and Recreational Services</u>				
Senior Citizens Assistance	1,500	1,500	1,500	0
Libraries	34,435	44,404	44,404	9,969
<u>Agriculture & Natural Resources</u>				
Agriculture Extension Service	47,782	50,265	50,265	2,483
Soil Conservation	20,062	22,103	22,182	2,120
<u>Other Operations</u>				
Tourism	10,837	1,500	11,045	208
Industrial Development	2,866	2,900	2,900	34
Other Economic and Community Development	7,500	0	7,500	0
Veterans' Services	11,565	11,565	11,565	0
Other Charges	142,600	147,633	147,633	5,033
Contributions to Other Agencies	21,444	21,450	21,450	6
Employee Benefits	242,634	259,100	259,100	16,466
Miscellaneous	17,245	16,000	18,000	755
<u>Principal</u>				
General Government	15,708	15,708	15,708	0
<u>Interest</u>				
General Government	2,340	2,340	2,340	0
Total Expenditures	\$ 2,648,048	\$ 2,847,390	\$ 2,879,595	\$ 231,547
Excess (Deficiency) of Revenues Over Expenditures				
	\$ 106,164	\$ (163,639)	\$ (162,836)	\$ 269,000
Net Change in Fund Balance				
Fund Balance, July 1, 2004	\$ 1,032,870	\$ 995,113	\$ 995,113	\$ 37,757
Fund Balance, June 30, 2005				
	\$ 1,139,034	\$ 831,474	\$ 832,277	\$ 306,757

Exhibit D-2

Grundy 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		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 489,675	\$ 478,568	\$ 478,568	\$ 11,107
Other Local Revenues	11,316	5,000	5,000	6,316
State of Tennessee	0	4,500	4,500	(4,500)
Other Governments and Citizens Groups	10,000	10,000	10,000	0
Total Revenues	<u>\$ 510,991</u>	<u>\$ 498,068</u>	<u>\$ 498,068</u>	<u>\$ 12,923</u>
<u>Expenditures</u>				
<u>Public Health and Welfare</u>				
Convenience Centers	\$ 450,792	\$ 498,200	\$ 498,200	\$ 47,408
Landfill Operation and Maintenance	10,420	22,000	22,000	11,580
<u>Other Operations</u>				
Other Charges	9,775	12,000	12,000	2,225
Total Expenditures	<u>\$ 470,987</u>	<u>\$ 532,200</u>	<u>\$ 532,200</u>	<u>\$ 61,213</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 40,004</u>	<u>\$ (34,132)</u>	<u>\$ (34,132)</u>	<u>\$ 74,136</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 9,920	\$ 0	\$ 0	\$ 9,920
Total Other Financing Sources (Uses)	<u>\$ 9,920</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 9,920</u>
Net Change in Fund Balance	\$ 49,924	\$ (34,132)	\$ (34,132)	\$ 84,056
Fund Balance, July 1, 2004	<u>1,366,240</u>	<u>1,359,692</u>	<u>1,359,692</u>	<u>6,548</u>
Fund Balance, June 30, 2005	<u>\$ 1,416,164</u>	<u>\$ 1,325,560</u>	<u>\$ 1,325,560</u>	<u>\$ 90,604</u>

Exhibit D-3

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2004	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Revenues</u>						
Charges for Current Services	\$ 69,858	\$ 0	\$ 69,858	\$ 10,000	\$ 10,000	\$ 59,858
Other Local Revenues	19,080	0	19,080	10,200	10,200	8,880
State of Tennessee	1,538,401	0	1,538,401	1,734,503	1,734,503	(196,102)
Total Revenues	\$ 1,627,339	\$ 0	\$ 1,627,339	\$ 1,754,703	\$ 1,754,703	\$ (127,364)
<u>Expenditures</u>						
<u>Highways</u>						
Administration	\$ 100,119	\$ 0	\$ 100,119	\$ 123,590	\$ 123,590	\$ 23,471
Highway and Bridge Maintenance	927,661	0	927,661	973,600	1,068,600	140,939
Operation and Maintenance of Equipment	210,535	0	210,535	222,247	246,547	36,012
Litter and Trash Collection	30,591	0	30,591	34,150	34,150	3,559
Other Charges	108,147	0	108,147	149,000	149,000	40,853
Employee Benefits	328,524	0	328,524	377,500	377,500	48,976
Capital Outlay	207,936	(147,942)	59,994	807,600	688,300	628,306
Total Expenditures	\$ 1,913,513	\$ (147,942)	\$ 1,765,571	\$ 2,687,687	\$ 2,687,687	\$ 922,116
Excess (Deficiency) of Revenues Over Expenditures	\$ (286,174)	\$ 147,942	\$ (138,232)	\$ (932,984)	\$ (932,984)	\$ 794,752
Net Change in Fund Balance	\$ (286,174)	\$ 147,942	\$ (138,232)	\$ (932,984)	\$ (932,984)	\$ 794,752
Fund Balance, July 1, 2004	1,699,629	(147,942)	1,551,687	1,473,390	1,473,390	78,297
Fund Balance, June 30, 2005	\$ 1,413,455	\$ 0	\$ 1,413,455	\$ 540,406	\$ 540,406	\$ 873,049

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

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.

**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 expendable trusts or 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. The proceeds of the tax must be used to pay for improvements or maintenance on the courthouse and jail.

Industrial/Economic Development Fund – This fund is used to account for lease/rental revenues on county industrial buildings and state/federal grants related to industrial/economic development.

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 transactions of the fee and commission accounts of the trustee, clerks, register, and sheriff. Revenues from fees and commissions earned by these officials are remitted to the county's General Fund.

Capital Projects Fund

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

General Capital Projects Fund – The General Capital Projects Fund is used to account for general capital expenditures of the county.

Exhibit E-1

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

	Special Revenue Funds				Capital Projects Fund	Total Nonmajor Governmental Funds
	Courthouse and Jail Maintenance	Industrial / Economic Development	Drug Control	Total	General Capital Projects	
<u>ASSETS</u>						
Equity in Pooled Cash and Investments	\$ 29,883	\$ 281,313	\$ 101,644	\$ 412,840	\$ 512,470	\$ 925,310
Total Assets	<u>\$ 29,883</u>	<u>\$ 281,313</u>	<u>\$ 101,644</u>	<u>\$ 412,840</u>	<u>\$ 512,470</u>	<u>\$ 925,310</u>
<u>FUND BALANCES</u>						
Reserved for Purchase of Electronic Fingerprint Imaging System	\$ 0	\$ 0	\$ 28,007	\$ 28,007	\$ 0	\$ 28,007
Unreserved	29,883	281,313	73,637	384,833	512,470	897,303
Total Fund Balances	<u>\$ 29,883</u>	<u>\$ 281,313</u>	<u>\$ 101,644</u>	<u>\$ 412,840</u>	<u>\$ 512,470</u>	<u>\$ 925,310</u>

Exhibit E-2

Grundy 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					Capital Projects Fund	Total Nonmajor Governmental Funds
	Courthouse and Jail Maintenance	Industrial / Economic Development	Drug Control	Constitu - tional Officers - Fees	Total	General Capital Projects	
<u>Revenues</u>							
Local Taxes	\$ 33,602	\$ 0	\$ 0	\$ 0	\$ 33,602	\$ 0	\$ 33,602
Fines, Forfeitures, and Penalties	0	0	78,244	0	78,244	0	78,244
Charges for Current Services	0	26,880	0	9,156	36,036	0	36,036
Other Local Revenues	0	86,330	0	0	86,330	0	86,330
State of Tennessee	0	10,260	0	0	10,260	0	10,260
Federal Government	0	61,730	0	0	61,730	0	61,730
Total Revenues	\$ 33,602	\$ 185,200	\$ 78,244	\$ 9,156	\$ 306,202	\$ 0	\$ 306,202
<u>Expenditures</u>							
Current:							
General Government	\$ 33,745	\$ 0	\$ 0	\$ 0	\$ 33,745	\$ 0	\$ 33,745
Administration of Justice	0	0	0	9,156	9,156	0	9,156
Public Safety	0	0	2,399	0	2,399	0	2,399
Other Operations	336	994	4,560	0	5,890	0	5,890
Debt Service:							
Principal	0	39,487	0	0	39,487	0	39,487
Interest	0	20,513	0	0	20,513	0	20,513
Capital Projects	0	27,100	0	0	27,100	0	27,100
Total Expenditures	\$ 34,081	\$ 88,094	\$ 6,959	\$ 9,156	\$ 138,290	\$ 0	\$ 138,290
Excess (Deficiency) of Revenues Over Expenditures							
	\$ (479)	\$ 97,106	\$ 71,285	\$ 0	\$ 167,912	\$ 0	\$ 167,912
<u>Other Financing Sources (Uses)</u>							
Transfers Out	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ (9,920)	\$ (9,920)
Total Other Financing Sources (Uses)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ (9,920)	\$ (9,920)
Net Change in Fund Balances							
Fund Balance, July 1, 2004	\$ 30,362	\$ 184,207	\$ 30,359	\$ 0	\$ 244,928	\$ 522,390	\$ 767,318
Fund Balance, June 30, 2005	\$ 29,883	\$ 281,313	\$ 101,644	\$ 0	\$ 412,840	\$ 512,470	\$ 925,310

Exhibit E-3

Grundy 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		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 33,602	\$ 35,000	\$ 35,000	\$ (1,398)
Total Revenues	\$ 33,602	\$ 35,000	\$ 35,000	\$ (1,398)
<u>Expenditures</u>				
<u>General Government</u>				
County Buildings	\$ 33,745	\$ 55,070	\$ 55,070	\$ 21,325
<u>Other Operations</u>				
Other Charges	336	450	450	114
Total Expenditures	\$ 34,081	\$ 55,520	\$ 55,520	\$ 21,439
Excess (Deficiency) of Revenues Over Expenditures	\$ (479)	\$ (20,520)	\$ (20,520)	\$ 20,041
Net Change in Fund Balance	\$ (479)	\$ (20,520)	\$ (20,520)	\$ 20,041
Fund Balance, July 1, 2004	30,362	27,199	27,199	3,163
Fund Balance, June 30, 2005	\$ 29,883	\$ 6,679	\$ 6,679	\$ 23,204

Exhibit E-4

Grundy County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Industrial/Economic Development Fund
For the Year Ended June 30, 2005

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2004	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Revenues</u>						
Charges for Current Services	\$ 26,880	\$ 0	\$ 26,880	\$ 24,000	\$ 24,000	\$ 2,880
Other Local Revenues	86,330	0	86,330	60,000	60,000	26,330
State of Tennessee	10,260	0	10,260	0	0	10,260
Federal Government	61,730	0	61,730	0	61,730	0
Total Revenues	<u>\$ 185,200</u>	<u>\$ 0</u>	<u>\$ 185,200</u>	<u>\$ 84,000</u>	<u>\$ 145,730</u>	<u>\$ 39,470</u>
<u>Expenditures</u>						
<u>Other Operations</u>						
Industrial Development	\$ 994	\$ 0	\$ 994	\$ 60,000	\$ 1,000	\$ 6
<u>Principal</u>						
General Government	39,487	0	39,487	0	60,000	20,513
<u>Interest</u>						
General Government	20,513	0	20,513	0	26,000	5,487
<u>Capital Projects</u>						
Public Health and Welfare Projects	100	(100)	0	0	0	0
Public Utility Projects	27,000	(1,000)	26,000	0	61,730	35,730
Total Expenditures	<u>\$ 88,094</u>	<u>\$ (1,100)</u>	<u>\$ 86,994</u>	<u>\$ 60,000</u>	<u>\$ 148,730</u>	<u>\$ 61,736</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 97,106</u>	<u>\$ 1,100</u>	<u>\$ 98,206</u>	<u>\$ 24,000</u>	<u>\$ (3,000)</u>	<u>\$ 101,206</u>
Net Change in Fund Balance	\$ 97,106	\$ 1,100	\$ 98,206	\$ 24,000	\$ (3,000)	\$ 101,206
Fund Balance, July 1, 2004	<u>184,207</u>	<u>(1,100)</u>	<u>183,107</u>	<u>278,651</u>	<u>278,651</u>	<u>(95,544)</u>
Fund Balance, June 30, 2005	<u>\$ 281,313</u>	<u>\$ 0</u>	<u>\$ 281,313</u>	<u>\$ 302,651</u>	<u>\$ 275,651</u>	<u>\$ 5,662</u>

Exhibit E-5

Grundy 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		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Fines, Forfeitures, and Penalties	\$ 78,244	\$ 10,000	\$ 83,118	\$ (4,874)
Total Revenues	\$ 78,244	\$ 10,000	\$ 83,118	\$ (4,874)
<u>Expenditures</u>				
<u>Public Safety</u>				
Drug Enforcement	\$ 2,399	\$ 9,100	\$ 82,218	\$ 79,819
<u>Other Operations</u>				
Other Charges	4,560	900	4,660	100
Total Expenditures	\$ 6,959	\$ 10,000	\$ 86,878	\$ 79,919
Excess (Deficiency) of Revenues Over Expenditures	\$ 71,285	\$ 0	\$ (3,760)	\$ 75,045
Net Change in Fund Balance	\$ 71,285	\$ 0	\$ (3,760)	\$ 75,045
Fund Balance, July 1, 2004	30,359	29,931	29,931	428
Fund Balance, June 30, 2005	\$ 101,644	\$ 29,931	\$ 26,171	\$ 75,473

