

**ANNUAL FINANCIAL REPORT
OF
JACKSON COUNTY, TENNESSEE
AND
JACKSON 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
JACKSON COUNTY, TENNESSEE
FOR THE YEAR ENDED JUNE 30, 2005

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DIVISION OF COUNTY AUDIT
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State Auditors

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

JACKSON COUNTY, TENNESSEE

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Audit Highlights

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

Results

Our report on Jackson 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 17 findings and recommendations, which we have reviewed with Jackson County management. Detailed findings, recommendations, and management's response are included in the Single Audit Report.

Findings

The following are summaries of the audit findings:

JACKSON COUNTY

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

OFFICE OF COUNTY MAYOR

- ◆ Drug control funds were improperly expended.
- ◆ Expenditures exceeded appropriations in the General Debt Service Fund and Drug Control Fund by \$4,928 and \$7,850, respectively. Expenditures exceeded appropriations in ten major appropriation categories of the General Fund by amounts ranging from \$176 to \$10,879. Also, the actual fund balance in the General Fund at July 1, 2004, exceeded the estimated fund balance by \$235,785. The actual fund balance in the Solid Waste/Sanitation Fund at July 1, 2004 was less than the estimated fund balance by \$201,755.
- ◆ In several instances, purchase orders were either not issued, were issued after the purchases were made, and/or did not disclose descriptions or dollar amounts of the items ordered. Also, several invoices were paid without documentation that goods had been received and/or services rendered. Some invoices were not on file to support the purchases. Furthermore, several disbursements were coded to expenditure accounts that did not reflect the true nature of the expenditures.

OFFICE OF COUNTY MAYOR (CONT.)

- ◆ Certain assets were not included on the inventory, and some items listed did not include all of the information necessary to identify the assets. Inventory records were not verified by personnel independent of maintaining the records. The county stored tires for the Sheriff's Department at a local business and did not track the inventory.
-

OFFICE OF HIGHWAY SUPERINTENDENT

- ◆ Highway/Public Works Fund expenditures exceeded appropriations by \$188,597. Also, the actual fund balance in the Highway/Public Works Fund at July 1, 2004, exceeded the estimated fund balance by \$223,050.
 - ◆ Adequate records of the quantity and use of rock were not maintained.
 - ◆ In several instances, purchase orders were not issued or were issued after the purchases were made.
-

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

- ◆ The office did not have formal policies and procedures for computer operations.
 - ◆ Daily computer backups were not stored in a secure location. System backups were not stored off-site, and a backup log was not maintained.
 - ◆ The office did not develop a disaster recovery plan.
-

OFFICE OF CLERK AND MASTER

- ◆ The office had a cash shortage totaling \$2,108.23 on March 3, 2005, and \$1,130 on June 30, 2005.
 - ◆ Checks received for land sales were not receipted and deposited in compliance with state statutes. Official prenumbered receipts were not issued for child support collections. Funds were not deposited to the bank account within three days of collection, and collections were not adequately secured until deposited. Furthermore, bank statements were not properly reconciled with the general ledger accounts from September 2004 through February 2005.
-

OFFICE OF SHERIFF

- ◆ Funds were not always deposited within three days of collection.
- ◆ The office did not complete several forms required to document cash transactions for confidential funds.

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.

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

INTRODUCTORY SECTION

Jackson County Officials

June 30, 2005

Officials:

Charlie Hix, County Mayor
Edward Anderson, Highway Superintendent
Vernon Ragland, Trustee
Kim Hammock, Assessor of Property
Belinda Ward, County Clerk
Aaron P. Thomas, Circuit and General Sessions Courts Clerk
Garry Jones, Clerk and Master
Kim Barham, Register
Kenneth Bean, Sheriff

Board of County Commissioners:

Charlie Hix, Chairman	Charles W. Hopkins
Roger Brown	Terry R. Maberry
John Cason	Billy W. Myers
Kenneth Craighead	Gary L. Norton
Danny Davis	Johnny Pippin
Jimmy P. Davis	Tim Scott
Joey Denson	Jack Smith
Pat Forkum	James Stewart
Joe V. Halfacre	Wayne Wiley
Bruce Hawkins	

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 8, 2005

Jackson County Mayor and
Board of County Commissioners
Jackson 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 Jackson County, Tennessee, as of and for the year ended June 30, 2005, as shown on pages 11 through 35, 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 Jackson County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

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

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

However, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Jackson 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.

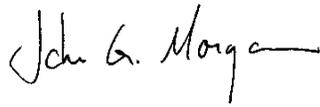
In accordance with Government Auditing Standards, we have also issued our report dated September 8, 2005, on our consideration of Jackson County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and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

As described in Note IV.B., Jackson 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 39 through 46 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 Jackson 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/rd

BASIC FINANCIAL STATEMENTS

Exhibit A

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

	Major Funds				Nonmajor Funds	Total Govern- mental Funds
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern- mental Funds	
<u>ASSETS</u>						
Cash	\$ 0	\$ 0	\$ 0	\$ 0	\$ 7,624	\$ 7,624
Equity in Pooled Cash and Investments	452,572	133,640	312,709	2,145,619	288,883	3,333,423
Accounts Receivable	0	0	1,287	0	72	1,359
Due from Other Governments	37,864	0	254,429	0	0	292,293
Due from Other Funds	8,826	0	1,446	0	7,301	17,573
Property Taxes Receivable	1,542,986	318,799	153,024	114,768	0	2,129,577
Allowance for Uncollectible Property Taxes	(44,369)	(9,167)	(4,400)	(3,300)	0	(61,236)
Cash Shortage	0	0	0	0	1,130	1,130
Total Assets	\$ 1,997,879	\$ 443,272	\$ 718,495	\$ 2,257,087	\$ 305,010	\$ 5,721,743
<u>LIABILITIES AND FUND BALANCES</u>						
<u>Liabilities</u>						
Accounts Payable	\$ 30,850	\$ 11,336	\$ 570	\$ 0	\$ 31,990	\$ 74,746
Payroll Deductions Payable	5,661	680	0	0	0	6,341
Retainage Payable	0	0	30,227	0	0	30,227
Due to Other Funds	1,239	207	0	7,301	8,826	17,573
Deferred Revenue - Current Property Taxes	1,426,435	294,718	141,465	106,099	0	1,968,717
Deferred Revenue - Delinquent Property Taxes	72,182	14,914	7,159	5,369	0	99,624
Other Deferred Revenues	15,134	0	120,740	0	0	135,874
Total Liabilities	\$ 1,551,501	\$ 321,855	\$ 300,161	\$ 118,769	\$ 40,816	\$ 2,333,102
<u>Fund Balances</u>						
Reserved for Encumbrances	\$ 0	\$ 0	\$ 809,301	\$ 0	\$ 0	\$ 809,301
Reserved for Litigation Tax - Jail, Workhouse, or Courthouse	78,275	0	0	0	0	78,275
Reserved for Sexual Offender Registration	720	0	0	0	0	720
Reserved for Computer System - Register	8,798	0	0	0	0	8,798
Reserved for Capital Outlay	57	0	50,000	0	0	50,057
Unreserved, Reported In:						
General Fund	358,528	0	0	0	0	358,528
Special Revenue Funds (Deficit)	0	121,417	(440,967)	0	26,785	(292,765)

(Continued)

Exhibit A

Jackson County, Tennessee
Balance Sheet
Governmental Funds (Cont.)

LIABILITIES AND FUND BALANCES (Cont.)

Fund Balances (Cont.)

Unreserved, Reported In (Cont.):

Debt Service Funds

Capital Projects Funds

Total Fund Balances

Total Liabilities and Fund Balances

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

Major Funds				Nonmajor Funds	Total Govern- mental Funds
General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern- mental Funds	
\$ 0	\$ 0	\$ 0	\$ 2,138,318	\$ 0	\$ 2,138,318
0	0	0	0	237,409	237,409
<u>\$ 446,378</u>	<u>\$ 121,417</u>	<u>\$ 418,334</u>	<u>\$ 2,138,318</u>	<u>\$ 264,194</u>	<u>\$ 3,388,641</u>
<u>\$ 1,997,879</u>	<u>\$ 443,272</u>	<u>\$ 718,495</u>	<u>\$ 2,257,087</u>	<u>\$ 305,010</u>	<u>\$ 5,721,743</u>