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

Grundy 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		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 625,862	\$ 572,796	\$ 572,796	\$ 53,066
Other Local Revenues	149,076	130,000	130,000	19,076
Other Governments and Citizens Groups	500,000	0	500,000	0
Total Revenues	<u>\$ 1,274,938</u>	<u>\$ 702,796</u>	<u>\$ 1,202,796</u>	<u>\$ 72,142</u>
<u>Expenditures</u>				
<u>Principal</u>				
General Government	\$ 198,150	\$ 197,785	\$ 198,151	\$ 1
Education	420,000	420,000	420,000	0
<u>Interest</u>				
General Government	71,731	72,098	71,732	1
Education	499,875	499,875	499,875	0
<u>Other Debt Service</u>				
General Government	13,222	13,500	13,717	495
Education	12,615	4,000	12,615	0
Total Expenditures	<u>\$ 1,215,593</u>	<u>\$ 1,207,258</u>	<u>\$ 1,216,090</u>	<u>\$ 497</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 59,345</u>	<u>\$ (504,462)</u>	<u>\$ (13,294)</u>	<u>\$ 72,639</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 0	\$ 500,000	\$ 0	\$ 0
Total Other Financing Sources (Uses)	<u>\$ 0</u>	<u>\$ 500,000</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Change in Fund Balance	\$ 59,345	\$ (4,462)	\$ (13,294)	\$ 72,639
Fund Balance, July 1, 2004	1,827,517	1,822,441	1,822,441	5,076
Fund Balance, June 30, 2005	<u>\$ 1,886,862</u>	<u>\$ 1,817,979</u>	<u>\$ 1,809,147</u>	<u>\$ 77,715</u>

Agency Funds

Agency Funds are used to account for assets held by the county 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

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

	<u>Agency Funds</u>		
	Cities - Sales Tax	Constitu- tional Officers - Agency	Total
<u>ASSETS</u>			
Cash	\$ 0	\$ 638,330	\$ 638,330
Accounts Receivable	0	307	307
Due from Other Governments	82,585	0	82,585
Total Assets	<u>\$ 82,585</u>	<u>\$ 638,637</u>	<u>\$ 721,222</u>
<u>LIABILITIES</u>			
Due to Other Funds	\$ 0	\$ 4,559	\$ 4,559
Due to Other Taxing Units	82,585	0	82,585
Due to Litigants, Heirs, and Others	0	634,078	634,078
Total Liabilities	<u>\$ 82,585</u>	<u>\$ 638,637</u>	<u>\$ 721,222</u>

Exhibit G-2

Grunddy 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
<u>Cities - Sales Tax Fund</u>				
<u>Assets</u>				
Equity in Pooled Cash and Investments	\$ 0	\$ 420,185	\$ 420,185	\$ 0
Due From Other Governments	76,058	82,585	76,058	82,585
Total Assets	\$ 76,058	\$ 502,770	\$ 496,243	\$ 82,585
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 76,058	\$ 502,770	\$ 496,243	\$ 82,585
Total Liabilities	\$ 76,058	\$ 502,770	\$ 496,243	\$ 82,585
<u>Constitutional Officers - Agency Fund</u>				
<u>Assets</u>				
Cash	\$ 395,509	\$ 2,058,346	\$ 1,815,525	\$ 638,330
Accounts Receivable	438	307	438	307
Total Assets	\$ 395,947	\$ 2,058,653	\$ 1,815,963	\$ 638,637
<u>Liabilities</u>				
Due to Other Funds	\$ 538	\$ 4,559	\$ 538	\$ 4,559
Due to Litigants, Heirs, and Others	395,409	2,054,094	1,815,425	634,078
Total Liabilities	\$ 395,947	\$ 2,058,653	\$ 1,815,963	\$ 638,637
<u>Totals - All Agency Funds</u>				
<u>Assets</u>				
Equity in Pooled Cash and Investments	\$ 0	\$ 420,185	\$ 420,185	\$ 0
Cash	395,509	2,058,346	1,815,525	638,330
Accounts Receivable	438	307	438	307
Due From Other Governments	76,058	82,585	76,058	82,585
Total Assets	\$ 472,005	\$ 2,561,423	\$ 2,312,206	\$ 721,222
<u>Liabilities</u>				
Due to Other Funds	\$ 538	\$ 4,559	\$ 538	\$ 4,559
Due to Other Taxing Units	76,058	502,770	496,243	82,585
Due to Litigants, Heirs, and Others	395,409	2,054,094	1,815,425	634,078
Total Liabilities	\$ 472,005	\$ 2,561,423	\$ 2,312,206	\$ 721,222

MISCELLANEOUS SCHEDULES

Exhibit H-1

Grundy County, Tennessee
Schedule of Changes in Long-term Notes, Other Loans, and Bonds
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
<u>NOTES PAYABLE</u>							
<u>Payable through General Debt Service Fund</u>							
EMS Building	\$ 350,000	5.3%	11-11-1999	11-1-05	\$ 129,000	\$ 63,000	\$ 66,000
<u>OTHER LOANS PAYABLE</u>							
<u>Payable through General Fund</u>							
Waste Water System	318,980	1.26	Various	12-30-15	\$ 193,109	\$ 15,708	\$ 177,401
<u>Payable through Industrial/Economic Development Fund</u>							
Assumption Agreement - Industrial Building	427,739	2 to 3	9-13-03	6-30-16	427,739	39,487	388,252
Total Other Loans Payable					\$ 620,848	\$ 55,195	\$ 565,653
<u>GENERAL BONDED DEBT</u>							
<u>Payable through General Debt Service Fund</u>							
School Bond Series 1996	12,000,000	5.5 to 6	5-1-1996	5-1-21	\$ 1,125,000	\$ 355,000	\$ 770,000
School Refunding Series 1999	9,555,000	3.5 to 5	1-1-1999	5-1-21	9,375,000	65,000	9,310,000
Public Improvements Series 1998	2,220,000	3.4 to 4.15	11-1-1998	5-1-14	1,545,000	130,000	1,415,000
General Obligation Bond-Convenience Centers	91,000	4.75	9-30-1999	9-30-14	73,071	5,150	67,921
Total General Bonded Debt					\$ 12,118,071	\$ 555,150	\$ 11,562,921

Exhibit H-2

Grundy County, Tennessee
Schedule of Bond and Interest Requirements by Year

Year Ending June 30	Bond Requirements	Interest Requirements	Total Requirements
2006	\$ 580,395	\$ 539,677	\$ 1,120,072
2007	610,651	511,360	1,122,011
2008	635,919	481,257	1,117,176
2009	661,201	454,490	1,115,691
2010	691,495	426,079	1,117,574
2011	716,804	396,017	1,112,821
2012	752,127	364,579	1,116,706
2013	782,465	330,736	1,113,201
2014	822,820	295,518	1,118,338
2015	664,044	258,490	922,534
2016	685,000	227,930	912,930
2017	720,000	195,050	915,050
2018	755,000	160,490	915,490
2019	790,000	124,250	914,250
2020	825,000	84,750	909,750
2021	870,000	43,500	913,500
Total	\$ 11,562,921	\$ 4,894,173	\$ 16,457,094

Exhibit H-3

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

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Capital Projects	Solid Waste/Sanitation	Postclosure care cost	<u>\$ 9,920</u>
Total Transfers			<u><u>\$ 9,920</u></u>

Exhibit H-4

Grundy 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, <u>TCA</u>	\$ 55,403	\$ 50,000	Western Surety Company
Highway Superintendent	Section 8-24-102, <u>TCA</u>	52,765	100,000	"
Trustee	Section 8-24-102, <u>TCA</u>	47,969	429,100	"
Assessor of Property	Section 8-24-102, <u>TCA</u>	47,969	10,000	"
County Clerk	Section 8-24-102, <u>TCA</u>	47,969	30,000	"
Circuit Court Clerk	Section 8-24-102, <u>TCA</u>	47,969	50,000	"
Clerk and Master	Section 8-24-102, <u>TCA</u> and Circuit Court Judge	48,969 (1)	35,000	"
Register	Section 8-24-102, <u>TCA</u>	47,969	15,000	"
Sheriff	Section 8-24-102, <u>TCA</u>	53,284 (2)	25,000	"
Public Employees Blanket Bond			150,000	Local Government Insurance Pool

(1) Includes special commissioner fees of \$1,000.

(2) Includes law enforcement training supplement of \$519.

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

Exhibit H-5

	Special Revenue Funds							Debt Service Fund	Total
	General	Courthouse and Jail Maintenance	Solid Waste / Sanitation	Industrial / Economic Development	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>Local Taxes</u>									
<u>County Property Taxes</u>									
Current Property Tax	\$ 1,609,964	\$ 0	\$ 439,082	\$ 0	\$ 0	\$ 0	\$ 0	\$ 207,345	\$ 2,256,391
Trustee's Collections - Prior Year	112,336	0	30,637	0	0	0	0	14,467	157,440
Circuit/Clerk & Master Collections - Prior Years	44,366	0	12,100	0	0	0	0	5,714	62,180
Interest and Penalty	22,048	0	6,013	0	0	0	0	2,839	30,900
Payments in Lieu of Taxes - T.V.A.	2,071	0	565	0	0	0	0	267	2,903
Payments in Lieu of Taxes - Other	4,687	0	1,278	0	0	0	0	604	6,569
<u>County Local Option Taxes</u>									
Local Option Sales Tax	0	0	0	0	0	0	0	394,626	394,626
Litigation Tax - General	65,772	0	0	0	0	0	0	0	65,772
Litigation Tax - Special Purpose	0	33,602	0	0	0	0	0	0	33,602
Litigation Tax - Jail, Workhouse, or Courthouse	19,320	0	0	0	0	0	0	0	19,320
Business Tax	14,071	0	0	0	0	0	0	0	14,071
<u>Statutory Local Taxes</u>									
Bank Excise Tax	50,577	0	0	0	0	0	0	0	50,577
Wholesale Beer Tax	42,158	0	0	0	0	0	0	0	42,158
Interstate Telecommunications Tax	1,085	0	0	0	0	0	0	0	1,085
Total Local Taxes	\$ 1,988,455	\$ 33,602	\$ 489,675	\$ 0	\$ 0	\$ 0	\$ 0	\$ 625,862	\$ 3,137,594
<u>Licenses and Permits</u>									
<u>Licenses</u>									
Marriage Licenses	\$ 613	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 613
Cable TV Franchise	4,435	0	0	0	0	0	0	0	4,435
Total Licenses and Permits	\$ 5,048	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 5,048
<u>Fines, Forfeitures and Penalties</u>									
<u>Circuit Court</u>									
Drug Control Fines	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,684	\$ 0	\$ 0	\$ 0	\$ 2,684
Data Entry Fee - Circuit Court	130	0	0	0	0	0	0	0	130
<u>General Sessions Court</u>									
Fines	2,436	0	0	0	0	0	0	0	2,436
Officers Costs	9,043	0	0	0	0	0	0	0	9,043
Drug Court Fees	602	0	0	0	0	0	0	0	602

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

Exhibit H-5

	Special Revenue Funds							Debt Service Fund	Total
	General	Courthouse and Jail Maintenance	Solid Waste / Sanitation	Industrial / Economic Development	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>Fines, Forfeitures and Penalties (Cont.)</u>									
<u>General Sessions Court (Cont.)</u>									
Jail Fees	\$ 1,845	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,845
DUI Treatment Fines	2,012	0	0	0	0	0	0	0	2,012
Data Entry Fee - General Sessions Court	4,600	0	0	0	0	0	0	0	4,600
<u>Juvenile Court</u>									
Fines	4,467	0	0	0	0	0	0	0	4,467
<u>Chancery Court</u>									
Officers Costs	725	0	0	0	0	0	0	0	725
<u>Judicial District Drug Program</u>									
Drug Task Force Forfeitures and Seizures	0	0	0	0	75,560	0	0	0	75,560
Data Entry Fee - Other Courts	456	0	0	0	0	0	0	0	456
Total Fines, Forfeitures and Penalties	\$ 26,316	\$ 0	\$ 0	\$ 0	\$ 78,244	\$ 0	\$ 0	\$ 0	\$ 104,560
<u>Charges for Current Services</u>									
<u>General Service Charges</u>									
Residential Waste Collection Charge	\$ 38,821	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 38,821
Other General Service Charges	0	0	0	26,880	0	0	69,858	0	96,738
<u>Fees</u>									
Vending Machine Collections	3,081	0	0	0	0	0	0	0	3,081
Constitutional Officers' Fees and Commissions	0	0	0	0	0	9,156	0	0	9,156
Data Processing Fee - Register	6,324	0	0	0	0	0	0	0	6,324
Sexual Offender Registration Fee	600	0	0	0	0	0	0	0	600
<u>Other Charges for Services</u>									
Other Charges for Services	14	0	0	0	0	0	0	0	14
Total Charges for Current Services	\$ 48,840	\$ 0	\$ 0	\$ 26,880	\$ 0	\$ 9,156	\$ 69,858	\$ 0	\$ 154,734
<u>Other Local Revenues</u>									
<u>Recurring Items</u>									
Investment Income	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 149,076	\$ 149,076
Lease/Rentals	0	0	0	86,330	0	0	0	0	86,330
Sale of Gasoline	1,550	0	0	0	0	0	18,642	0	20,192
Miscellaneous Refunds	4,377	0	150	0	0	0	438	0	4,965