Exhibit B

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

	Major Funds				Nonmajor	Total
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Governmental Funds	
<u>Revenues</u>						
Local Taxes	\$ 1,588,301	\$ 288,911	\$ 147,934	\$ 100,328	\$ 0	\$ 2,125,474
Licenses and Permits	1,615	0	0	0	0	1,615
Fines, Forfeitures, and Penalties	43,323	0	0	0	56,274	99,597
Charges for Current Services	583,856	0	0	0	0	583,856
Other Local Revenues	148,488	3,061	103,799	7,583	45,819	308,750
Fees Received from County Officials	359,210	0	0	0	0	359,210
State of Tennessee	430,263	5,305	1,576,427	0	0	2,011,995
Federal Government	727,694	0	379,532	0	9,277	1,116,503
Other Governments and Citizens Groups	37,267	0	0	304,250	2,500	344,017
Total Revenues	\$ 3,920,017	\$ 297,277	\$ 2,207,692	\$ 412,161	\$ 113,870	\$ 6,951,017
<u>Expenditures</u>						
Current:						
General Government	\$ 456,475	\$ 0	\$ 0	\$ 0	\$ 0	\$ 456,475
Finance	242,930	0	0	0	0	242,930
Administration of Justice	466,854	0	0	0	0	466,854
Public Safety	1,031,403	0	0	0	58,487	1,089,890
Public Health and Welfare	539,275	338,028	0	0	3,044	880,347
Social, Cultural, and Recreational Services	71,203	0	0	0	0	71,203
Agricultural and Natural Resources	51,919	0	0	0	0	51,919
Other Operations	1,124,295	5,772	0	1,999	21,631	1,153,697
Highways	31,991	0	2,668,208	0	0	2,700,199
Debt Service:						
Principal	0	0	0	306,625	0	306,625
Interest	0	0	0	174,134	0	174,134
Other Debt Service	0	0	0	6,349	0	6,349
Capital Projects	0	0	0	0	285,570	285,570
Total Expenditures	\$ 4,016,345	\$ 343,800	\$ 2,668,208	\$ 489,107	\$ 368,732	\$ 7,886,192
Excess (Deficiency) of Revenues						
Over Expenditures	\$ (96,328)	\$ (46,523)	\$ (460,516)	\$ (76,946)	\$ (254,862)	\$ (935,175)
<u>Other Financing Sources (Uses)</u>						
Notes Issued	\$ 0	\$ 0	\$ 300,000	\$ 0	\$ 0	\$ 300,000
Other Loans Issued	0	0	0	0	368,151	368,151

(Continued)

Exhibit B

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

	Major Funds				Nonmajor	Total
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern- mental Funds	
<u>Other Financing Sources (Uses) (Cont.)</u>						
Transfers In	\$ 2,853	\$ 0	\$ 0	\$ 0	\$ 0	2,853
Transfers Out	0	0	0	0	(2,853)	(2,853)
Total Other Financing Sources (Uses)	\$ 2,853	\$ 0	\$ 300,000	\$ 0	\$ 365,298	\$ 668,151
Net Change in Fund Balances	\$ (93,475)	\$ (46,523)	\$ (160,516)	\$ (76,946)	\$ 110,436	\$ (267,024)
Fund Balance, July 1, 2004	539,853	167,940	578,850	2,215,264	153,758	3,655,665
Fund Balance, June 30, 2005	\$ 446,378	\$ 121,417	\$ 418,334	\$ 2,138,318	\$ 264,194	\$ 3,388,641

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

Exhibit C

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

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash	\$ 348,054
Investments	94,717
Accounts Receivable	5,755
Due from Other Governments	<u>46,957</u>
Total Assets	<u>\$ 495,483</u>
<u>LIABILITIES</u>	
Due to Other Taxing Units	\$ 46,957
Due to Litigants, Heirs, and Others	<u>448,526</u>
Total Liabilities	<u>\$ 495,483</u>

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Jackson 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.

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

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

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

A. Reporting Entity

Jackson County is a public municipal corporation governed by an elected 18-member board. As required by GAAP, these financial statements present Jackson County (the primary government).

Blended Component Units – There are no legally separate component units of Jackson 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 Jackson 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 Jackson County School Department operates the public school system in the county, and the voters of Jackson 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 Jackson County Emergency Communications District provides a simplified means of securing emergency services through a uniform emergency number for the residents of Jackson County, and the Jackson County Commission appoints its governing body. The district is funded primarily through a service charge levied on telephone services. Before the issuance of most debt instruments, the district must obtain the County Commission's approval.

The Jackson County School Department and the Jackson 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 Jackson County Emergency Communications District's financial statements are published as a separate report. Complete financial statements of the Jackson County Emergency Communications District can be obtained from its administrative office at the following address:

Jackson County Emergency Communications District
P.O. Box 313
305 North Murry
Gainesboro, TN 38562

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

Fund financial statements of Jackson 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. Jackson 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. Jackson 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.

Jackson County reports the following major governmental funds:

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

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

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

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

Additionally, Jackson County reports the following fund types:

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

Agency Funds – These funds account for amounts collected in an agency capacity by the constitutional officers and local sales taxes received by the state to be forwarded to the various cities in Jackson 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 Jackson County and Jackson 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 Fund. Jackson County and the Jackson County School Department have adopted a policy of reporting U.S. Treasury obligations, U.S. agency obligations, and repurchase agreements with maturities of one year or less when purchased on the balance sheet at amortized cost. Certificates of deposit are reported at cost. The State Treasurer's Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows SEC-registered mutual funds to use amortized cost rather than fair value to report net assets to compute share prices if certain conditions are met. State statutes require the state treasurer to administer the pool under the same

terms and conditions, including collateral requirements, as prescribed for other funds invested by the state treasurer. All other investments are reported at fair value.

2. Receivables and Payables

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

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

Property taxes receivable are shown with an allowance for uncollectibles. The allowance for uncollectible property taxes is equal to 1.6 percent of total taxes levied.

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

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

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

Retainage payable represents amounts withheld from payments made to contractors on construction projects to ensure contract performance. These amounts are held by the county trustee as Equity in Pooled Cash and Investments.

3. Capital Assets

Governmental funds do not capitalize the cost of capital outlays; these funds report capital outlays as expenditures upon acquisition. Jackson 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, Jackson County does not present government-wide statements.

4. Compensated Absences

It is the county's policy to permit employees to accumulate earned but unused vacation benefits, which will be paid to governmental employees upon separation of service. The cost of vacation benefits are recognized when payments are made to employees. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The county's policy does not allow for the accumulation of unused sick leave beyond year-end. The general policy of the Highway Department does not allow for the accumulation of unused vacation and sick days beyond year-end.

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, are recognized to the extent that the liabilities have matured (come due for payment) each period.

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

6. Fund Equity

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Fund Deficit

The Highway/Public Works Fund (special revenue fund) had a deficit fund balance of \$440,967 as of June 30, 2005. This fund deficit resulted from the recognition of the unperformed portion of construction contracts totaling \$809,301 being reserved as encumbrances in the financial statements of this report. Funding for these future expenditures should be received from grant proceeds subsequent to year-end. Generally accepted accounting principles require unperformed contracts to be reflected as a reservation (encumbrance) of fund balance. If unperformed portions of these construction contracts had not been reserved as an encumbrance of the fund balance in the financial statements of this report, the Highway/Public Works Fund would have reflected a fund balance of \$368,334. The following statement presents the condition of the Highway/Public Works Fund at June 30, 2005, if unperformed contracts had not been reflected as a reservation of the fund balance:

Highway/Public Works Fund
Fund Equity – Restated
June 30, 2005

Fund Balance

Unreserved:

Undesignated

\$ 368,334

Fund Balance, June 30, 2005, Restated

\$ 368,334

B. Cash Shortage

The Clerk and Master's Office had a cash shortage of \$1,130 as of June 30, 2005. This cash shortage was liquidated by the clerk and master subsequent to year-end. Details of this cash shortage are discussed in the Schedule of Findings and Questioned Costs section of this report.

C. Expenditures and Encumbrances Exceeded Appropriations

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

<u>Fund</u>	<u>Major Appropriation Category</u>	<u>Amount</u>
General	County Buildings	\$ 4,776
General	County Clerk's Office	8,363
General	Other Administration of Justice	487
General	Jail	10,879
General	Other Public Safety	176
General	Airport	3,821
General	Other Charges	1,794
General	Employee Benefits	1,260
General	Miscellaneous	1,369
General	Litter and Trash Collection	254
Solid Waste/Sanitation	Waste Pickup	384
Highway/Public Works	Highway & Bridge Maintenance	227,260
Drug Control	Drug Enforcement	7,556
Drug Control	Alcohol and Drug Programs	294
General Debt Service	Interest – General Government	3,196
General Debt Service	Other Debt Service – General Gov.	3,942

Also, expenditures and encumbrances exceeded total appropriations in the Highway/Public Works (\$188,597), Drug Control (\$7,850), and the General Debt Service Funds (\$4,928).

Such overexpenditures are a violation of state statutes. These overexpenditures were funded by greater than anticipated revenues in the General, Solid Waste/Sanitation, and General Debt Service Funds. Future grant proceeds will fund the Highway/Public Works Fund.

D. The Actual Fund Balances Differed From the Estimated Beginning Fund Balances by Material Amounts

The actual fund balances in the General Fund and the Highway/Public Works Fund exceeded the estimated fund balances at July 1, 2004, presented to the County Commission during the budget approval process. Also, the actual fund balance in the Solid Waste/Sanitation Fund was significantly less than the estimated fund balance presented to the County Commission during the budget approval process.