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

Exhibit H-5

	Special Revenue Funds							Debt Service Fund	Total
	General	Courthouse and Jail Maintenance	Solid Waste / Sanitation	Industrial / Economic Development	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>Other Local Revenues (Cont.)</u>									
<u>Nonrecurring Items</u>									
Insurance Recovery	\$ 8,447	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 8,447
Sale of Equipment	0	0	5,300	0	0	0	0	0	5,300
Contributions & Gifts	20	0	0	0	0	0	0	0	20
<u>Other Local Revenues</u>									
Other Local Revenues	26,662	0	5,866	0	0	0	0	0	32,528
Total Other Local Revenues	\$ 41,056	\$ 0	\$ 11,316	\$ 86,330	\$ 0	\$ 0	\$ 19,080	\$ 149,076	\$ 306,858
<u>Fees Received from County Officials</u>									
<u>Fees In Lieu of Salary</u>									
County Clerk	\$ 92,557	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 92,557
Circuit Court Clerk	20,407	0	0	0	0	0	0	0	20,407
General Sessions Court Clerk	104,415	0	0	0	0	0	0	0	104,415
Clerk and Master	33,898	0	0	0	0	0	0	0	33,898
Register	63,638	0	0	0	0	0	0	0	63,638
Sheriff	6,898	0	0	0	0	0	0	0	6,898
Trustee	150,240	0	0	0	0	0	0	0	150,240
Total Fees Received from County Officials	\$ 472,053	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 472,053
<u>State of Tennessee</u>									
<u>General Government Grants</u>									
Juvenile Services Program	\$ 9,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 9,000
State Reappraisal Grant	5,870	0	0	0	0	0	0	0	5,870
<u>Health and Welfare Grants</u>									
Health Department Programs	0	0	0	10,260	0	0	0	0	10,260
Other Health and Welfare Grants	18,802	0	0	0	0	0	0	0	18,802
<u>Public Works Grants</u>									
State Aid Program	0	0	0	0	0	0	14,529	0	14,529
Litter Program	0	0	0	0	0	0	25,469	0	25,469
<u>Other State Revenues</u>									
Income Tax	726	0	0	0	0	0	0	0	726
Beer Tax	7,692	0	0	0	0	0	0	0	7,692
Alcoholic Beverage Tax	31,563	0	0	0	0	0	0	0	31,563

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

Exhibit H-5

	Special Revenue Funds							Debt Service Fund	Total
	General	Courthouse and Jail Maintenance	Solid Waste / Sanitation	Industrial / Economic Development	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>State of Tennessee (Cont.)</u>									
<u>Other State Revenues (Cont.)</u>									
Contracted Prisoner Boarding	\$ 46,779	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 46,779
Gasoline and Motor Fuel Tax	0	0	0	0	0	0	1,486,874	0	1,486,874
Petroleum Special Tax	0	0	0	0	0	0	11,529	0	11,529
Registrar's Salary Supplement	16,380	0	0	0	0	0	0	0	16,380
Other State Grants	15,251	0	0	0	0	0	0	0	15,251
Other State Revenues	2,400	0	0	0	0	0	0	0	2,400
Total State of Tennessee	\$ 154,463	\$ 0	\$ 0	\$ 10,260	\$ 0	\$ 0	\$ 1,538,401	\$ 0	\$ 1,703,124
<u>Federal Government</u>									
<u>Federal Through State</u>									
Appalachian Regional Commission	\$ 0	\$ 0	\$ 0	\$ 61,730	\$ 0	\$ 0	\$ 0	\$ 0	\$ 61,730
Community Development	5,981	0	0	0	0	0	0	0	5,981
<u>Direct Federal Revenue</u>									
Other Direct Federal Revenue	7,500	0	0	0	0	0	0	0	7,500
Total Federal Government	\$ 13,481	\$ 0	\$ 0	\$ 61,730	\$ 0	\$ 0	\$ 0	\$ 0	\$ 75,211
<u>Other Governments and Citizens Groups</u>									
<u>Other Governments</u>									
Contributions	\$ 4,500	\$ 0	\$ 10,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 500,000	\$ 514,500
Total Other Governments and Citizens Groups	\$ 4,500	\$ 0	\$ 10,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 500,000	\$ 514,500
Total	\$ 2,754,212	\$ 33,602	\$ 510,991	\$ 185,200	\$ 78,244	\$ 9,156	\$ 1,627,339	\$ 1,274,938	\$ 6,473,682

Exhibit H-6

Grundy 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	\$	9,100	
Audit Services		3,305	
Dues and Memberships		1,800	
Printing, Stationery and Forms		380	
Total County Commission			\$ 14,585

Board of Equalization

Board and Committee Members Fees	\$	2,000	
Total Board of Equalization			2,000

Beer Board

Board and Committee Members Fees	\$	75	
Total Beer Board			75

County Mayor

County Official/Administrative Officer	\$	55,403	
Assistant(s)		17,960	
Part-time Personnel		12,233	
Communication		3,946	
Data Processing Services		3,367	
Maintenance & Repair Services- Vehicles		323	
Postal Charges		1,395	
Travel		1,580	
Office Supplies		895	
Total County Mayor			97,102

County Attorney

County Official/Administrative Officer	\$	1,200	
Legal Services		12,285	
Total County Attorney			13,485

Election Commission (Including Voter Registration)

County Official/Administrative Officer	\$	38,375	
Clerical Personnel		7,496	
Board and Committee Members Fees		3,818	
Election Workers		15,835	
In-Service Training		3,611	
Communication		3,250	
Data Processing Services		5,436	
Dues and Memberships		300	

(Continued)

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

General Fund (Cont.)

General Government (Cont.)

Election Commission (Including Voter
Registration) (Cont.)

Legal Notices, Recording and Court Costs	\$	5,694	
Maintenance & Repair Services- Equipment		885	
Postal Charges		1,500	
Printing, Stationery and Forms		9,726	
Travel		3,092	
Office Supplies		1,053	
Office Equipment		965	
Total Election Commission (Including Voter			
Registration)	\$		101,036

Register of Deeds

County Official/Administrative Officer	\$	47,969	
Deputy(ies)		17,960	
Communication		1,078	
Data Processing Services		6,758	
Dues and Memberships		413	
Postal Charges		534	
Travel		365	
Other Contracted Services		500	
Office Supplies		1,097	
Total Register of Deeds			76,674

County Buildings

Custodial Personnel	\$	6,405	
Communication		4,274	
Maintenance & Repair Services- Buildings		7,863	
Other Contracted Services		5,402	
Custodial Supplies		2,417	
Duplicating Supplies		3,499	
Electricity		25,860	
Natural Gas		6,098	
Water and Sewer		9,674	
Other Supplies and Materials		851	
Total County Buildings			72,343

Finance

Property Assessor's Office

County Official/Administrative Officer	\$	47,969	
Secretary(s)		24,588	
Part-time Personnel		10,477	
Audit Services		5,000	

(Continued)

Exhibit H-6

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

General Fund (Cont.)

Finance (Cont.)

Property Assessor's Office (Cont.)

Communication	\$	1,648	
Data Processing Services		6,607	
Dues and Memberships		400	
Postal Charges		876	
Printing, Stationery and Forms		794	
Travel		3,144	
Office Supplies		1,081	
Total Property Assessor's Office			\$ 102,584

County Trustee's Office

County Official/Administrative Officer	\$	47,969	
Deputy(ies)		17,960	
Part-time Personnel		347	
Communication		1,321	
Data Processing Services		3,026	
Dues and Memberships		450	
Postal Charges		3,505	
Printing, Stationery and Forms		1,200	
Travel		300	
Office Supplies		10,581	
Total County Trustee's Office			86,659

County Clerk's Office

County Official/Administrative Officer	\$	47,969	
Deputy(ies)		48,547	
Communication		3,049	
Dues and Memberships		300	
Postal Charges		2,300	
Travel		133	
Office Supplies		2,878	
Total County Clerk's Office			105,176

Administration of Justice

Circuit Court

County Official/Administrative Officer	\$	47,969
Deputy(ies)		65,985
Part-time Personnel		7,525
Jury and Witness Fees		18,968
Communication		4,053
Data Processing Services		9,393

(Continued)

Exhibit H-6

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

General Fund (Cont.)

Administration of Justice (Cont.)

Circuit Court (Cont.)

Dues and Memberships	\$	580	
Postal Charges		2,117	
Printing, Stationery and Forms		1,353	
Travel		300	
Duplicating Supplies		1,367	
Office Supplies		13,000	
Total Circuit Court			\$ 172,610

General Sessions Judge

Judge(s)	\$	59,287	
Communication		611	
Travel		383	
Office Supplies		40	
Total General Sessions Judge			60,321

Chancery Court

County Official/Administrative Officer	\$	47,969	
Deputy(ies)		17,960	
Part-time Personnel		500	
Communication		1,418	
Data Processing Services		5,922	
Dues and Memberships		423	
Postal Charges		1,100	
Office Supplies		3,086	
Total Chancery Court			78,378

Juvenile Court

Youth Service Officer(s)	\$	20,258	
Part-time Personnel		9,685	
Communication		1,692	
Postal Charges		888	
Rentals		3,600	
Travel		147	
Office Supplies		1,475	
Other Charges		4,350	
Total Juvenile Court			42,095

Other Administration of Justice

Drug Treatment	\$	600	
Total Other Administration of Justice			600

(Continued)

Exhibit H-6

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

General Fund (Cont.)

Public Safety

Sheriff's Department

County Official/Administrative Officer	\$	52,765	
Deputy(ies)		264,167	
Sergeant(s)		1,885	
School Resource Officer		21,154	
Other Salaries & Wages		23,104	
In-Service Training		9,162	
Communication		719	
Dues and Memberships		50	
Maintenance & Repair Services- Vehicles		19,333	
Postal Charges		823	
Printing, Stationery and Forms		922	
Gasoline		34,740	
Office Supplies		2,062	
Tires and Tubes		3,307	
Uniforms		1,801	
Other Supplies and Materials		310	
Liability Insurance		12,003	
Communication Equipment		5,032	
Law Enforcement Equipment		1,613	
Motor Vehicles		<u>35,154</u>	
Total Sheriff's Department	\$		490,106

Traffic Control

Dispatchers/Radio Operators	\$	39,463	
Communication		736	
Other Contracted Services		<u>1,600</u>	
Total Traffic Control			41,799

Administration of the Sexual Offender Registry

Communication	\$	<u>259</u>	
Total Administration of the Sexual Offender Registry			259

Jail

Accountants/Bookkeepers	\$	21,259	
Guards		136,025	
Cafeteria Personnel		12,604	
Communication		8,451	
Medical and Dental Services		54,380	
Transportation - Other than Students		10	
Custodial Supplies		567	

(Continued)

Exhibit H-6

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

<u>General Fund (Cont.)</u>		
<u>Public Safety (Cont.)</u>		
<u>Jail (Cont.)</u>		
Electricity	\$ 2,493	
Food Supplies	33,393	
Natural Gas	4,570	
Water and Sewer	3,001	
Other Supplies and Materials	1,209	
Total Jail		\$ 277,962
<u>Fire Prevention and Control</u>		
Contracts with Other Public Agencies	\$ 7,140	
Contributions	2,500	
Total Fire Prevention and Control		9,640
<u>Rescue Squad</u>		
Contributions	\$ 4,500	
Total Rescue Squad		4,500
<u>County Coroner/Medical Examiner</u>		
Pauper Burials	\$ 1,500	
Total County Coroner/Medical Examiner		1,500
<u>Other Public Safety</u>		
Contributions	\$ 2,000	
Total Other Public Safety		2,000
<u>Public Health and Welfare</u>		
<u>Local Health Center</u>		
Medical Personnel	\$ 18,308	
Custodial Personnel	8,960	
Communication	4,392	
Contracts with Government Agencies	12,816	
Dues and Memberships	100	
Postal Charges	700	
Drugs and Medical Supplies	125	
Electricity	3,395	
Natural Gas	2,556	
Office Supplies	1,102	
Water and Sewer	425	
Other Supplies and Materials	1,110	
Total Local Health Center		53,989

(Continued)

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

General Fund (Cont.)

Public Health and Welfare (Cont.)

Ambulance/Emergency Medical Services

Contributions	\$ 125,000	
Total Ambulance/Emergency Medical Services		\$ 125,000

Crippled Children Services

Contracts with Government Agencies	\$ 830	
Total Crippled Children Services		830

Regional Mental Health Center

Contributions	\$ 7,000	
Total Regional Mental Health Center		7,000

General Welfare Assistance

Contracts with Other Public Agencies	\$ 2,458	
Total General Welfare Assistance		2,458

Other Waste Disposal

Communication	\$ 811	
Maintenance & Repair Services- Vehicles	547	
Postal Charges	371	
Other Contracted Services	16,324	
Electricity	4,353	
Gasoline	286	
Office Supplies	146	
Water and Sewer	243	
Testing	1,005	
Other Supplies and Materials	2,678	
Total Other Waste Disposal		26,764

Social, Cultural and Recreational Services

Senior Citizens Assistance

Contributions	\$ 1,500	
Total Senior Citizens Assistance		1,500

Libraries

Librarians	\$ 34,435	
Total Libraries		34,435

Agriculture & Natural Resources

Agriculture Extension Service

Salary Supplements	\$ 43,118	
--------------------	-----------	--

(Continued)

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

General Fund (Cont.)

Agriculture & Natural Resources (Cont.)

Agriculture Extension Service (Cont.)

Communication	\$	3,908	
Duplicating Supplies		<u>756</u>	
Total Agriculture Extension Service	\$		47,782

Soil Conservation

Clerical Personnel	\$	17,103	
Communication		1,246	
Travel		296	
Other Supplies and Materials		534	
Other Charges		<u>883</u>	
Total Soil Conservation			20,062

Other Operations

Tourism

Other Supplies and Materials	\$	<u>10,837</u>	
Total Tourism			10,837

Industrial Development

Contributions	\$	<u>2,866</u>	
Total Industrial Development			2,866

Other Economic and Community Development

Contributions	\$	<u>7,500</u>	
Total Other Economic and Community Development			7,500

Veterans' Services

Supervisor/Director	\$	8,978	
Dues and Memberships		25	
Postal Charges		294	
Travel		<u>2,268</u>	
Total Veterans' Services			11,565

Other Charges

Building and Contents Insurance	\$	12,294	
Liability Insurance		45,647	
Premiums on Corporate Surety Bonds		3,656	
Trustee's Commission		38,670	
Workers' Compensation Insurance		<u>42,333</u>	
Total Other Charges			142,600

(Continued)

Exhibit H-6

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

General Fund (Cont.)

Other Operations (Cont.)

Contributions to Other Agencies

Contributions	\$ 21,444	
Total Contributions to Other Agencies		\$ 21,444

Employee Benefits

Social Security	\$ 86,862	
State Retirement	84,845	
Medical Insurance	45,659	
Unemployment Compensation	4,946	
Employer Medicare	20,322	
Total Employee Benefits		242,634

Miscellaneous

Other Charges	\$ 17,245	
Total Miscellaneous		17,245

Principal

General Government

Principal on Other Loans Payable	\$ 15,708	
Total General Government		15,708

Interest

General Government

Interest on Other Loans Payable	\$ 2,340	
Total General Government		2,340

Total General Fund \$ 2,648,048

Courthouse & Jail Maintenance Fund

General Government

County Buildings

Custodial Personnel	\$ 11,743	
Social Security	898	
Maintenance & Repair Services- Buildings	21,104	
Total County Buildings		\$ 33,745

Other Operations

Other Charges

Trustee's Commission	\$ 336	
Total Other Charges		336

Total Courthouse & Jail Maintenance Fund 34,081

(Continued)

Exhibit H-6

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

Solid Waste/Sanitation Fund

Public Health and Welfare

Convenience Centers

Truck Drivers	\$	49,052	
Maintenance Personnel		29,749	
Part-time Personnel		91,000	
Social Security		13,020	
Communication		4,675	
Maintenance & Repair Services- Vehicles		10,653	
Disposal Fees		194,783	
Diesel Fuel		21,121	
Electricity		5,267	
Water and Sewer		1,448	
Other Supplies and Materials		4,121	
Solid Waste Equipment		25,903	
Total Convenience Centers			\$ 450,792

Landfill Operation and Maintenance

Contracts with Private Agencies	\$	9,920	
Other Supplies and Materials		500	
Total Landfill Operation and Maintenance			10,420

Other Operations

Other Charges

Trustee's Commission	\$	9,775	
Total Other Charges			9,775

Total Solid Waste/Sanitation Fund \$ 470,987

Industrial/Economic Development Fund

Other Operations

Industrial Development

Other Charges	\$	994	
Total Industrial Development			\$ 994

Principal

General Government

Principal on Other Loans Payable	\$	39,487	
Total General Government			39,487

Interest

General Government

Interest on Other Loans Payable	\$	20,513	
Total General Government			20,513

(Continued)

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

Industrial/Economic Development Fund (Cont.)

Capital Projects

Public Health and Welfare Projects

Other Charges	\$ 100	
Total Public Health and Welfare Projects		\$ 100

Public Utility Projects

Other Charges	\$ 27,000	
Total Public Utility Projects		<u>27,000</u>

Total Industrial/Economic Development Fund \$ 88,094

Drug Control Fund

Public Safety

Drug Enforcement

Law Enforcement Supplies	\$ 347	
Other Supplies and Materials	178	
Other Charges	337	
Law Enforcement Equipment	<u>1,537</u>	
Total Drug Enforcement		\$ 2,399

Other Operations

Other Charges

Trustee's Commission	\$ 4,560	
Total Other Charges		<u>4,560</u>

Total Drug Control Fund 6,959

Constitutional Officers - Fees Fund

Administration of Justice

Circuit Court

Constitutional Officers' Operating Expenses	\$ 130	
Total Circuit Court		\$ 130

General Sessions Court

Constitutional Officers' Operating Expenses	\$ 4,600	
Total General Sessions Court		4,600

Chancery Court

Constitutional Officers' Operating Expenses	\$ 4,426	
Total Chancery Court		<u>4,426</u>

Total Constitutional Officers - Fees Fund 9,156

(Continued)

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

Highway/Public Works Fund

Highways

Administration

County Official/Administrative Officer	\$	52,765	
Accountants/Bookkeepers		30,125	
Advertising		320	
Communication		3,347	
Data Processing Services		3,578	
Dues and Memberships		2,992	
Evaluation and Testing		645	
Maintenance & Repair Services- Office Equipment		701	
Postal Charges		174	
Printing, Stationery and Forms		88	
Rentals		26	
Travel		1,238	
Electricity		3,498	
Office Supplies		309	
Water and Sewer		253	
Other Charges		60	
Total Administration			\$ 100,119

Highway and Bridge Maintenance

Supervisor/Director	\$	30,500	
Foremen		30,500	
Equipment Operators - Heavy		96,048	
Equipment Operators - Light		20,444	
Truck Drivers		211,662	
Laborers		25,682	
Overtime Pay		227	
Asphalt - Liquid		182,652	
Crushed Stone		287,508	
Ice		315	
Pipe		39,178	
Road Signs		2,472	
Salt		163	
Small Tools		42	
Other Supplies and Materials		84	
Other Charges		184	
Total Highway and Bridge Maintenance			927,661

Operation and Maintenance of Equipment

Mechanic(s)	\$	44,879	
Night Watchmen		15,038	

(Continued)

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

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Operation and Maintenance of Equipment (Cont.)

Overtime Pay	\$	80	
Maintenance & Repair Services- Equipment		9,494	
Diesel Fuel		74,231	
Equipment and Machinery Parts		29,853	
Garage Supplies		1,532	
Gasoline		10,799	
Lubricants		1,105	
Propane Gas		2,082	
Small Tools		14	
Tires and Tubes		10,702	
Other Supplies and Materials		1,562	
Other Charges		9,164	
Total Operation and Maintenance of Equipment			\$ 210,535

Litter and Trash Collection

Laborers	\$	20,671	
Social Security		1,582	
Advertising		52	
Maintenance & Repair Services- Vehicles		76	
Gasoline		1,000	
Instructional Supplies and Materials		6,147	
Other Supplies and Materials		1,063	
Total Litter and Trash Collection			30,591

Other Charges

Liability Insurance	\$	31,691	
Trustee's Commission		14,965	
Workers' Compensation Insurance		61,491	
Total Other Charges			108,147

Employee Benefits

Social Security	\$	34,293	
State Retirement		42,791	
Employee and Dependent Insurance		240,390	
Unemployment Compensation		2,660	
Employer Medicare		8,390	
Total Employee Benefits			328,524

Capital Outlay

Engineering Services	\$	12,959	
----------------------	----	--------	--

(Continued)

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

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Capital Outlay (Cont.)

Other Contracted Services	\$ 19,747	
Bridge Construction	16,620	
Highway Construction	153,706	
Highway Equipment	4,904	
Total Capital Outlay		\$ 207,936

Total Highway/Public Works Fund \$ 1,913,513

General Debt Service Fund

Principal

General Government

Principal on Bonds	\$ 135,150	
Principal on Notes	63,000	
Total General Government		\$ 198,150

Education

Principal on Bonds	\$ 420,000	
Total Education		420,000

Interest

General Government

Interest on Bonds	\$ 66,563	
Interest on Notes	5,168	
Total General Government		71,731

Education

Interest on Bonds	\$ 499,875	
Total Education		499,875

Other Debt Service

General Government

Trustee's Commission	\$ 10,006	
Other Debt Service	3,216	
Total General Government		13,222

Education

Other Debt Service	\$ 12,615	
Total Education		12,615

Total General Debt Service Fund 1,215,593

Total Governmental Funds - Primary Government \$ 6,386,431

Exhibit H-7

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

	<u>Cities - Sales Tax Fund</u>
<u>Cash Receipts</u>	
Local Option Sales Tax	\$ 420,185
Total Cash Receipts	<u>\$ 420,185</u>
<u>Cash Disbursements</u>	
Remittance of Revenues Collected	\$ 415,983
Trustee's Commission	<u>4,202</u>
Total Cash Disbursements	<u>\$ 420,185</u>
Excess of Cash Receipts Over (Under) Cash Disbursements	\$ 0
Cash Balance, July 1, 2004	<u>0</u>
Cash Balance, June 30, 2005	<u><u>\$ 0</u></u>

STATISTICAL SECTION

Table 1

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

Year	Amount
1994	\$ 3,364
1995	2,188
1996	1,754
1997	1,800
1998	1,721
1999	7,217
2000	4,910
2001	8,603
2002	7,506
2003	<u>43,530</u>
Total	<u><u>\$ 82,593</u></u>

Table 2

Grundy County, Tennessee
Tax Rates and Assessments
Last Ten Years

Fund	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
General	\$ 1.42	\$ 1.42	\$ 1.42	\$ 1.42	\$ 1.60	\$ 1.60	\$ 1.60	\$ 1.32	\$ 1.32	\$ 1.32
Solid Waste/Sanitation	0.34	0.49	0.39	0.39	0.54	0.54	0.54	0.36	0.36	0.36
General Purpose School	1.49	1.32	1.32	1.32	1.20	1.20	1.20	0.96	0.96	0.96
General Debt Service	0.26	0.22	0.22	0.22	0.20	0.20	0.20	0.17	0.17	0.17
Total Tax Rate	\$ 3.51	\$ 3.45	\$ 3.35	\$ 3.35	\$ 3.54	\$ 3.54	\$ 3.54	\$ 2.81	\$ 2.81	\$ 2.81
<u>Assessed Valuations</u>										
Real and Personal	\$ 58,011,896	\$ 73,145,852	\$ 73,777,594	\$ 75,821,548	\$ 85,081,448	\$ 86,736,055	\$ 89,122,036	\$ 116,558,689	\$ 118,995,054	\$ 120,995,115
Public Utilities	13,492,709	14,140,040	13,068,890	11,598,882	13,790,233	13,856,512	13,175,325	14,204,997	13,767,999	13,851,903
Total Assessed Valuation	\$ 71,504,605	\$ 87,285,892	\$ 86,846,484	\$ 87,420,430	\$ 98,871,681	\$ 100,592,567	\$ 102,297,361	\$ 130,763,686	\$ 132,763,053	\$ 134,847,018

ANNUAL FINANCIAL REPORT
GRUNDY COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF GRUNDY 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

MICHAEL FORD, CPA, CGFM
Auditor 4

JUNE ROGERS, CGFM
DEVAN N. FLYNN
JENI BOYETTE
State Auditors

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

**GRUNDY COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF GRUNDY COUNTY, TENNESSEE
TABLE OF CONTENTS**

	Exhibit	Page
Audit Highlights		i
<u>INTRODUCTORY SECTION</u>		
Grundy County School Officials		1
<u>FINANCIAL SECTION</u>		
Independent Auditor's Report		5
BASIC FINANCIAL STATEMENTS:		
Fund Financial Statements:		
Governmental Funds:		
Balance Sheet	A	11
Statement of Revenues, Expenditures, and Changes in Fund Balances	B	12
Notes to the Financial Statements		13
REQUIRED SUPPLEMENTARY INFORMATION:		
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Actual (Budgetary Basis) and Budget:		
General Purpose School Fund	C-1	27
School Federal Projects Fund	C-2	30
Notes to the Required Supplementary Information		31
MISCELLANEOUS SCHEDULES:		
Schedule of Changes in Long-term Notes	D-1	35
Schedule of Transfers – All Funds	D-2	36
Schedule of Salaries and Official Bonds of Principal Officials	D-3	37
Schedule of Detailed Revenues – All Governmental Fund Types	D-4	38
Schedule of Detailed Expenditures – All Governmental Fund Types	D-5	40

Audit Highlights

Annual Financial Report
Grundy County School Department
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 the Grundy County School Department as of and for the year ended June 30, 2005.

Results

Our report on the Grundy County School Department'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 six findings and recommendations, which we have reviewed with Grundy County School Department's management. Detailed findings and recommendations are included in the Single Audit Report.

Findings

The following are summaries of the audit findings:

GRUNDY COUNTY SCHOOL DEPARTMENT

- ◆ Government-wide financial statements were not presented in accordance with generally accepted accounting principles, resulting in an adverse opinion.
- ◆ Expenditures exceeded appropriations in six major appropriation categories (legal level of control) of the General Purpose School Fund.
- ◆ Inventory records maintained by teachers and librarians were not verified by personnel independent of the recordkeeping process. Also, the School Department had not established any procedures to ensure that new assets were added to the inventory or that assets were removed from the inventory when sold as surplus property or destroyed.
- ◆ A member of the Board of Education sold fundraising material and/or supplies to individual schools in violation of the conflict of interest statutes.