Fund	Actual Fund Balance 7-1-04	Budgeted Fund Balance 7-1-04	Variance
General	539,853	\$ 304,068	\$ 235,785
Highway/Public Works	578,850	355,800	223,050
Solid Waste/Sanitation	167,940	369,695	(201,755)

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

Deposits

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

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured

amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the county.

Investments

Legal Provisions. Counties are authorized to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; and the county’s own legally issued bonds or notes. These investments may not have a maturity greater than two years. The county may make investments with longer maturities if various restrictions set out in state law are followed. Counties are also authorized to make investments in the State Treasurer’s Investment Pool and in repurchase agreements. Repurchase agreements must be approved by the state director of Local Finance and executed in accordance with procedures established by the State Funding Board. Securities purchased under a repurchase agreement must be obligations of the U.S. government, or obligations guaranteed by the U.S. government, or any of its agencies. When repurchase agreements are executed, the purchase of the securities must be priced at least two percent below the market value of the securities on the day of purchase.

Investment Balances. As of June 30, 2005, Jackson County had the following investments carried at fair value. All of these investments were made on behalf of litigants at the direction of a court order and are held in the Clerk and Master’s Office.

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
American Express New Dimensions (B) Fund	On Demand	\$ 8,575
American Express Growth FD (B) Fund	On Demand	8,051
American Express Part Select Value (B) Fund	On Demand	10,278
American Express Large Cap Equity (B) Fund	On Demand	9,646
American Express Intermediate Tax (A) Fund	On Demand	21,125
American Express Part Small Cap V (A) Fund	On Demand	8,113
American Express Part Small Cap V (B) Fund	On Demand	17,239
American Express Mid Cap Value FU (A) Fund	On Demand	<u>11,690</u>
Total		<u>\$ 94,717</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. Jackson 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. Jackson County has no investment policy that would further limit its investment choices. As of June 30, 2005, Jackson County's investments in American Express Mutual Funds were not rated.

Custodial Credit Risk. Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the county will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Jackson County does not have a formal policy that limits custodial credit risk for investments. Of the \$94,717 in mutual funds, the underlying securities for \$94,717 were uninsured and held by the investment's counterparty, not in the name of the county. However, it should be noted that these amounts are invested on behalf of litigants at the order of the court and the county has no custodial credit risk for these investments.

B. Construction Commitments

At June 30, 2005, the Highway Department had uncompleted construction contracts of approximately \$809,301 for road repairs related to disaster assistance. Funding for these future expenditures is expected to be received from federal grant proceeds.

C. Interfund Receivables, Payables, and Transfers

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

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental	\$ 8,826
Highway/Public Works	General	1,239
Highway/Public Works	Solid Waste/Sanitation	207
Nonmajor governmental	General Debt Service	7,301

These balances 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> <u>General</u> <u>Fund</u>
Nonmajor governmental funds	<u>\$ 2,853</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 and to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The county made transfers from the Drug Control Fund of \$2,853 to the General Fund to subsidize the fund's operating expenditures. The legality of this transfer is questionable since the revenues in the Drug Control Fund can only be used for local drug education, treatment, enforcement programs, and nonrecurring general law enforcement expenditures according to state statute.

D. Capital Lease

On June 25, 2002, Jackson County entered into a five-year lease-purchase agreement for defibrillators and monitors for the Ambulance Service. The terms of the agreement require total lease payments of \$63,023 plus interest of 9.9 percent. Title to the equipment transfers to Jackson County at the end of the lease period. The lease payments are made by the General Debt Service Fund.

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

<u>Year Ending June 30</u>	<u>Governmental Funds</u>
2006	\$ 16,038
2007	16,038
2008	<u>2,673</u>
Total Minimum Lease Payments	\$ 34,749
Less: Amounts Representing Interest	<u>(7,440)</u>
Present Value of Minimum Lease Payments	<u>\$ 27,309</u>

E. Long-term Debt

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

General Obligation Bonds, Notes, and Other Loans

The county issues general obligation bonds and other loans to provide funds for the acquisition and construction of major capital facilities. Capital outlay notes are also issued to fund capital facilities and other capital outlay purchases, such as equipment.

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 40 years for bonds, up to six years for notes, and up to 25 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, notes, and other loans included in long-term debt as of June 30, 2005, will be retired from the General Debt Service Fund, with the exception of the Street and Road Improvement Note which will be paid from the Highway/Public Works Fund.

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

Type	Interest Rate	Original Amount of Issue	Balance 6-30-05
General Obligation Bonds	3.342 to 5.683 %	\$ 3,920,000	\$ 3,037,500
Capital Outlay Notes	3.15 to 4.25	999,644	722,718
Other Loan	variable	368,151	368,151
Capital Lease	9.9	63,023	27,309

During the year, Jackson County entered into loan agreements with the Montgomery County Public Building Authority. This loan agreement provided for the authority to make \$3,500,000 available for loan to Jackson County on an as-needed basis for jail construction. On June 30, 2005, the county borrowed \$368,151 of the available amount. This loan is repayable at a tax-exempt variable interest rate determined by the remarketing agent daily or weekly, depending on the particular program. In addition, the county pays various other fees (trustee fees, letter of credit fees, and debt remarketing fees) in connection with this loan. At June 30, 2005, the variable interest rate was 2.28 percent, and other fees amounted to approximately .28 percent of the outstanding loan principal, and a trustee fee which is charged at \$100 per month.

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	\$ 172,500	\$ 142,503	\$ 209,820	\$ 26,115
2007	183,200	135,240	284,789	18,761
2008	189,400	127,438	85,334	8,979
2009	196,700	119,262	88,775	5,418
2010	201,900	109,589	54,000	2,290
2011-2015	1,139,300	401,568	0	0
2016-2019	954,500	111,275	0	0
Total	\$ 3,037,500	\$ 1,146,875	\$ 722,718	\$ 61,563

Year Ending June 30	Other Loan (\$368,151)			Total
	Principal	Interest	Other Fees	
2006	\$ 102,000	\$ 79,800	\$ 9,900	\$ 191,700
2007	105,000	77,474	9,614	192,088
2008	108,000	75,080	9,320	192,400
2009	53,151	72,618	9,018	134,787
Total	\$ 368,151	\$ 304,972	\$ 37,852	\$ 710,975

There is \$2,138,318 available in the General Debt Service Fund to service long-term debt. Total bonded debt per capita amounted to \$277, based on the 2000 federal census. Total debt per capita, including bonds, notes, other loans, and capital leases, amounted to \$378, 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	Capital Leases
Balance, July 1, 2004	\$ 3,208,800	\$ 546,488	\$ 38,864
Additions	0	300,000	0
Deductions	(171,300)	(123,770)	(11,555)
Balance, June 30, 2005	\$ 3,037,500	\$ 722,718	\$ 27,309
Balance Due Within One Year	\$ 172,500	\$ 209,820	\$ 12,604

	Other Loans
Balance, July 1, 2004	\$ 0
Additions	368,151
Balance, June 30, 2005	\$ 368,151
Balance Due Within One Year	\$ 102,000

IV. OTHER INFORMATION

A. Risk Management

The county is exposed to various risks related to general liability, property, casualty, and workers' compensation losses. Jackson County (with the exception of the Highway Department general liability, property, and casualty) is a member of the Tennessee School Boards Risk Management Trust (TSB-RMT), which is a public entity risk pool established by the Tennessee School Boards Association. Annual premiums are paid to the TSB-RMT for the risk coverage noted above. The creation of this TSB-RMT provides for it to be self-sustaining through member premiums.

Jackson County Highway Department's risk of loss relating to general liability, property, and casualty is covered by participation in the Local Government Property and Casualty Fund (LGPCF), which is a public entity risk pool established by the Tennessee County Services Association, an association of member counties. The Highway Department pays annual premiums to the pool the risk coverage noted above. The creation of the pool provides for it to be self-sustaining through member premiums. The LGPCF reinsures through commercial insurance companies for claims exceeding \$100,000 for each insured event.

B. Accounting Change

During the year, Jackson 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 Events

On July 18, 2005, the County Commission approved a second public building authority loan for \$1,500,000 for jail construction.

On August 4, 2005, the county issued capital outlay notes of \$60,000 at an interest rate of 4.1 percent to purchase patrol cars.

D. Contingent Liabilities

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

E. Change in Administration

Gary Anderson left the Office of Assessor of Property on August 31, 2004, and was succeeded by Kim Hammock.

F. Joint Ventures

The Tri-County Vocational School Board operates the Cooperative Vocational School, which is jointly owned by Clay, Jackson, and Macon Counties. The board comprises 17 members, 11 of whom are the three directors of schools, three county mayors, and five high school principals from Clay, Jackson, and Macon counties. The remaining six members are each appointed by the three county school boards and county commissions. Clay, Jackson, and Macon counties have control over budgeting and financing the joint venture only to the extent of representation by the six board members appointed. The counties are responsible for funding operations and any deficits from operations based on their participation in the joint venture, which is 24 percent (Clay), 30 percent (Jackson), and 46 percent (Macon); however, the counties do not retain an equity interest in the joint venture. Jackson County contributed \$64,327 to the operations of the board during the year. Complete financial statements for the Tri-County Vocational School can be obtained from its administrative offices:

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

G. Jointly Governed Organization

The Gainesboro Port Authority was created by the county, in conjunction with the City of Gainesboro. The authority's board comprises two members appointed by the County Commission, two members appointed by the City of Gainesboro, and the remaining member appointed by the other four members. Jackson County does not provide funding for the authority and retains no ongoing financial responsibility for the authority.