OTHER FINDINGS

- ◆ County officials had not adopted a central system of accounting, budgeting, and purchasing.
- ◆ Duties were not segregated adequately in the Office of Director of Schools.

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

INTRODUCTORY SECTION

Grundy County School Officials
June 30, 2005

Official:

David Dickerson, Director of Schools

Board of Education:

Leon Woodlee, Chairman

Frank E. Clay

James Conry

Harold Dykes

Paul Gallagher

Mike Gifford

Ron Givens

Rose Rust

Charles Sanders

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

September 1, 2005

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

To the Director of Schools and Board of Education:

We have audited the accompanying financial statements of each major fund of the Grundy County School Department, a component unit of Grundy County, Tennessee, as of and for the year ended June 30, 2005, as shown on pages 11 through 24, which collectively comprise a portion of the Grundy County School Department's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Grundy 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 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. 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 are not reasonably determinable.

As described in Note I, the Grundy County School Department 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 school departments 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 effect 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 the Grundy County School Department as of June 30, 2005, or the changes in its financial position, where applicable 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 of the Grundy County School Department 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.

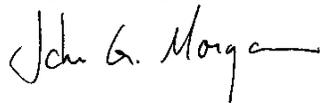
In accordance with Government Auditing Standards, we have also issued our report dated September 1, 2005, on our consideration of the Grundy County School Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 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., the Grundy County School Department 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 27 through 31 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 the Grundy County School Department's basic financial statements. The introductory section and miscellaneous schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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,

A handwritten signature in black ink that reads "John G. Morgan" with a long horizontal flourish extending to the right.

John G. Morgan
Comptroller of the Treasury

JGM/sb

BASIC FINANCIAL STATEMENTS

Exhibit A

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

	<u>Major Funds</u>		Total Govern- mental Funds
	General Purpose School	School Federal Projects	
<u>ASSETS</u>			
Equity in Pooled Cash and Investments	\$ 452,752	\$ 88,592	\$ 541,344
Accounts Receivable	2,000	0	2,000
Due from Other Governments	461,933	33,913	495,846
Due from Other Funds	5,981	0	5,981
Property Taxes Receivable	2,247,678	0	2,247,678
Allowance for Uncollectible Property Taxes	(96,567)	0	(96,567)
Total Assets	<u>\$ 3,073,777</u>	<u>\$ 122,505</u>	<u>\$ 3,196,282</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Deferred Revenue - Current Property Taxes	\$ 2,003,017	\$ 0	\$ 2,003,017
Deferred Revenue - Delinquent Property Taxes	148,094	0	148,094
Other Deferred Revenues	39,950	0	39,950
Total Liabilities	<u>\$ 2,191,061</u>	<u>\$ 0</u>	<u>\$ 2,191,061</u>
<u>Fund Balances</u>			
Reserved for Encumbrances	\$ 300	\$ 0	\$ 300
Reserved for Career Ladder - Extended Contract	47,316	0	47,316
Reserved for Career Ladder Program	5,918	0	5,918
Reserved for Innovative Education Program Strategies	0	71,372	71,372
Reserved for Special Education - Grants to States	0	31,064	31,064
Other Federal Reserves	1,140	20,069	21,209
Unreserved, Reported In:			
General Fund	828,042	0	828,042
Total Fund Balances	<u>\$ 882,716</u>	<u>\$ 122,505</u>	<u>\$ 1,005,221</u>
Total Liabilities and Fund Balances	<u>\$ 3,073,777</u>	<u>\$ 122,505</u>	<u>\$ 3,196,282</u>

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

Exhibit B

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

	<u>Major Funds</u>		
	General Purpose School	School Federal Projects	Total Governmental Funds
<u>Revenues</u>			
Local Taxes	\$ 1,737,262	\$ 0	\$ 1,737,262
Licenses and Permits	613	0	613
Charges for Current Services	473,440	0	473,440
Other Local Revenues	118,434	4,348	122,782
State of Tennessee	10,764,770	0	10,764,770
Federal Government	1,872,936	1,859,725	3,732,661
Total Revenues	<u>\$ 14,967,455</u>	<u>\$ 1,864,073</u>	<u>\$ 16,831,528</u>
<u>Expenditures</u>			
Current:			
Instruction	\$ 8,191,453	\$ 1,578,794	\$ 9,770,247
Support Services	4,470,333	255,648	4,725,981
Operation of Non-Instructional Services	1,299,422	0	1,299,422
Capital Outlay	78,905	0	78,905
Debt Service:			
Principal	89,130	9,484	98,614
Interest	13,458	786	14,244
Other Debt Service	500,000	0	500,000
Total Expenditures	<u>\$ 14,642,701</u>	<u>\$ 1,844,712</u>	<u>\$ 16,487,413</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 324,754</u>	<u>\$ 19,361</u>	<u>\$ 344,115</u>
<u>Other Financing Sources (Uses)</u>			
Notes Issued	\$ 53,318	\$ 0	\$ 53,318
Transfers In	5,981	0	5,981
Transfers Out	0	(5,981)	(5,981)
Total Other Financing Sources (Uses)	<u>\$ 59,299</u>	<u>\$ (5,981)</u>	<u>\$ 53,318</u>
Net Change in Fund Balances	\$ 384,053	\$ 13,380	\$ 397,433
Fund Balance, July 1, 2004	498,663	109,125	607,788
Fund Balance, June 30, 2005	<u>\$ 882,716</u>	<u>\$ 122,505</u>	<u>\$ 1,005,221</u>

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Grundy County School Department'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.

The School Department has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. 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. The School Department 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 the School Department's auditor to issue an adverse opinion on the School Department's financial statements.

Although the School Department'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 to be 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 the School Department:

A. Reporting Entity

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

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

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. An emphasis is placed on major funds within the governmental category. The School Department has no proprietary or fiduciary funds to report.

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

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 fund is the primary operating fund for the School Department. It is used to account for general operations of the School Department.

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

C. Assets, Liabilities, and 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 Grundy County and School Department funds. Each fund's portion of this pool is displayed on the balance sheets as Equity in Pooled Cash and Investments. Most income from these pooled investments is assigned to the primary government's General Debt Service Fund. Grundy 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

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 2.36 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 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; they report capital outlays as expenditures upon acquisition. The School Department 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, the School Department does not present government-wide statements.

4. Compensated Absences

General policy of the School Department does not allow for the accumulation of vacation and sick days beyond the year-end, except for the unlimited accumulation of unused sick days for all professional personnel (teachers). Any unused sick leave is applied toward the employee's retirement service time when the employee retires or resigns.

5. Long-term Obligations

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

Governmental fund types 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 specified purpose.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Expenditures and Encumbrances Exceeded Appropriations

Expenditures and encumbrances exceeded appropriations approved by the County Commission in the following major appropriation categories (the legal level of control) of General Purpose School Fund:

Major Appropriation Category	Amount Overspent
Special Education Program	\$ 6,377
Board of Education	60,559
Food Service	13,809
Community Services	42
Regular Capital Outlay	7,462
Interest - Education	190

Such overexpenditures are a violation of state statutes. These overexpenditures were funded by greater than anticipated revenues and appropriations that exceeded actual expenditures in other major appropriation categories of the General Purpose School Fund.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Grundy 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, depositing, and investing most county funds. Each fund's portion of this pool is displayed on the balance sheets as Equity in Pooled Cash and Investments.

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 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.

Investment Balances. As of June 30, 2005, Grundy County had the following investments carried at cost. All investments are in the county trustee's investment pool. Separate disclosures concerning pooled investments cannot be made for Grundy County and the School Department since both pool their deposits and investments through the county trustee.

<u>Investment</u>	<u>Maturities</u>	<u>Cost</u>
State Treasurer's Investment Pool	Daily	\$ 4,126,656
Total		<u>\$ 4,126,656</u>

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. State statutes limit the maturities of certain investments as previously disclosed. Grundy County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statutes limit the ratings of certain investments as previously explained. Grundy County has no investment policy that would further limit its investment choices. As of June 30, 2005, Grundy County's investment in the State Treasurer's Investment Pool was unrated.

B. Interfund Receivables, Payables and Transfers

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Purpose School	School Federal Projects	\$ 5,981

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. The receivable in the General Purpose School Fund (\$5,981) was in transit from the School Federal Projects Fund at June 30, 2005.

Interfund Transfers:

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

Transfers Out	Transfers In General Purpose School Fund
School Federal Projects	\$ 5,981
Total	<u>\$ 5,981</u>

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.

C. Long-term Debt

Since the School Department 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 School Department is not presenting government-wide financial statements.

Capital Outlay Notes

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

Capital outlay notes are direct obligations and pledge the full faith and credit of the government. Capital outlay notes were issued for original terms of up to six years. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. Capital outlay notes included in the long-term debt as of June 30, 2005, will be retired from the General Purpose School Fund (\$240,273) and School Federal Projects Fund (\$19,741).

Capital outlay notes outstanding as of June 30, 2005, are as follows:

Type	Interest Rate	Original Amount of Issue	Balance 6-30-05
Capital Outlay Notes	2.69 to 6.1 %	\$ 550,315	\$ 260,014

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

Year Ending June 30	Notes	
	Principal	Interest
2006	\$ 90,494	\$ 11,013
2007	71,748	6,841
2008	64,808	3,880
2009	21,566	1,066
2010	11,398	393
Total	<u>\$ 260,014</u>	<u>\$ 23,193</u>

Total debt per capita amounted to \$18, 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:	Notes
Balance, July 1, 2004	\$ 305,310
Additions	53,318
Deductions	(98,614)
Balance, June 30, 2005	<u>\$ 260,014</u>
Balance Due Within One Year	<u>\$ 90,494</u>

IV. OTHER INFORMATION

A. Risk Management

The School Department is exposed to various risks related to general liability, property, casualty, and workers' compensation. The School Department is a member of 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 School Department pays annual premiums to the pool for general liability, property, casualty losses, 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 more than \$100,000 for each insured event.

The School Department provides health insurance coverage to its employees through the Local Government Group Insurance Fund (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 was

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 Financial Report of the State of Tennessee, but the state does not retain any risk for losses by the fund. The state statute provides for the LGGIF to be self-sustaining through member premiums.

B. Accounting Change

During the year, Grundy 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. Contingent Liabilities

The School Department's attorney has advised of one recent arbitration ruling against the School Department that awarded the claimant approximately \$100,000. However, the School Department's attorney also advised that this arbitration ruling was appealed and the award was reduced to \$50,000. This new ruling has also been appealed. Therefore, a liability for this claim has not been established on the School Department's financial statements.

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

D. Retirement Commitments

Plan Description

Employees of Grundy 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 Grundy 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 Grundy 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 III.G. of the Annual Financial Report of Grundy 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 \$457,589, \$265,884, and \$241,699, respectively, equal to the required contributions for each year.

E. Purchasing Law

Purchasing procedures for the School Department are governed by purchasing laws applicable to the 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 the 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 C-1

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

	Actual (GAAP Basis)	Add: Encumbrances 6/30/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Revenues</u>						
Local Taxes	\$ 1,737,262	\$ 0	\$ 1,737,262	\$ 1,708,100	\$ 1,708,100	\$ 29,162
Licenses and Permits	613	0	613	800	800	(187)
Charges for Current Services	473,440	0	473,440	514,000	514,000	(40,560)
Other Local Revenues	118,434	0	118,434	2,000	104,454	13,980
State of Tennessee	10,764,770	0	10,764,770	10,690,497	10,817,668	(52,898)
Federal Government	1,872,936	0	1,872,936	1,070,334	1,768,585	104,351
Total Revenues	\$ 14,967,455	\$ 0	\$ 14,967,455	\$ 13,985,731	\$ 14,913,607	\$ 53,848
<u>Expenditures</u>						
<u>Instruction</u>						
Regular Instruction Program	\$ 5,734,720	\$ 0	\$ 5,734,720	\$ 5,781,304	\$ 5,879,919	\$ 145,199
Alternative Instruction Program	104,935	0	104,935	112,718	112,718	7,783
Special Education Program	1,766,220	0	1,766,220	1,781,498	1,781,498	15,278
Vocational Education Program	517,728	0	517,728	613,949	609,822	92,094
Student Body Education Program	26,052	0	26,052	19,000	27,432	1,380
Adult Education Program	41,798	0	41,798	53,277	53,277	11,479
<u>Support Services</u>						
Attendance	42,563	0	42,563	47,204	47,954	5,391
Health Services	63,390	0	63,390	66,999	66,999	3,609
Other Student Support	212,201	0	212,201	205,136	214,371	2,170
Regular Instruction Program	166,159	0	166,159	170,203	170,203	4,044
Special Education Program	213,912	0	213,912	197,642	207,535	(6,377)
Vocational Education Program	74,574	0	74,574	72,962	75,089	515
Adult Programs	59,163	0	59,163	64,864	64,864	5,701
Board of Education	264,391	0	264,391	197,968	203,832	(60,559)
Director of Schools	130,889	0	130,889	135,353	135,353	4,464

(Continued)

Exhibit C-1

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

	Actual (GAAP Basis)	Add: Encumbrances 6/30/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Expenditures (Cont.)</u>						
<u>Support Services (Cont.)</u>						
Office of the Principal	\$ 587,712	\$ 0	\$ 587,712	\$ 589,895	\$ 592,944	\$ 5,232
Fiscal Services	77,365	0	77,365	78,344	78,344	979
Operation of Plant	834,376	300	834,676	861,311	862,852	28,176
Maintenance of Plant	282,447	0	282,447	293,792	293,792	11,345
Transportation	494,838	0	494,838	478,901	504,362	9,524
Central and Other	966,353	0	966,353	332,488	1,024,306	57,953
<u>Operation of Non-Instructional Services</u>						
Food Service	1,266,080	0	1,266,080	1,237,007	1,252,271	(13,809)
Community Services	33,342	0	33,342	13,186	33,300	(42)
<u>Capital Outlay</u>						
Regular Capital Outlay	78,905	0	78,905	31,606	71,443	(7,462)
<u>Principal</u>						
Education	89,130	0	89,130	89,351	89,351	221
<u>Interest</u>						
Education	13,458	0	13,458	13,268	13,268	(190)
<u>Other Debt Service</u>						
Education	500,000	0	500,000	0	500,000	0
Total Expenditures	\$ 14,642,701	\$ 300	\$ 14,643,001	\$ 13,539,226	\$ 14,967,099	\$ 324,098
<u>Excess (Deficiency) of Revenues</u>						
Over Expenditures	\$ 324,754	\$ (300)	\$ 324,454	\$ 446,505	\$ (53,492)	\$ 377,946
<u>Other Financing Sources (Uses)</u>						
Notes Issued	\$ 53,318	\$ 0	\$ 53,318	\$ 48,995	\$ 48,995	\$ 4,323
Transfers In	5,981	0	5,981	4,500	4,500	1,481

(Continued)

Exhibit C-1

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

	Actual (GAAP Basis)	Add: Encumbrances 6/30/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Other Financing Sources (Uses) (Cont.)</u>						
Transfers Out	\$ 0	\$ 0	\$ 0	\$(500,000)	\$ 0	\$ 0
Total Other Financing Sources (Uses)	\$ 59,299	\$ 0	\$ 59,299	\$(446,505)	\$ 53,495	\$ 5,804
Net Change in Fund Balance	\$ 384,053	\$ (300)	\$ 383,753	\$ 0	\$ 3	\$ 383,750
Fund Balance, July 1, 2004	498,663	0	498,663	463,029	463,029	35,634
Fund Balance, June 30, 2005	\$ 882,716	\$ (300)	\$ 882,416	\$ 463,029	\$ 463,032	\$ 419,384

Exhibit C-2

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Other Local Revenues	\$ 4,348	\$ 0	\$ 2,791	\$ 1,557
Federal Government	1,859,725	2,040,246	2,089,184	(229,459)
Total Revenues	<u>\$ 1,864,073</u>	<u>\$ 2,040,246</u>	<u>\$ 2,091,975</u>	<u>\$ (227,902)</u>
<u>Expenditures</u>				
<u>Instruction</u>				
Regular Instruction Program	\$ 899,792	\$ 967,124	\$ 986,932	\$ 87,140
Special Education Program	602,551	630,457	630,414	27,863
Vocational Education Program	76,451	75,671	76,451	0
<u>Support Services</u>				
Other Student Support	9,984	25,864	25,864	15,880
Regular Instruction Program	173,430	167,936	188,435	15,005
Special Education Program	60,218	88,089	101,515	41,297
Vocational Education Program	508	5,000	5,000	4,492
Operation of Plant	2,000	2,000	2,000	0
Transportation	9,508	72,124	54,383	44,875
<u>Principal</u>				
Education	9,484	0	14,000	4,516
<u>Interest</u>				
Education	786	0	1,000	214
Total Expenditures	<u>\$ 1,844,712</u>	<u>\$ 2,034,265</u>	<u>\$ 2,085,994</u>	<u>\$ 241,282</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 19,361</u>	<u>\$ 5,981</u>	<u>\$ 5,981</u>	<u>\$ 13,380</u>
<u>Other Financing Sources (Uses)</u>				
Transfers Out	\$ (5,981)	\$ (5,981)	\$ (5,981)	\$ 0
Total Other Financing Sources (Uses)	<u>\$ (5,981)</u>	<u>\$ (5,981)</u>	<u>\$ (5,981)</u>	<u>\$ 0</u>
Net Change in Fund Balance	\$ 13,380	\$ 0	\$ 0	\$ 13,380
Fund Balance, July 1, 2004	109,125	109,125	109,125	0
Fund Balance, June 30, 2005	<u>\$ 122,505</u>	<u>\$ 109,125</u>	<u>\$ 109,125</u>	<u>\$ 13,380</u>

**GRUNDY COUNTY SCHOOL DEPARTMENT, TENNESSEE
A COMPONENT UNIT OF GRUNDY 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 Grundy 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, Special Education Program, Vocational Education Program, Adult Education Program, etc.). Management may make revisions within major categories, but only the Grundy 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 AND ENCUMBRANCES EXCEEDED APPROPRIATIONS

Expenditures and encumbrances exceeded appropriations approved by the Grundy County Commission in the following major appropriation categories (the legal level of control) of the General Purpose School Fund:

<u>Major Appropriation Category</u>	<u>Amount Overspent</u>
Special Education Program	\$ 6,377
Board of Education	60,559
Food Service	13,809
Community Services	42
Regular Capital Outlay	7,462
Interest - Education	190

Such overexpenditures are a violation of state statutes. These overexpenditures were funded by greater than anticipated revenues and appropriations that exceeded actual expenditures in other major appropriation categories of the General Purpose School Fund.

MISCELLANEOUS SCHEDULES

Exhibit D-1

Grundy County, Tennessee
Schedule of Changes in Long-term Notes
Grundy 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	Issued During Period	Paid and/or Matured During Period	Outstanding 6-30-05
<u>NOTES PAYABLE</u>								
<u>Payable through General Purpose School Fund</u>								
School Buses	\$ 98,110	5.4 %	8-30-1999	9-1-04	\$ 21,744	\$ 0	\$ 21,744	\$ 0
School Buses	95,980	6.1	8-8-00	8-13-05	41,905	0	20,322	21,583
School Capital Improvements	175,000	5.25	10-17-01	10-25-07	122,760	0	28,247	94,513
School Buses	48,682	3.85	8-21-02	8-21-07	39,676	0	9,354	30,322
School Bus	50,000	2.71	7-29-03	7-29-08	50,000	0	9,463	40,537
School Bus	53,318	3.4	10-18-04	10-18-09	0	53,318	0	53,318
Total Payable through General Purpose School Fund					<u>\$ 276,085</u>	<u>\$ 53,318</u>	<u>\$ 89,130</u>	<u>\$ 240,273</u>
<u>Payable through School Federal Projects Fund</u>								
Special Education Bus	29,225	2.69	9-29-03	9-29-06	\$ 29,225	\$ 0	\$ 9,484	\$ 19,741
Total Notes Payable					<u>\$ 305,310</u>	<u>\$ 53,318</u>	<u>\$ 98,614</u>	<u>\$ 260,014</u>

Exhibit D-2

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

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
School Federal Projects	General Purpose School	Indirect costs	<u>\$ 5,981</u>
Total Transfers			<u><u>\$ 5,981</u></u>

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

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
Director of Schools: David Dickerson	State Board of Education and Grundy County Board of Education	\$ 70,029 (1)	\$ 100,000	Western Surety Company
Public Employees Blanket Bond			150,000	Local Government Insurance Pool

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

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

	General Purpose School	School Federal Projects	Total
<u>Local Taxes</u>			
<u>County Property Taxes</u>			
Current Property Tax	\$ 1,170,882	\$ 0	\$ 1,170,882
Trustee's Collections - Prior Year	81,699	0	81,699
Circuit/Clerk & Master Collections - Prior Years	32,266	0	32,266
Interest and Penalty	16,034	0	16,034
Payments in Lieu of Taxes - T.V.A.	1,506	0	1,506
Payments in Lieu of Taxes - Other	3,409	0	3,409
<u>County Local Option Taxes</u>			
Local Option Sales Tax	415,044	0	415,044
Business Tax	14,071	0	14,071
<u>Statutory Local Taxes</u>			
Interstate Telecommunications Tax	2,351	0	2,351
Total Local Taxes	<u>\$ 1,737,262</u>	<u>\$ 0</u>	<u>\$ 1,737,262</u>
<u>Licenses and Permits</u>			
<u>Licenses</u>			
Marriage Licenses	\$ 613	\$ 0	\$ 613
Total Licenses and Permits	<u>\$ 613</u>	<u>\$ 0</u>	<u>\$ 613</u>
<u>Charges for Current Services</u>			
<u>Education Charges</u>			
Tuition - Other	\$ 38,325	\$ 0	\$ 38,325
Receipts from Individual Schools	435,115	0	435,115
Total Charges for Current Services	<u>\$ 473,440</u>	<u>\$ 0</u>	<u>\$ 473,440</u>
<u>Other Local Revenues</u>			
<u>Recurring Items</u>			
Miscellaneous Refunds	\$ 75,899	\$ 4,348	\$ 80,247
<u>Nonrecurring Items</u>			
Insurance Recovery	36,396	0	36,396
Sale of Equipment	6,054	0	6,054
Contributions & Gifts	50	0	50
<u>Other Local Revenues</u>			
Other Local Revenues	35	0	35
Total Other Local Revenues	<u>\$ 118,434</u>	<u>\$ 4,348</u>	<u>\$ 122,782</u>
<u>State of Tennessee</u>			
<u>State Education Funds</u>			
Basic Education Program	\$ 10,059,429	\$ 0	\$ 10,059,429
School Food Service	11,593	0	11,593
Driver Education	5,945	0	5,945
Other State Education Funds	107,327	0	107,327
Career Ladder Program	158,524	0	158,524
Career Ladder - Extended Contract	55,823	0	55,823
<u>Other State Revenues</u>			
State Revenue Sharing - T.V.A.	264,331	0	264,331
Other State Grants	101,236	0	101,236
Other State Revenues	562	0	562
Total State of Tennessee	<u>\$ 10,764,770</u>	<u>\$ 0</u>	<u>\$ 10,764,770</u>

(Continued)

Exhibit D-4

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

	General Purpose School	School Federal Projects	Total
<u>Federal Government</u>			
<u>Federal Through State</u>			
USDA School Lunch Program	\$ 522,099	\$ 0	\$ 522,099
Breakfast	232,404	0	232,404
USDA - Other	3,908	0	3,908
Adult Education State Grant Program	70,708	0	70,708
Vocational Education - Basic Grants to States	59,817	76,159	135,976
Title I Grants to Local Education Agencies	0	792,583	792,583
Innovative Education Program Strategies	0	91,697	91,697
Special Education - Grants to States	24,838	623,056	647,894
Special Education Preschool Grants	0	32,341	32,341
Eisenhower Professional Development State Grants	0	221,482	221,482
Other Federal through State	959,162	22,407	981,569
Total Federal Government	<u>\$ 1,872,936</u>	<u>\$ 1,859,725</u>	<u>\$ 3,732,661</u>
Total	<u>\$ 14,967,455</u>	<u>\$ 1,864,073</u>	<u>\$ 16,831,528</u>

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

General Purpose School Fund

Instruction

Regular Instruction Program

Teachers	\$	4,301,610	
Career Ladder Program		80,436	
Career Ladder Extended Contracts		43,558	
Homebound Teachers		26,000	
Educational Assistants		75,228	
Other Salaries & Wages		23,875	
Certified Substitute Teachers		97,020	
Social Security		274,500	
State Retirement		246,922	
Life Insurance		321	
Medical Insurance		283,582	
Employer Medicare		64,198	
Other Contracted Services		3,472	
Instructional Supplies and Materials		89,956	
Textbooks		117,604	
Regular Instruction Equipment		6,438	
Total Regular Instruction Program			\$ 5,734,720

Alternative Instruction Program

Teachers	\$	73,487	
Career Ladder Program		2,000	
Educational Assistants		8,712	
Social Security		4,797	
State Retirement		4,969	
Medical Insurance		8,485	
Employer Medicare		1,122	
Instructional Supplies and Materials		1,044	
Other Supplies and Materials		319	
Total Alternative Instruction Program			104,935

Special Education Program

Teachers	\$	1,286,604
Career Ladder Program		30,699
Educational Assistants		56,949
Other Salaries & Wages		47,435
Certified Substitute Teachers		1,680
Social Security		83,353
State Retirement		77,706
Life Insurance		831

(Continued)

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

General Purpose School Fund (Cont.)

Instruction (Cont.)

Special Education Program (Cont.)

Medical Insurance	\$	105,627	
Employer Medicare		19,494	
Other Contracted Services		636	
Instructional Supplies and Materials		52,623	
Other Supplies and Materials		2,583	
Total Special Education Program			\$ 1,766,220

Vocational Education Program

Teachers	\$	402,008	
Career Ladder Program		4,000	
Educational Assistants		17,973	
Social Security		24,179	
State Retirement		23,135	
Life Insurance		61	
Medical Insurance		26,165	
Employer Medicare		5,655	
Maintenance & Repair Services- Equipment		479	
Instructional Supplies and Materials		13,788	
Other Charges		285	
Total Vocational Education Program			517,728

Student Body Education Program

Other Contracted Services	\$	26,052	
Total Student Body Education Program			26,052

Adult Education Program

Teachers	\$	19,514	
Other Salaries & Wages		7,368	
Social Security		1,650	
State Retirement		2,176	
Life Insurance		53	
Employer Medicare		386	
Instructional Supplies and Materials		6,373	
Other Supplies and Materials		3,456	
Other Charges		822	
Total Adult Education Program			41,798

(Continued)

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

General Purpose School Fund (Cont.)