H. Retirement Commitments

Plan Description

Employees of Jackson 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 Jackson 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

Jackson County requires employees to contribute five percent of earnable compensation. The county is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2005, was 6.24 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Jackson County is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2005, Jackson County's annual pension cost of \$164,106 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. Jackson County's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2003, was 21 years.

Trend Information

Fiscal Year Ended	Annual Pension Cost(APC)	Percentage of APC Contributed	Net Pension Obligation
6-30-05	\$164,106	100%	\$0
6-30-04	145,908	100	0
6-30-03	132,138	100	0

Required Supplementary Information
Schedule of Funding Progress for Jackson 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
	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/c)
6-30-03	\$3,141	\$3,249	\$108	96.68%	\$2,225	4.85%
6-30-01	2,600	2,761	161	94.17	2,142	7.52
6-30-99	2,025	2,031	6	99.7	1,914	.31

I. Purchasing Laws

Office of County Mayor

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

Office of Highway Superintendent

Chapter 111, Private Acts of 1951, as amended, and Section 54-7-113, Tennessee Code Annotated (Uniform Road Law), govern purchasing procedures for the Highway Department. Chapter 111, Private Acts of 1951, directs the highway superintendent to make necessary purchases and to file a report with the County Commission for all purchases exceeding \$1,000. Provisions of the Uniform Road Law require all purchases exceeding \$10,000 to be made on the basis of publicly advertised competitive bids.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit D-1

Jackson 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	\$ 1,588,301	\$ 1,607,869	\$ 1,607,869	\$ (19,568)
Licenses and Permits	1,615	2,000	2,000	(385)
Fines, Forfeitures, and Penalties	43,323	32,100	32,100	11,223
Charges for Current Services	583,856	417,400	421,139	162,717
Other Local Revenues	148,488	164,200	181,099	(32,611)
Fees Received from County Officials	359,210	337,000	337,000	22,210
State of Tennessee	430,263	425,933	447,041	(16,778)
Federal Government	727,694	12,900	706,185	21,509
Other Governments and Citizens Groups	37,267	0	37,000	267
Total Revenues	\$ 3,920,017	\$ 2,999,402	\$ 3,771,433	\$ 148,584
<u>Expenditures</u>				
<u>General Government</u>				
County Commission	\$ 28,804	\$ 30,039	\$ 30,039	\$ 1,235
Board of Equalization	561	750	750	189
Beer Board	65	200	200	135
Budget and Finance Committee	646	646	646	0
Other Boards and Committees	242	431	431	189
County Mayor	118,557	118,589	118,589	32
County Attorney	4,759	4,759	4,759	0
Election Commission (Including Voter Registration)	96,719	98,492	98,492	1,773
Register of Deeds	78,964	79,239	79,239	275
County Buildings	127,158	109,757	122,382	(4,776)
<u>Finance</u>				
Property Assessor's Office	79,467	79,814	79,814	347
County Trustee's Office	67,190	67,311	67,311	121
County Clerk's Office	96,273	87,910	87,910	(8,363)
<u>Administration of Justice</u>				
Circuit Court	138,321	138,479	138,479	158
General Sessions Judge	88,429	91,737	91,737	3,308
Chancery Court	74,616	75,221	75,221	605
Juvenile Court	126,665	25,492	126,741	76
Judicial Commissioners	33,827	33,241	33,827	0
Other Administration of Justice	4,996	4,509	4,509	(487)
<u>Public Safety</u>				
Sheriff's Department	762,408	657,607	775,404	12,996
Administration of the Sexual Offender Registry	0	0	720	720
Jail	200,785	110,433	189,906	(10,879)
Fire Prevention and Control	17,826	16,500	18,351	525
Other Emergency Management	46,782	47,500	47,500	718
Other Public Safety	3,602	5,000	3,426	(176)
<u>Public Health and Welfare</u>				
Local Health Center	26,069	22,425	38,762	12,693

(Continued)

Exhibit D-1

Jackson 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 (Cont.)</u>				
Ambulance/Emergency Medical Services	\$ 489,358	\$ 457,125	\$ 510,648	\$ 21,290
Crippled Children Services	900	900	900	0
Regional Mental Health Center	4,648	4,868	4,868	220
Appropriation to State	15,300	15,300	15,300	0
General Welfare Assistance	1,000	1,000	1,000	0
Other Local Welfare Services	2,000	2,000	2,000	0
<u>Social, Cultural and Recreational Services</u>				
Adult Activities	15,143	15,918	15,918	775
Senior Citizens Assistance	15,073	15,618	15,618	545
Libraries	40,987	43,219	43,219	2,232
<u>Agriculture & Natural Resources</u>				
Agriculture Extension Service	37,727	40,196	40,196	2,469
Soil Conservation	14,192	14,192	14,192	0
<u>Other Operations</u>				
Industrial Development	280	2,000	2,000	1,720
Housing and Urban Development	613,338	0	613,338	0
Other Economic and Community Development	64	500	500	436
Airport	9,171	5,350	5,350	(3,821)
Other Charges	271,213	256,465	269,419	(1,794)
Employee Benefits	86,758	77,500	85,498	(1,260)
Miscellaneous	143,471	121,327	142,102	(1,369)
<u>Highways</u>				
Litter and Trash Collection	31,991	31,737	31,737	(254)
Total Expenditures	\$ 4,016,345	\$ 3,011,296	\$ 4,048,948	\$ 32,603
Excess (Deficiency) of Revenues Over Expenditures	\$ (96,328)	\$ (11,894)	\$ (277,515)	\$ 181,187
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 2,853	\$ 37,000	\$ 0	\$ 2,853
Total Other Financing Sources (Uses)	\$ 2,853	\$ 37,000	\$ 0	\$ 2,853
Net Change in Fund Balance	\$ (93,475)	\$ 25,106	\$ (277,515)	\$ 184,040
Fund Balance, July 1, 2004	539,853	304,068	304,068	235,785
Fund Balance, June 30, 2005	\$ 446,378	\$ 329,174	\$ 26,553	\$ 419,825

Exhibit D-2

Jackson 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	\$ 288,911	\$ 280,825	\$ 280,825	\$ 8,086
Other Local Revenues	3,061	4,000	4,000	(939)
State of Tennessee	5,305	8,397	8,397	(3,092)
Total Revenues	<u>\$ 297,277</u>	<u>\$ 293,222</u>	<u>\$ 293,222</u>	<u>\$ 4,055</u>
<u>Expenditures</u>				
<u>Public Health and Welfare</u>				
Waste Pickup	\$ 203,002	\$ 198,618	\$ 202,618	\$ (384)
Convenience Centers	135,026	152,445	152,445	17,419
<u>Other Operations</u>				
Other Charges	5,772	8,000	8,000	2,228
Total Expenditures	<u>\$ 343,800</u>	<u>\$ 359,063</u>	<u>\$ 363,063</u>	<u>\$ 19,263</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (46,523)</u>	<u>\$ (65,841)</u>	<u>\$ (69,841)</u>	<u>\$ 23,318</u>
Net Change in Fund Balance	\$ (46,523)	\$ (65,841)	\$ (69,841)	\$ 23,318
Fund Balance, July 1, 2004	<u>167,940</u>	<u>369,695</u>	<u>369,695</u>	<u>(201,755)</u>
Fund Balance, June 30, 2005	<u>\$ 121,417</u>	<u>\$ 303,854</u>	<u>\$ 299,854</u>	<u>\$ (178,437)</u>

Exhibit D-3

Jackson 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)	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	\$ 147,934	\$ 0	\$ 147,934	\$ 138,300	\$ 138,300	\$ 9,634
Other Local Revenues	103,799	0	103,799	41,500	88,603	15,196
State of Tennessee	1,576,427	0	1,576,427	1,432,000	1,581,961	(5,534)
Federal Government	379,532	0	379,532	0	855,000	(475,468)
Total Revenues	\$ 2,207,692	\$ 0	\$ 2,207,692	\$ 1,611,800	\$ 2,663,864	\$ (456,172)
<u>Expenditures</u>						
<u>Highways</u>						
Administration	\$ 112,574	\$ 0	\$ 112,574	\$ 114,198	\$ 117,898	\$ 5,324
Highway and Bridge Maintenance	1,876,406	776,061	2,652,467	1,107,653	2,425,207	(227,260)
Operation and Maintenance of Equipment	386,924	0	386,924	404,300	407,600	20,676
Other Charges	78,410	0	78,410	76,100	82,607	4,197
Employee Benefits	80,334	0	80,334	90,000	85,100	4,766
Capital Outlay	133,560	33,240	166,800	61,500	170,500	3,700
Total Expenditures	\$ 2,668,208	\$ 809,301	\$ 3,477,509	\$ 1,853,751	\$ 3,288,912	\$ (188,597)
Excess (Deficiency) of Revenues Over Expenditures	\$ (460,516)	\$ (809,301)	\$ (1,269,817)	\$ (241,951)	\$ (625,048)	\$ (644,769)
<u>Other Financing Sources (Uses)</u>						
Notes Issued	\$ 300,000	\$ 0	\$ 300,000	\$ 0	\$ 300,000	\$ 0
Total Other Financing Sources (Uses)	\$ 300,000	\$ 0	\$ 300,000	\$ 0	\$ 300,000	\$ 0

(Continued)

Exhibit D-3

Jackson County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Highway/Public Works 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	
Net Change in Fund Balance	\$ (160,516)	\$ (809,301)	\$ (969,817)	\$ (241,951)	\$ (325,048)	\$ (644,769)
Fund Balance, July 1, 2004	578,850	0	578,850	355,800	355,800	223,050
Fund Balance, June 30, 2005	\$ 418,334	\$ (809,301)	\$ (390,967)	\$ 113,849	\$ 30,752	\$ (421,719)

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

A. BUDGETARY INFORMATION

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

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

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

B. EXPENDITURES AND ENCUMBRANCES EXCEEDED APPROPRIATIONS

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

<u>Fund</u>	<u>Major Appropriation Category</u>	<u>Amount</u>
General	County Buildings	\$ 4,776
General	County Clerk's Office	8,363
General	Other Administration of Justice	487
General	Jail	10,879
General	Other Public Safety	176
General	Airport	3,821
General	Other Charges	1,794
General	Employee Benefits	1,260
General	Miscellaneous	1,369
General	Litter and Trash Collection	254
Solid Waste/Sanitation	Waste Pickup	384
Highway/Public Works	Highway & Bridge Maintenance	227,260

Expenditures and encumbrances also exceeded the total appropriations in the Highway/Public Works Fund by \$188,597. Such overexpenditures are a violation of state statutes. These overexpenditures were funded by greater than anticipated

revenues in the General Fund and the Solid Waste/Sanitation Fund. Future grant proceeds will fund the Highway/Public Works Fund.

C. FUND DEFICIT

The Highway/Public Works Fund (special revenue fund) had a deficit fund balance of \$440,967 as of June 30, 2005. This fund deficit resulted from the recognition of the unperformed portion of construction contracts totaling \$809,301 being reserved as encumbrances in the financial statements of this report. Funding for these future expenditures should be received from grant proceeds subsequent to year-end. Generally accepted accounting principles require unperformed contracts to be reflected as a reservation (encumbrance) of fund balance. If unperformed portions of these construction contracts had not been reserved as an encumbrance of the fund balance in the financial statements of this report, the Highway/Public Works Fund would have reflected a fund balance of \$368,334. The following statement presents the condition of the Highway/Public Works Fund at June 30, 2005, if unperformed contracts had not been reflected as a reservation of the fund balance:

Fund Balance

Unreserved:	
Undesignated	\$ 368,334
Fund Balance, June 30, 2005, Restated	<u>\$ 368,334</u>

D. THE ACTUAL FUND BALANCES DIFFERED FROM THE ESTIMATED BEGINNING FUND BALANCES BY A MATERIAL AMOUNT

The actual fund balances in the General and Highway/Public Works Funds were significantly more than the estimated fund balances presented to the County Commission during the budget approval process. Also, the actual fund balance in the Solid Waste/Sanitation Fund was significantly less than the estimated fund balance presented to the County Commission during the budget approval process.

Fund	Actual Fund Balance 7-1-04	Budgeted Fund Balance 7-1-04	Variance
General	\$ 539,853	\$ 304,068	\$ 235,785
Highway/Public Works	578,850	355,800	223,050
Solid Waste/Sanitation	167,940	369,695	(201,755)

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

Capital Projects Funds

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 revenues and expenditures related to the construction of a new jail.

Community Development/Industrial Park Fund – The Community Development/Industrial Park Fund is used to account for revenues and expenditures related to industrial buildings owned by the county.

Exhibit E-1

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

	Special Revenue Funds			Capital Projects Funds			Total Nonmajor Governmental Funds
	Drug Control	Constitu - tional Officers - Fees	Total	General Capital Projects	Community Development/ Industrial Park	Total	
<u>ASSETS</u>							
Cash	\$ 0	\$ 7,624	\$ 7,624	\$ 0	\$ 0	\$ 0	7,624
Equity in Pooled Cash and Investments	26,785	0	26,785	107,270	154,828	262,098	288,883
Accounts Receivable	0	72	72	0	0	0	72
Due from Other Funds	0	0	0	7,301	0	7,301	7,301
Cash Shortage	0	1,130	1,130	0	0	0	1,130
Total Assets	\$ 26,785	\$ 8,826	\$ 35,611	\$ 114,571	\$ 154,828	\$ 269,399	\$ 305,010
<u>LIABILITIES AND FUND BALANCES</u>							
<u>Liabilities</u>							
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 31,990	\$ 0	\$ 31,990	31,990
Due to Other Funds	0	8,826	8,826	0	0	0	8,826
Total Liabilities	\$ 0	\$ 8,826	\$ 8,826	\$ 31,990	\$ 0	\$ 31,990	40,816
<u>Fund Balances</u>							
Unreserved	\$ 26,785	\$ 0	\$ 26,785	\$ 82,581	\$ 154,828	\$ 237,409	264,194
Total Fund Balances	\$ 26,785	\$ 0	\$ 26,785	\$ 82,581	\$ 154,828	\$ 237,409	264,194
Total Liabilities and Fund Balances	\$ 26,785	\$ 8,826	\$ 35,611	\$ 114,571	\$ 154,828	\$ 269,399	\$ 305,010

Exhibit E-2

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

	Special	Capital Projects Funds			Total Nonmajor Governmental Funds
	Revenue Fund	General Capital Projects	Community Development/ Industrial Park	Total	
	Drug Control				
<u>Revenues</u>					
Fines, Forfeitures and Penalties	\$ 56,274	\$ 0	\$ 0	\$ 0	\$ 56,274
Other Local Revenues	6,615	0	39,204	39,204	45,819
Federal Government	9,277	0	0	0	9,277
Other Governments and Citizens Groups	2,500	0	0	0	2,500
Total Revenues	\$ 74,666	\$ 0	\$ 39,204	\$ 39,204	\$ 113,870
<u>Expenditures</u>					
Current:					
Public Safety	\$ 58,487	\$ 0	\$ 0	\$ 0	\$ 58,487
Public Health and Welfare	3,044	0	0	0	3,044
Other Operations	0	0	21,631	21,631	21,631
Capital Projects	0	285,570	0	285,570	285,570
Total Expenditures	\$ 61,531	\$ 285,570	\$ 21,631	\$ 307,201	\$ 368,732
Excess (Deficiency) of Revenues Over Expenditures	\$ 13,135	\$ (285,570)	\$ 17,573	\$ (267,997)	\$ (254,862)
<u>Other Financing Sources (Uses)</u>					
Other Loans Issued	\$ 0	\$ 368,151	\$ 0	\$ 368,151	\$ 368,151
Transfers Out	(2,853)	0	0	0	(2,853)
Total Other Financing Sources (Uses)	\$ (2,853)	\$ 368,151	\$ 0	\$ 368,151	\$ 365,298
Net Change in Fund Balances	\$ 10,282	\$ 82,581	\$ 17,573	\$ 100,154	\$ 110,436
Fund Balance, July 1, 2004	16,503	0	137,255	137,255	153,758
Fund Balance, June 30, 2005	\$ 26,785	\$ 82,581	\$ 154,828	\$ 237,409	\$ 264,194

Exhibit E-3

Jackson 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	\$ 56,274	\$ 26,500	\$ 34,833	\$ 21,441
Other Local Revenues	6,615	500	4,430	2,185
State of Tennessee	0	546	1,065	(1,065)
Federal Government	9,277	0	9,277	0
Other Governments and Citizens Groups	2,500	0	2,500	0
Total Revenues	<u>\$ 74,666</u>	<u>\$ 27,546</u>	<u>\$ 52,105</u>	<u>\$ 22,561</u>
<u>Expenditures</u>				
<u>Public Safety</u>				
Drug Enforcement	\$ 58,487	\$ 29,474	\$ 50,931	\$ (7,556)
<u>Public Health and Welfare</u>				
Alcohol and Drug Programs	3,044	2,500	2,750	(294)
Total Expenditures	<u>\$ 61,531</u>	<u>\$ 31,974</u>	<u>\$ 53,681</u>	<u>\$ (7,850)</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 13,135	\$ (4,428)	\$ (1,576)	\$ 14,711
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 0	\$ 2,500	\$ 0	\$ 0
Transfers Out	(2,853)	0	(2,853)	0
Total Other Financing Sources (Uses)	<u>\$ (2,853)</u>	<u>\$ 2,500</u>	<u>\$ (2,853)</u>	<u>\$ 0</u>
Net Change in Fund Balance	\$ 10,282	\$ (1,928)	\$ (4,429)	\$ 14,711
Fund Balance, July 1, 2004	16,503	50,919	50,919	(34,416)
Fund Balance, June 30, 2005	<u>\$ 26,785</u>	<u>\$ 48,991</u>	<u>\$ 46,490</u>	<u>\$ (19,705)</u>