Support Services

Attendance

Supervisor/Director	\$	9,284	
Career Ladder Program		1,000	
Other Salaries & Wages		16,508	
Social Security		1,638	
State Retirement		1,293	
Medical Insurance		594	
Employer Medicare		383	
Travel		1,317	
Other Contracted Services		8,022	
Other Supplies and Materials		1,715	
Other Charges		809	
Total Attendance			\$ 42,563

Health Services

Medical Personnel	\$	31,027	
Other Salaries & Wages		20,558	
Social Security		3,089	
State Retirement		3,635	
Life Insurance		32	
Medical Insurance		2,884	
Employer Medicare		722	
Travel		303	
Drugs and Medical Supplies		1,140	
Total Health Services			63,390

Other Student Support

Career Ladder Program	\$	6,000	
Guidance Personnel		126,875	
Secretary(s)		9,020	
Other Salaries & Wages		10,445	
Social Security		9,112	
State Retirement		8,539	
Life Insurance		32	
Medical Insurance		8,874	
Employer Medicare		2,131	
Evaluation and Testing		11,902	
Travel		2,903	
Other Contracted Services		12,600	
Other Supplies and Materials		685	

(Continued)

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Other Student Support (Cont.)

Other Charges	\$	2,000	
Other Equipment		1,083	
Total Other Student Support			\$ 212,201

Regular Instruction Program

Supervisor/Director	\$	50,362	
Career Ladder Program		2,000	
Career Ladder Extended Contracts		2,000	
Librarians		74,967	
Social Security		7,562	
State Retirement		7,113	
Medical Insurance		8,874	
Employer Medicare		1,768	
Travel		1,518	
Library Books/Media		4,985	
In Service/Staff Development		5,010	
Total Regular Instruction Program			166,159

Special Education Program

Supervisor/Director	\$	40,541	
Career Ladder Program		1,000	
Psychological Personnel		36,808	
Other Salaries & Wages		70,180	
Social Security		7,919	
State Retirement		7,749	
Medical Insurance		5,601	
Employer Medicare		1,852	
Travel		22,769	
Other Contracted Services		4,104	
In Service/Staff Development		1,666	
Other Charges		13,723	
Total Special Education Program			213,912

Vocational Education Program

Supervisor/Director	\$	61,127	
Career Ladder Program		2,000	
Social Security		3,817	
State Retirement		3,472	
Medical Insurance		2,729	

(Continued)

Exhibit D-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Vocational Education Program (Cont.)

Employer Medicare	\$ 893	
Travel	536	
Total Vocational Education Program	\$ 74,574	\$ 74,574

Adult Programs

Supervisor/Director	\$ 48,415	
Social Security	2,909	
State Retirement	2,663	
Medical Insurance	2,620	
Employer Medicare	680	
Communication	673	
Travel	617	
In Service/Staff Development	586	
Total Adult Programs	59,163	59,163

Board of Education

Other Salaries & Wages	\$ 22	
Board and Committee Members Fees	6,600	
Social Security	409	
State Retirement	66	
Unemployment Compensation	30,484	
Employer Medicare	96	
Audit Services	9,800	
Dues and Memberships	9,055	
Legal Services	69,548	
Liability Insurance	26,116	
Premiums on Corporate Surety Bonds	850	
Trustee's Commission	68,736	
Workers' Compensation Insurance	38,055	
Other Charges	4,554	
Total Board of Education	264,391	264,391

Director of Schools

County Official/Administrative Officer	\$ 69,029
Career Ladder Program	1,000
Clerical Personnel	19,410
Social Security	5,545
State Retirement	3,852
Life Insurance	66

(Continued)

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Director of Schools (Cont.)

Employer Medicare	\$	1,297	
Communication		27,200	
Travel		2,594	
Office Supplies		592	
Other Charges		304	
Total Director of Schools			\$ 130,889

Office of the Principal

Principals	\$	375,670	
Career Ladder Program		13,000	
Career Ladder Extended Contracts		5,140	
Assistant Principals		45,980	
Secretary(s)		29,151	
Clerical Personnel		24,200	
Social Security		29,779	
State Retirement		29,197	
Life Insurance		159	
Medical Insurance		28,638	
Employer Medicare		6,798	
Total Office of the Principal			587,712

Fiscal Services

Accountants/Bookkeepers	\$	37,363	
Secretary(s)		14,268	
Social Security		3,203	
State Retirement		4,843	
Life Insurance		95	
Employer Medicare		749	
Travel		181	
Other Contracted Services		8,571	
Office Supplies		7,117	
Other Charges		975	
Total Fiscal Services			77,365

Operation of Plant

Custodial Personnel	\$	226,219	
Social Security		13,292	
State Retirement		11,354	
Life Insurance		270	

(Continued)

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Operation of Plant (Cont.)

Employer Medicare	\$	3,108	
Other Contracted Services		14,773	
Custodial Supplies		73,428	
Electricity		300,192	
Natural Gas		93,523	
Water and Sewer		39,679	
Boiler Insurance		430	
Building and Contents Insurance		47,707	
Other Charges		10,401	
Total Operation of Plant			\$ 834,376

Maintenance of Plant

Supervisor/Director	\$	44,691	
Secretary(s)		13,047	
Maintenance Personnel		77,633	
Social Security		8,115	
State Retirement		9,734	
Life Insurance		127	
Medical Insurance		2,686	
Employer Medicare		1,898	
Maintenance & Repair Services- Equipment		69,035	
Other Supplies and Materials		55,481	
Total Maintenance of Plant			282,447

Transportation

Supervisor/Director	\$	23,654	
Mechanic(s)		43,878	
Bus Drivers		204,754	
Social Security		16,780	
State Retirement		23,186	
Life Insurance		811	
Employer Medicare		3,924	
Communication		1,774	
Medical and Dental Services		8,904	
Other Contracted Services		6,319	
Gasoline		58,422	
Tires and Tubes		8,390	
Vehicle Parts		17,020	
Other Supplies and Materials		1,870	

(Continued)

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Transportation (Cont.)

Vehicle and Equipment Insurance	\$	13,453	
Other Charges		55,699	
Transportation Equipment		6,000	
Total Transportation			\$ 494,838

Central and Other

Supervisor/Director	\$	179,251	
Computer Programmer(s)		7,302	
Clerical Personnel		9,027	
Other Salaries & Wages		299,778	
Social Security		29,735	
State Retirement		23,094	
Life Insurance		60	
Medical Insurance		16,158	
Employer Medicare		6,954	
Other Fringe Benefits		1,800	
Communication		3,263	
Consultants		5,975	
Operating Lease Payments		3,000	
Travel		15,145	
Other Contracted Services		41,334	
Food Supplies		214	
Office Supplies		1,200	
Other Supplies and Materials		153,149	
In Service/Staff Development		52,064	
Other Charges		8,030	
Administration Equipment		2,600	
Data Processing Equipment		22,516	
Other Equipment		84,704	
Total Central and Other			966,353

Operation of Non-Instructional Services

Food Service

Supervisor/Director	\$	3,000	
Cafeteria Personnel		404,397	
Other Salaries & Wages		16,071	
Social Security		26,252	
State Retirement		30,522	
Life Insurance		1,023	

(Continued)

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

General Purpose School Fund (Cont.)

Operation of Non-Instructional Services (Cont.)

Food Service (Cont.)

Employer Medicare	\$	6,140	
Payments to Schools - Breakfast		230,673	
Payments to Schools - Lunch		518,535	
Payments to Schools - Other USDA		3,908	
Travel		455	
In Service/Staff Development		307	
Other Charges		4,821	
Other Equipment		19,976	
Total Food Service			\$ 1,266,080

Community Services

Supervisor/Director	\$	20,255	
Social Security		1,256	
State Retirement		1,900	
Life Insurance		32	
Employer Medicare		294	
Travel		438	
Other Supplies and Materials		52	
Other Charges		9,115	
Total Community Services			33,342

Capital Outlay

Regular Capital Outlay

Site Development	\$	9,000	
Other Capital Outlay		69,905	
Total Regular Capital Outlay			78,905

Principal

Education

Principal on Notes	\$	89,130	
Total Education			89,130

Interest

Education

Interest on Notes	\$	13,458	
Total Education			13,458

(Continued)

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

General Purpose School Fund (Cont.)

Other Debt Service

Education

Debt Service Contribution to Primary Government	\$ 500,000	
Total Education		\$ 500,000

Total General Purpose School Fund \$ 14,642,701

School Federal Projects Fund

Instruction

Regular Instruction Program

Teachers	\$ 532,113	
Educational Assistants	111,705	
Other Salaries & Wages	400	
Certified Substitute Teachers	5,512	
Social Security	36,817	
State Retirement	36,654	
Life Insurance	278	
Medical Insurance	42,276	
Employer Medicare	8,611	
Communication	58	
Evaluation and Testing	8,667	
Other Contracted Services	19,783	
Instructional Supplies and Materials	32,947	
Other Supplies and Materials	33,233	
In Service/Staff Development	1,726	
Regular Instruction Equipment	29,012	
Total Regular Instruction Program		\$ 899,792

Special Education Program

Educational Assistants	\$ 213,999	
Other Salaries & Wages	203,672	
Certified Substitute Teachers	120	
Social Security	27,567	
State Retirement	29,506	
Medical Insurance	2,938	
Employer Medicare	6,447	
Other Contracted Services	92,664	
Instructional Supplies and Materials	10,049	
Textbooks	15,589	
Total Special Education Program		602,551

(Continued)

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

School Federal Projects Fund (Cont.)

Instruction (Cont.)

Vocational Education Program

Travel	\$	3,780	
Other Contracted Services		6,088	
Other Supplies and Materials		15,368	
Other Charges		604	
Vocational Instruction Equipment		50,611	
Total Vocational Education Program			\$ 76,451

Support Services

Other Student Support

Other Salaries & Wages	\$	6,008	
Social Security		359	
State Retirement		318	
Employer Medicare		84	
Evaluation and Testing		174	
Other Contracted Services		519	
Other Supplies and Materials		2,522	
Total Other Student Support			9,984

Regular Instruction Program

Supervisor/Director	\$	43,420	
Secretary(s)		16,412	
Other Salaries & Wages		50	
Social Security		4,157	
State Retirement		4,426	
Medical Insurance		2,291	
Employer Medicare		972	
Communication		981	
Travel		4,788	
Other Contracted Services		4,437	
Instructional Supplies and Materials		11	
Other Supplies and Materials		38,638	
In Service/Staff Development		43,919	
Other Charges		1,999	
Regular Instruction Equipment		5,933	
Other Equipment		996	
Total Regular Instruction Program			173,430

Special Education Program

Other Salaries & Wages	\$	23,319	
------------------------	----	--------	--

(Continued)

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

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Special Education Program (Cont.)

Social Security	\$	1,779	
State Retirement		2,450	
Employer Medicare		416	
Travel		3,722	
Other Contracted Services		11,637	
In Service/Staff Development		16,895	
Total Special Education Program			\$ 60,218

Vocational Education Program

Travel	\$	508	
Total Vocational Education Program			508

Operation of Plant

Electricity	\$	1,000	
Natural Gas		1,000	
Total Operation of Plant			2,000

Transportation

Other Salaries & Wages	\$	9,029	
Social Security		388	
Employer Medicare		91	
Total Transportation			9,508

Principal

Education

Principal on Notes	\$	9,484	
Total Education			9,484

Interest

Education

Interest on Notes	\$	786	
Total Education			786

Total School Federal Projects Fund \$ 1,844,712

Total Governmental Funds - Grundy County School Department \$ 16,487,413

SINGLE AUDIT REPORT
GRUNDY COUNTY, TENNESSEE
AND
GRUNDY 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

MICHAEL FORD, CPA, CGFM
Auditor 4

JUNE ROGERS, CGFM
DEVAN N. FLYNN
JENI BOYETTE
State Auditors

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

SINGLE AUDIT REPORT TABLE OF CONTENTS

	Page
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>	1
Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With <u>OMB Circular A-133</u>	3
Schedule of Expenditures of Federal Awards and State Grants	7
Schedule of Audit Findings Not Corrected	9
Schedule of Findings and Questioned Costs	11
Auditee Reporting Responsibilities	19



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

September 1, 2005

Grundy County Mayor, Board of County Commissioners,
Director of Schools, and Board of Education
Grundy 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 Grundy County, Tennessee, and the Grundy County School Department as of and for the year ended June 30, 2005, which collectively comprise a portion of Grundy County's and the Grundy County School Department's basic financial statements and have issued our reports thereon dated September 1, 2005. Our reports on the financial statements of Grundy County, Tennessee, and the Grundy County School Department express adverse opinions because the government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34. 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 Grundy County's and the Grundy 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 Grundy County's and the Grundy 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 05.04, 05.08, 05.09, and 05.10.

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, we believe none of the reportable conditions described above is a material weakness.