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

Jackson 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	\$ 100,328	\$ 94,151	\$ 94,151	\$ 6,177
Other Local Revenues	7,583	7,500	7,500	83
Other Governments and Citizens Groups	304,250	0	304,250	0
Total Revenues	\$ 412,161	\$ 101,651	\$ 405,901	\$ 6,260
<u>Expenditures</u>				
<u>Other Operations</u>				
Other Charges	\$ 1,999	\$ 3,000	\$ 3,000	\$ 1,001
<u>Principal</u>				
General Government	146,625	143,528	147,834	1,209
Education	160,000	160,000	160,000	0
<u>Interest</u>				
General Government	29,884	23,631	26,688	(3,196)
Education	144,250	144,250	144,250	0
<u>Other Debt Service</u>				
General Government	5,849	500	1,907	(3,942)
Education	500	500	500	0
Total Expenditures	\$ 489,107	\$ 475,409	\$ 484,179	\$ (4,928)
Excess (Deficiency) of Revenues Over Expenditures	\$ (76,946)	\$ (373,758)	\$ (78,278)	\$ 1,332
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 0	\$ 304,250	\$ 0	\$ 0
Total Other Financing Sources (Uses)	\$ 0	\$ 304,250	\$ 0	\$ 0
Net Change in Fund Balance	\$ (76,946)	\$ (69,508)	\$ (78,278)	\$ 1,332
Fund Balance, July 1, 2004	2,215,264	2,319,566	2,319,566	(104,302)
Fund Balance, June 30, 2005	\$ 2,138,318	\$ 2,250,058	\$ 2,241,288	\$ (102,970)

Agency Funds

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

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

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

Exhibit G-1

Jackson 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	\$ 348,054	\$ 348,054
Investments	0	94,717	94,717
Accounts Receivable	0	5,755	5,755
Due from Other Governments	46,957	0	46,957
Total Assets	<u>\$ 46,957</u>	<u>\$ 448,526</u>	<u>\$ 495,483</u>
<u>LIABILITIES</u>			
Due to Other Taxing Units	\$ 46,957	\$ 0	\$ 46,957
Due to Litigants, Heirs, and Others	0	448,526	448,526
Total Liabilities	<u>\$ 46,957</u>	<u>\$ 448,526</u>	<u>\$ 495,483</u>

Exhibit G-2

Jackson 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	\$ 289,693	\$ 289,693	\$ 0
Due From Other Governments	46,267	46,957	46,267	46,957
Total Assets	\$ 46,267	\$ 336,650	\$ 335,960	\$ 46,957
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 46,267	\$ 336,650	\$ 335,960	\$ 46,957
Total Liabilities	\$ 46,267	\$ 336,650	\$ 335,960	\$ 46,957
<u>Constitutional Officers - Agency Fund</u>				
<u>Assets</u>				
Cash	\$ 726,557	\$ 2,420,540	\$ 2,799,043	\$ 348,054
Investments	157,924	94,717	157,924	94,717
Accounts Receivable	2,127	5,755	2,127	5,755
Total Assets	\$ 886,608	\$ 2,521,012	\$ 2,959,094	\$ 448,526
<u>Liabilities</u>				
Due to Litigants, Heirs, and Others	\$ 886,608	\$ 2,521,012	\$ 2,959,094	\$ 448,526
Total Liabilities	\$ 886,608	\$ 2,521,012	\$ 2,959,094	\$ 448,526
<u>Totals - All Agency Funds</u>				
<u>Assets</u>				
Equity in Pooled Cash and Investments	\$ 0	\$ 289,693	\$ 289,693	\$ 0
Cash	726,557	2,420,540	2,799,043	348,054
Investments	157,924	94,717	157,924	94,717
Accounts Receivable	2,127	5,755	2,127	5,755
Due From Other Governments	46,267	46,957	46,267	46,957
Total Assets	\$ 932,875	\$ 2,857,662	\$ 3,295,054	\$ 495,483
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 46,267	\$ 336,650	\$ 335,960	\$ 46,957
Due to Litigants, Heirs, and Others	886,608	2,521,012	2,959,094	448,526
Total Liabilities	\$ 932,875	\$ 2,857,662	\$ 3,295,054	\$ 495,483

MISCELLANEOUS SCHEDULES

Exhibit H-1

Jackson County, Tennessee
Schedule of Changes in Long-term Notes, Capital Leases, 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	Issued During Period	Paid and/or Matured During Period	Outstanding 6-30-05
NOTES PAYABLE								
<u>Payable through General Debt Service Fund</u>								
Courthouse Renovation	\$ 340,000	3.5 %	4-9-01	4-9-07	\$ 219,841	\$ 0	\$ 33,642	\$ 186,199
Ambulance Equipment & Fire Equipment	30,000	3.75	2-6-03	2-6-06	20,366	0	9,996	10,370
Ambulance	67,000	3.75	4-15-03	4-15-06	51,162	0	20,661	30,501
Garbage Truck and Dumpsters	170,144	4	6-18-04	6-17-09	170,144	0	31,437	138,707
Ambulance	67,500	3.15	2-20-04	2-20-07	62,107	0	21,967	40,140
Patrol Cars	25,000	3.35	4-27-04	2-26-07	22,868	0	6,067	16,801
Freestate Road Repairs	50,000	4.25	6-2-05	6-2-07	0	50,000	0	50,000
Total Payable through General Debt Service Fund					<u>\$ 546,488</u>	<u>\$ 50,000</u>	<u>\$ 123,770</u>	<u>\$ 472,718</u>
<u>Payable through Highway/Public Works Fund</u>								
Street and Road Improvements	250,000	4.24	5-26-05	5-1-10	\$ 0	\$ 250,000	\$ 0	\$ 250,000
Total Notes Payable					<u>\$ 546,488</u>	<u>\$ 300,000</u>	<u>\$ 123,770</u>	<u>\$ 722,718</u>
CAPITAL LEASE								
<u>Payable through General Debt Service Fund</u>								
Defibrillator/Monitors	63,023	9.9	6-25-02	9-30-07	<u>\$ 38,864</u>	<u>\$ 0</u>	<u>\$ 11,555</u>	<u>\$ 27,309</u>
OTHER LOANS PAYABLE								
<u>Payable through General Debt Service Fund</u>								
Jail Construction	(1)	Variable	8-9-04	5-25-29	<u>\$ 0</u>	<u>\$ 368,151</u>	<u>\$ 0</u>	<u>\$ 368,151</u>
GENERAL BONDED DEBT								
<u>Payable through General Debt Service Fund</u>								
Industrial Park (F.H.A.)	110,000	5	8-29-1975	1-1-15	\$ 54,300	\$ 0	\$ 3,800	\$ 50,500
Solid Waste (F.H.A.)	44,000	5.683	3-3-1978	1-1-08	11,000	0	2,000	9,000
Public Works (F.H.A.)	26,000	5	4-28-1978	1-1-18	14,500	0	500	14,000
Recreational Facility (F.H.A.)	115,000	3.342	8-21-1981	1-1-11	39,000	0	5,000	34,000
School	1,200,000	4.2 to 5	3-12-1998	6-1-18	1,105,000	0	60,000	1,045,000
School	2,425,000	3.6 to 4.9	5-1-1999	4-1-19	1,985,000	0	100,000	1,885,000
Total General Bonded Debt					<u>\$ 3,208,800</u>	<u>\$ 0</u>	<u>\$ 171,300</u>	<u>\$ 3,037,500</u>

(1) The county has drawn \$368,151 of an authorized \$3,500,000 from the Montgomery County Public Building Authority. There is an additional \$3,131,849 available for draws as of June 30, 2005.

Exhibit H-2

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

Year Ending June 30	Bond Requirements	Interest Requirements	F.H.A. Bond Requirements	F.H.A. Interest Requirements	Total Requirements
2006	\$ 160,000	\$ 137,630	\$ 12,500	\$ 4,873	\$ 315,003
2007	170,000	130,930	13,200	4,310	318,440
2008	175,000	123,725	14,400	3,713	316,838
2009	185,000	116,190	11,700	3,072	315,962
2010	190,000	107,003	11,900	2,586	311,489
2011	200,000	98,503	12,100	2,091	312,694
2012	210,000	89,352	6,400	1,585	307,337
2013	215,000	79,572	6,700	1,265	302,537
2014	235,000	69,455	6,900	930	312,285
2015	240,000	58,230	7,200	585	306,015
2016	255,000	46,650	1,500	225	303,375
2017	260,000	34,260	1,500	150	295,910
2018	265,000	21,500	1,500	75	288,075
2019	170,000	8,415	0	0	178,415
Total	\$ 2,930,000	\$ 1,121,415	\$ 107,500	\$ 25,460	\$ 4,184,375

Exhibit H-3

Jackson 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>
Drug Control	General	Operations	<u>\$ 2,853</u>

Jackson 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>	\$ 49,051	\$ 25,000	Western Surety Company
Highway Superintendent	Section 8-24-102, <u>TCA</u> , and Jackson County Commission	50,496 (1)	100,000	"
Trustee	Section 8-24-102, <u>TCA</u>	42,469	375,400	"
Assessor of Property:				
Gary Anderson (7-1-04 to 8-31-04)	Section 8-24-102, <u>TCA</u>	7,078	10,000	"
Kim Hammock (9-1-04 to 6-30-05)	Section 8-24-102, <u>TCA</u>	35,391	10,000	"
County Clerk	Section 8-24-102, <u>TCA</u>	42,469	25,000	"
Circuit Court Clerk	Section 8-24-102, <u>TCA</u>	42,469	25,000	"
Clerk and Master	Section 8-24-102, <u>TCA</u> , and Chancery Court Judge	43,481 (2)	25,000	"
Register	Section 8-24-102, <u>TCA</u>	42,469	15,000	"
Sheriff	Section 8-24-102, <u>TCA</u>	47,315 (3)	25,000	"
Employee Blanket Bond Coverage:				
General County Employees			150,000	Tennessee School Boards Risk Management Trust
Highway Employees			150,000	Local Government Property and Casualty

- (1) Includes an additional appropriation of \$3,781.
- (2) Includes special commissioner fees of \$1,012.
- (3) Includes law enforcement training supplement of \$600.

Exhibit H-5

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

	Special Revenue Funds				Debt	Capital	Total
	General	Solid Waste / Sanitation	Drug Control	Highway / Public Works	Service Fund	Projects Fund	
					General Debt Service	Community Development/ Industrial Park	
<u>Local Taxes</u>							
<u>County Property Taxes</u>							
Current Property Tax	\$ 1,228,892	\$ 258,081	\$ 0	\$ 122,804	\$ 91,540	\$ 0	\$ 1,701,317
Trustee's Collections - Prior Year	67,731	15,807	0	6,315	5,217	0	95,070
Circuit/Clerk & Master Collections - Prior Years	18,028	10,418	0	2,650	1,858	0	32,954
Interest and Penalty	10,241	2,077	0	1,169	804	0	14,291
Payments in Lieu of Taxes - Other	25,321	0	0	0	0	0	25,321
<u>County Local Option Taxes</u>							
Local Option Sales Tax	80,850	0	0	0	0	0	80,850
Litigation Tax - General	39,599	0	0	0	0	0	39,599
Litigation Tax - Jail, Workhouse, or Courthouse	12,731	0	0	0	0	0	12,731
Business Tax	21,144	0	0	0	0	0	21,144
Mineral Severance Tax	0	0	0	13,782	0	0	13,782
<u>Statutory Local Taxes</u>							
Bank Excise Tax	16,674	2,528	0	1,214	909	0	21,325
Wholesale Beer Tax	65,403	0	0	0	0	0	65,403
Interstate Telecommunications Tax	1,687	0	0	0	0	0	1,687
Total Local Taxes	\$ 1,588,301	\$ 288,911	\$ 0	\$ 147,934	\$ 100,328	\$ 0	\$ 2,125,474
<u>Licenses and Permits</u>							
<u>Permits</u>							
Beer Permits	\$ 1,615	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,615
Total Licenses and Permits	\$ 1,615	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,615
<u>Fines, Forfeitures and Penalties</u>							
<u>Circuit Court</u>							
Fines	\$ 1,455	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,455
Officers Costs	6	0	0	0	0	0	6
Data Entry Fee - Circuit Court	189	0	0	0	0	0	189
<u>General Sessions Court</u>							
Fines	33,409	0	0	0	0	0	33,409
Game and Fish Fines	230	0	0	0	0	0	230
Drug Control Fines	0	0	5,535	0	0	0	5,535
DUI Treatment Fines	4,460	0	0	0	0	0	4,460

(Continued)

Exhibit H-5

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

	Special Revenue Funds				Debt	Capital	Total
	General	Solid Waste / Sanitation	Drug Control	Highway / Public Works	Service Fund General Debt Service	Projects Fund Community Development/ Industrial Park	
<u>Fines, Forfeitures and Penalties (Cont.)</u>							
<u>General Sessions Court (Cont.)</u>							
Data Entry Fee - General Sessions Court	\$ 2,373	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	2,373
<u>Chancery Court</u>							
Officers Costs	1,055	0	0	0	0	0	1,055
Data Entry Fee - Chancery Court	146	0	0	0	0	0	146
<u>Other Courts - In-county</u>							
Drug Control Fines	0	0	21,776	0	0	0	21,776
<u>Other Fines, Forfeitures, and Penalties</u>							
Proceeds from Confiscated Property	0	0	28,963	0	0	0	28,963
Total Fines, Forfeitures and Penalties	\$ 43,323	\$ 0	\$ 56,274	\$ 0	\$ 0	\$ 0	99,597
<u>Charges for Current Services</u>							
<u>General Service Charges</u>							
Patient Charges	\$ 502,020	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	502,020
Other General Service Charges	137	0	0	0	0	0	137
<u>Fees</u>							
Copy Fees	3,781	0	0	0	0	0	3,781
Telephone Commissions	7,804	0	0	0	0	0	7,804
Vending Machine Collections	660	0	0	0	0	0	660
Constitutional Officers' Fees and Commissions	24,029	0	0	0	0	0	24,029
Data Processing Fee - Register	5,954	0	0	0	0	0	5,954
Data Processing Fee - Sheriff	2	0	0	0	0	0	2
Sexual Offender Registration Fee	720	0	0	0	0	0	720
<u>Education Charges</u>							
Tuition - Other	38,749	0	0	0	0	0	38,749
Total Charges for Current Services	\$ 583,856	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	583,856
<u>Other Local Revenues</u>							
<u>Recurring Items</u>							
Investment Income	\$ 114,396	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	114,396
Lease/Rentals	3,500	0	0	0	7,583	39,094	50,177
Sale of Materials and Supplies	551	0	235	7,383	0	110	8,279
Commissary Sales	9,636	0	0	0	0	0	9,636

(Continued)

Exhibit H-5

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

	Special Revenue Funds				Debt	Capital	Total
	General	Solid Waste / Sanitation	Drug Control	Highway / Public Works	Service Fund	Projects Fund	
					General Debt Service	Community Development/ Industrial Park	
<u>Other Local Revenues (Cont.)</u>							
<u>Recurring Items (Cont.)</u>							
Sale of Gasoline	\$ 430	\$ 0	\$ 0	\$ 51,846	\$ 0	\$ 0	\$ 52,276
Miscellaneous Refunds	6,798	0	0	1,156	0	0	7,954
<u>Nonrecurring Items</u>							
Insurance Recovery	10,357	0	3,930	4,474	0	0	18,761
Sale of Equipment	1,025	0	2,450	38,940	0	0	42,415
<u>Other Local Revenues</u>							
Other Local Revenues	1,795	3,061	0	0	0	0	4,856
Total Other Local Revenues	\$ 148,488	\$ 3,061	\$ 6,615	\$ 103,799	\$ 7,583	\$ 39,204	\$ 308,750
<u>Fees Received from County Officials</u>							
<u>Fees In Lieu of Salary</u>							
County Clerk	\$ 76,783	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 76,783
Circuit Court Clerk	17,784	0	0	0	0	0	17,784
General Sessions Court Clerk	53,933	0	0	0	0	0	53,933
Clerk and Master	24,707	0	0	0	0	0	24,707
Register	62,179	0	0	0	0	0	62,179
Sheriff	6,080	0	0	0	0	0	6,080
Trustee	117,744	0	0	0	0	0	117,744
Total Fees Received from County Officials	\$ 359,210	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 359,210
<u>State of Tennessee</u>							
<u>General Government Grants</u>							
Juvenile Services Program	\$ 9,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 9,000
Aging Programs	5,608	0	0	0	0	0	5,608
Solid Waste Grants	0	5,305	0	0	0	0	5,305
<u>Public Safety Grants</u>							
Law Enforcement Training Programs	6,743	0	0	0	0	0	6,743
<u>Health and Welfare Grants</u>							
Health Department Programs	15,912	0	0	0	0	0	15,912
Other Health and Welfare Grants	1,200	0	0	0	0	0	1,200
<u>Public Works Grants</u>							
State Aid Program	0	0	0	149,961	0	0	149,961

(Continued)