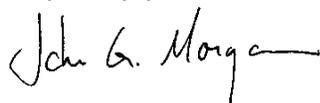
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Grundy County's and the Grundy 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, 05.02, 05.03, 05.05, 05.06, and 05.07.

We have also noted certain matters that we reported to the management of Grundy County and the Grundy 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
Comptroller of the Treasury

JGM/sb



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

September 1, 2005

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

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

Compliance

We have audited the compliance of Grundy County and the Grundy 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. Grundy County's and the Grundy 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 Grundy County's and the Grundy County School Department's management. Our responsibility is to express an opinion on Grundy County's and the Grundy 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 Grundy County's and the Grundy 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 Grundy County's and the Grundy County School Department's compliance with those requirements.

In our opinion, Grundy County and the Grundy 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 Grundy County and the Grundy 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 Grundy County's and the Grundy 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 Grundy County, Tennessee, and the Grundy County School Department as of and for the year ended June 30, 2005, and have issued our reports thereon dated September 1, 2005. Our reports on the financial statements of Grundy County and the Grundy County School Department express adverse opinions because the government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34. 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,

A handwritten signature in black ink that reads "John G. Morgan". The signature is written in a cursive style with a long horizontal flourish at the end.

John G. Morgan
Comptroller of the Treasury

JGM/sb

Grundy County, Tennessee, and the Grundy 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	Pass -through Entity Identifying Number	Expenditures
U.S. Department of Agriculture:			
Passed-through State Department of Agriculture:			
Food Donation (Noncash Assistance)	10.550	N/A	\$ 46,800
Rural Business Enterprise Grants	10.769	(2)	7,500
Total Passed-through State Department of Agriculture			<u>\$ 54,300</u>
Passed-through State Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	\$ 232,404
National School Lunch Program	10.555	N/A	522,099
Total Passed-through State Department of Education			<u>\$ 754,503</u>
Total U.S. Department of Agriculture			<u>\$ 808,803</u>
U.S. Department of Housing and Urban Development:			
Passed-through State Housing and Development Agency:			
HOME Investment Partnerships Program	14.239	(2)	\$ 5,981
U.S. Department of Labor:			
Passed-through Workforce Solutions:			
WIA Youth Activities	17.259	Z-05-022315-00	\$ 79,221
Appalachian Regional Commission:			
Passed-through Tennessee Valley Authority:			
Appalachian Area Development	23.002	OOBKY-266335	\$ 61,730
U.S. Department of Education:			
Passed-through State Department of Education:			
Adult Education - State Grant Program	84.002	Z-05-022222-00	\$ 70,708
Title I Grants to Local Educational Agencies	84.010	N/A	807,359
Special Education Cluster:			
Special Education - Grants to States	84.027	N/A	673,727
Special Education - Preschool Grants	84.173	N/A	31,692
Vocational Education - Basic Grants to States	84.048	N/A	81,159
Safe and Drug Free Schools and Communities - State Grants	84.186	(2)	37,048
Even Start - State Educational Agencies	84.213	Z-05-020462-00	172,557
Twenty-First Century Community Learning Centers	84.287	(2)	146,396
State Grants for Innovative Programs	84.298	N/A	23,889
Education Technology State Grants	84.318	Z-04-020850-00	223,506
Reading Excellence	84.338	N/A	100,000
Reading First State Grants	84.357	(2)	205,500
Improving Teacher Quality State Grants	84.367	N/A	235,950
Total Passed-through State Department of Education			<u>\$ 2,809,491</u>
Passed-through State Department of Human Services:			
Rehabilitation Service - Vocational Rehabilitation Grants to States	84.126	(2)	\$ 54,817
Total U.S. Department of Education			<u>\$ 2,864,308</u>
U.S. Department of Health and Human Services:			
Passed-through State Department of Labor and Workforce Development:			
Temporary Assistance for Needy Families	93.558	Z-05-022315-00	\$ 21,249
Total Expenditures of Federal Awards			<u>\$ 3,841,292</u>

(Continued)

Grundy County, Tennessee, and the Grundy 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	Pass -through Entity Identifying Number	Expenditures
<u>State Grants</u>			
Family Resource Center - State Department of Education	N/A	Z-05-021387-00	\$ 33,300
Early Intervention - State Department of Finance and Administration	N/A	Z-05-022053-00	67,936
State Reappraisal Program - Comptroller of the Treasury	N/A	(2)	5,870
Law Enforcement Training - State Department of Safety	N/A	(2)	5,706
Litter Program - State Department of Transportation	N/A	(2)	25,469
Juvenile Services Program - State Commission on Children and Youth	N/A	Z-05-020380-00	9,000
Tourism Development - Upper Cumberland Development District	N/A	(2)	9,545
Local Health Services - State Department of Health	N/A	Z-05-020538-00	18,802
 Total State Grants			\$ 175,628

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.

Grundy County, Tennessee, and the Grundy 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 for Grundy County, Tennessee, and the Grundy County School Department for the year ended June 30, 2004, which have not been corrected.

GRUNDY COUNTY AND GRUNDY COUNTY SCHOOL DEPARTMENT

Finding Number	Page Number	Subject
04.01	10	Government-wide financial statements were not presented in accordance with generally accepted accounting principles

OFFICE OF COUNTY MAYOR

Finding Number	Page Number	Subject
04.03	11	Transactions related to the operation of the county-owned sewer system were not accounted for through an enterprise fund

OFFICE OF DIRECTOR OF SCHOOLS

Finding Number	Page Number	Subject
04.06	12	Deficiencies were noted in budget operations
04.07	13	Controls over inventories were inadequate

OFFICE OF SHERIFF

Finding Number	Page Number	Subject
04.08	13	Collections were not deposited in compliance with state statutes

OTHER FINDINGS AND RECOMMENDATIONS

Finding Number	Page Number	Subject
04.09	14	A central system of accounting, budgeting, and purchasing had not been adopted
04.10	14	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

**GRUNDY COUNTY, TENNESSEE, AND THE
GRUNDY COUNTY SCHOOL DEPARTMENT**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2005

PART I, SUMMARY OF AUDITOR'S RESULTS

1. Adverse opinions were issued on the financial statements of Grundy County and the Grundy County School Department.
2. The audit disclosed reportable conditions in internal control of Grundy County and the Grundy County School Department. None of these conditions were considered to be a material weakness.
3. The audit disclosed two instances of noncompliance which were material to the financial statements of Grundy County and one instance of noncompliance that was material to the financial statements of the Grundy County School Department.
4. Our 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 Child Nutrition Cluster: School Breakfast Program and National School Lunch Program (CFDA Nos. 10.533 and 10.555); Title I Grant to Local Educational Agencies (CFDA No. 84.010); and the Special Education Cluster: Special Education – Grants to States and 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. Grundy County and the Grundy 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.

GRUNDY COUNTY AND GRUNDY COUNTY SCHOOL DEPARTMENT

FINDING 05.01 **GOVERNMENT-WIDE FINANCIAL STATEMENTS WERE NOT PRESENTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

(Material Noncompliance Under Government Auditing Standards)

Grundy County and the Grundy County School Department did not identify and determine the historical value of their capital assets and the related depreciation amounts of these assets. Therefore, Grundy County and the Grundy County School Department were unable to provide the information necessary to prepare government-wide financial statements for all of their 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, Grundy County’s and the Grundy County School Department’s financial statements are not presented in accordance with generally accepted accounting principles; thus, we have issued adverse opinions on their 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. Grundy County’s and the Grundy County School Department’s financial statements are presented in compliance with these requirements.

RECOMMENDATION

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

OFFICE OF COUNTY MAYOR

FINDING 05.02 **TRANSACTIONS RELATED TO THE OPERATIONS OF THE COUNTY-OWNED SEWER SYSTEM WERE NOT ACCOUNTED FOR THROUGH AN ENTERPRISE FUND**
(Material Noncompliance Under Government Auditing Standards)

The County Mayor’s Office did not account for transactions of the county-owned sewer system through an enterprise fund. Instead, these transactions were accounted for through the county’s General Fund. Section 68-221-208, Tennessee Code Annotated, and paragraph 8 (m) of the Wastewater Facility Revolving Fund Loan Agreement provide for Grundy County to establish a sewer user’s fee and/or ad valorem taxes as necessary to provide sufficient funds to pay the costs of operation and maintenance, including depreciation, according to generally accepted accounting principles and debt service requirements of the sewer system. Reporting the sewer system through an enterprise fund is the only method that would ensure sufficient funds are provided to pay the costs of operations and maintenance, including depreciation and debt service requirements of the sewer system.

RECOMMENDATION

Transactions related to the operations of the county-owned sewer system should be accounted for through an enterprise fund established expressly for those purposes as required by state statute and the Wastewater Facility Revolving Fund Loan Agreement.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 05.03 **GENERAL PURPOSE SCHOOL FUND EXPENDITURES AND ENCUMBRANCES EXCEEDED APPROPRIATIONS APPROVED BY THE COUNTY COMMISSION**
(Noncompliance Under Government Auditing Standards)

General Purpose School Fund expenditures and encumbrances exceeded appropriations approved by the County Commission in the following major appropriation categories (legal level of control):

<u>Major Category</u>	<u>Amount</u>
Support Services:	
Special Education Program	\$ 6,377
Board of Education	60,559
Operation of Non-Instructional Services:	
Food Service	13,809
Community Services	42
Capital Outlay:	
Regular Capital Outlay	7,462
Interest:	
Education	190

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 department, commissions, institutions, boards, offices, and agencies of county governments shall be appropriated to such use by the county legislative bodies.”

RECOMMENDATION

Expenditures and encumbrances should be held within appropriations approved by the County Commission.

FINDING 05.04 **CONTROLS OVER INVENTORIES WERE NOT ADEQUATE**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination of inventories revealed the following deficiencies:

- A. Teachers and librarians at individual schools prepared annual inventory records; however, these lists were not verified by personnel independent of maintaining the inventory records.
- B. The School Department did not have procedures to ensure that newly acquired assets were added to the inventory lists and that surplus or destroyed items were removed from the lists.

Generally accepted accounting principles require accountability for all county-owned assets.

RECOMMENDATION

The School Department should implement procedures to ensure personnel independent of the record-keeping process periodically verify inventory records. Also, procedures should be implemented to ensure that new equipment is added to the inventory and that surplus and destroyed items are removed from the inventory.

FINDING 05.05 **INDIVIDUAL SCHOOLS VIOLATED CONFLICT OF INTEREST STATUTES BY MAKING PURCHASES FROM A BOARD OF EDUCATION MEMBER**
(Noncompliance Under Government Auditing Standards)

During the period under examination, two schools purchased fundraising materials and/or supplies from a member of the Grundy County Board of Education violating the conflict of interest statutes. Section 12-4-401(a)(1), Tennessee Code Annotated (TCA), states, “It is unlawful for any officer, committee member, director, or other person whose duty it is to

vote for, let out, overlook, or in any manner to superintend any work or any contract in which any ... county ... or other political subdivision created by statute shall or may be interested, to be directly interested in any such contract. 'Directly interested' means any contract with the official personally or with any business in which the official is the sole proprietor, a partner, or the person having the controlling interest."

RECOMMENDATION

School Department officials should review these transactions and resolve the conflict of interest.

OFFICE OF COUNTY CLERK

FINDING 05.06 **THE OFFICE HAD DEFICIENCIES IN THE RECEIPT, DEPOSIT, AND DISBURSEMENT OF JUVENILE COURT RESTITUTION**

(Noncompliance Under Government Auditing Standards)

Our examination of this office revealed that the juvenile court officer neither issued official prenumbered receipts for collections of juvenile restitution as required by Section 9-2-103, Tennessee Code Annotated (TCA), nor deposited these collections to the office bank account within three days of collection as required by Section 5-8-207, TCA, and did not disburse these collections by official prenumbered checks as required by Section 5-8-207(3)(b), TCA. Instead, the juvenile court officer collected money orders for juvenile restitution and mailed the money orders directly to the litigants. We were unable to determine if all juvenile court restitution was accounted for without prenumbered receipts.

RECOMMENDATION

Officials should issue official prenumbered receipts for all collections, deposit all funds to the office bank account within three days of collection, and disburse all funds by official prenumbered checks as required by state statutes.

OFFICE OF SHERIFF

FINDING 05.07 **FUNDS WERE NOT DEPOSITED WITHIN THREE DAYS OF COLLECTION**

(Noncompliance Under Government Auditing Standards)

The Sheriff's Department did not deposit collections to the office bank account within three days of collection as required by Section 5-8-207, Tennessee Code Annotated. This statute requires that county officials deposit all funds within three days of collection.

RECOMMENDATION

Funds should be deposited to the office bank account within three days of collection as required by state statute.

FINDING 05.08 **INVENTORY RECORDS WERE NOT MAINTAINED FOR SEIZED PROPERTY**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Inventory records were not maintained for seized property held by the Sheriff's Department. We were unable to determine if all seized property was properly accounted for without adequate inventory records.

RECOMMENDATION

A perpetual log should be maintained for all seized property. At a minimum, the log should include the following: date received, defendant, case number, description, location, signature areas for signing in and out, and disposition.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 05.09 **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 and budgeting processes.

RECOMMENDATION

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

FINDING 05.10

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 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 the accounting records in these offices 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.

**GRUNDY COUNTY, TENNESSEE, AND THE
GRUNDY 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.