Exhibit H-5

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

	Special Revenue Funds				Debt	Capital	Total
	General	Solid Waste / Sanitation	Drug Control	Highway / Public Works	Service Fund General Debt Service	Projects Fund Community Development/ Industrial Park	
<u>State of Tennessee (Cont.)</u>							
<u>Public Works Grants (Cont.)</u>							
Litter Program	\$ 26,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	26,000
<u>Other State Revenues</u>							
Flood Control	2,338	0	0	0	0	0	2,338
Income Tax	108	0	0	0	0	0	108
Beer Tax	16,778	0	0	0	0	0	16,778
Alcoholic Beverage Tax	18,308	0	0	0	0	0	18,308
State Revenue Sharing - T.V.A.	216,891	0	0	0	0	0	216,891
Contracted Prisoner Boarding	90,176	0	0	0	0	0	90,176
Gasoline and Motor Fuel Tax	0	0	0	1,417,630	0	0	1,417,630
Petroleum Special Tax	0	0	0	8,836	0	0	8,836
Reappraisal Program Reimbursement	8,916	0	0	0	0	0	8,916
Registrar's Salary Supplement	12,285	0	0	0	0	0	12,285
Total State of Tennessee	\$ 430,263	\$ 5,305	\$ 0	\$ 1,576,427	\$ 0	\$ 0	2,011,995
<u>Federal Government</u>							
<u>Federal Through State</u>							
Disaster Relief	\$ 0	\$ 0	\$ 0	329,532	\$ 0	\$ 0	329,532
Homeland Security Grants	33,311	0	0	0	0	0	33,311
Other Federal through State	300,604	0	9,277	50,000	0	0	359,881
<u>Direct Federal Revenue</u>							
Police Service (Lake Area)	9,386	0	0	0	0	0	9,386
Public Safety Partnership and Community Policing - COPS	29,428	0	0	0	0	0	29,428
Other Direct Federal Revenue	354,965	0	0	0	0	0	354,965
Total Federal Government	\$ 727,694	\$ 0	\$ 9,277	\$ 379,532	\$ 0	\$ 0	1,116,503
<u>Other Governments and Citizens Groups</u>							
<u>Other Governments</u>							
Contributions	\$ 37,267	\$ 0	\$ 2,500	\$ 0	\$ 304,250	\$ 0	344,017
Total Other Governments and Citizens Groups	\$ 37,267	\$ 0	\$ 2,500	\$ 0	\$ 304,250	\$ 0	344,017
Total	\$ 3,920,017	\$ 297,277	\$ 74,666	\$ 2,207,692	\$ 412,161	\$ 39,204	6,951,017

Exhibit H-6

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

General Fund

General Government

County Commission

Other Per Diem & Fees	\$	16,088	
Social Security		1,280	
Audit Services		8,363	
Dues and Memberships		2,309	
Travel		264	
Other Contracted Services		500	
Total County Commission			\$ 28,804

Board of Equalization

Board and Committee Members Fees	\$	550	
Social Security		11	
Total Board of Equalization			561

Beer Board

Legal Notices, Recording and Court Costs	\$	65	
Total Beer Board			65

Budget and Finance Committee

Board and Committee Members Fees	\$	600	
Social Security		46	
Total Budget and Finance Committee			646

Other Boards and Committees

Board and Committee Members Fees	\$	225	
Social Security		17	
Total Other Boards and Committees			242

County Mayor

County Official/Administrative Officer	\$	49,051	
Accountants/Bookkeepers		30,389	
Clerical Personnel		17,716	
Social Security		7,432	
Communication		3,001	
Dues and Memberships		1,000	
Travel		1,538	
Office Supplies		2,930	
Data Processing Equipment		5,500	
Total County Mayor			118,557

(Continued)

Exhibit H-6

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

General Fund (Cont.)

General Government (Cont.)

County Attorney

County Official/Administrative Officer	\$	4,421	
Social Security		338	
Total County Attorney			\$ 4,759

Election Commission

County Official/Administrative Officer	\$	33,975	
Election Commission		23,304	
Election Workers		11,025	
In-Service Training		2,680	
Social Security		4,300	
Communication		1,079	
Legal Notices, Recording and Court Costs		882	
Printing, Stationery and Forms		7,777	
Travel		1,379	
Other Contracted Services		7,000	
Office Supplies		1,318	
Data Processing Equipment		2,000	
Total Election Commission			96,719

Register of Deeds

County Official/Administrative Officer	\$	42,469	
Clerical Personnel		17,716	
Social Security		4,604	
Communication		1,381	
Data Processing Services		7,000	
Dues and Memberships		650	
Maintenance & Repair Services- Office Equipment		1,500	
Travel		1,000	
Office Supplies		1,500	
Data Processing Equipment		1,000	
Office Equipment		144	
Total Register of Deeds			78,964

County Buildings

Custodial Personnel	\$	17,451	
Other Salaries & Wages		16,010	
Social Security		2,565	
Communication		415	
Maintenance & Repair Services- Buildings		43,358	
Pest Control		945	

(Continued)

Exhibit H-6

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

General Fund (Cont.)

General Government (Cont.)

County Buildings (Cont.)

Travel	\$	135	
Custodial Supplies		2,812	
Electricity		33,683	
Natural Gas		7,867	
Other Supplies and Materials		1,476	
Maintenance Equipment		441	
Total County Buildings			\$ 127,158

Finance

Property Assessor's Office

County Official/Administrative Officer	\$	42,469	
Clerical Personnel		17,716	
Social Security		4,759	
Audit Services		5,201	
Communication		702	
Data Processing Services		4,541	
Dues and Memberships		849	
Travel		2,451	
Office Supplies		779	
Total Property Assessor's Office			79,467

County Trustee's Office

County Official/Administrative Officer	\$	42,469	
Deputy(ies)		17,716	
Social Security		4,604	
Communication		465	
Dues and Memberships		300	
Travel		546	
Duplicating Supplies		100	
Office Supplies		990	
Total County Trustee's Office			67,190

County Clerk's Office

County Official/Administrative Officer	\$	42,469	
Deputy(ies)		17,847	
Social Security		4,614	
Communication		1,800	
Data Processing Services		1,000	
Maintenance & Repair Services- Office Equipment		150	
Printing, Stationery and Forms		2,523	

(Continued)

Exhibit H-6

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

General Fund (Cont.)

Finance (Cont.)

County Clerk's Office (Cont.)

Travel	\$	750	
Office Supplies		3,386	
Data Processing Equipment		21,734	
Total County Clerk's Office			\$ 96,273

Administration of Justice

Circuit Court

County Official/Administrative Officer	\$	42,469	
Deputy(ies)		57,553	
Jury and Witness Fees		8,797	
Other Per Diem & Fees		500	
Social Security		7,652	
Communication		3,934	
Printing, Stationery and Forms		1,769	
Travel		40	
Office Supplies		4,227	
Data Processing Equipment		11,380	
Total Circuit Court			138,321

General Sessions Judge

Judge(s)	\$	64,325	
Secretary(s)		14,672	
Social Security		6,043	
Communication		869	
Travel		1,522	
Office Supplies		998	
Total General Sessions Judge			88,429

Chancery Court

County Official/Administrative Officer	\$	42,469	
Deputy(ies)		17,716	
Jury and Witness Fees		120	
Social Security		4,604	
Communication		1,226	
Data Processing Services		4,432	
Dues and Memberships		367	
Printing, Stationery and Forms		572	
Travel		977	
Office Supplies		933	
Data Processing Equipment		700	

(Continued)

Exhibit H-6

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

General Fund (Cont.)

Administration of Justice (Cont.)

Chancery Court (Cont.)

Other Equipment	\$ 500	
Total Chancery Court		\$ 74,616

Juvenile Court

Youth Service Officer(s)	\$ 17,716	
Social Security	1,355	
Communication	585	
Travel	561	
Other Contracted Services	106,248	
Office Supplies	200	
Total Juvenile Court		126,665

Judicial Commissioners

County Official/Administrative Officer	\$ 30,363	
Social Security	2,323	
Communication	631	
Office Supplies	510	
Total Judicial Commissioners		33,827

Other Administration of Justice

County Official/Administrative Officer	\$ 1,800	
Clerical Personnel	500	
Social Security	176	
Maintenance & Repair Services- Vehicles	945	
Gasoline	349	
Small Tools	481	
Other Supplies and Materials	37	
Vehicle and Equipment Insurance	708	
Total Other Administration of Justice		4,996

Public Safety

Sheriff's Department

County Official/Administrative Officer	\$ 46,715
Deputy(ies)	258,998
Medical Personnel	6,154
Guards	222,828
Secretary(s)	19,852
School Resource Officer	50,365
In-Service Training	3,194
Social Security	46,192

(Continued)

Exhibit H-6

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

General Fund (Cont.)

Public Safety (Cont.)

Sheriff's Department (Cont.)

Communication	\$	12,669	
Contracts with Government Agencies		5,165	
Dues and Memberships		1,000	
Maintenance & Repair Services- Equipment		1,891	
Maintenance & Repair Services- Vehicles		16,918	
Printing, Stationery and Forms		659	
Travel		831	
Equipment Parts - Light		8,456	
Gasoline		44,564	
Office Supplies		3,963	
Tires and Tubes		5,003	
Uniforms		4,676	
Motor Vehicles		2,315	
Total Sheriff's Department			\$ 762,408

Jail

Cafeteria Personnel	\$	22,787	
Social Security		1,743	
Maintenance & Repair Services- Buildings		151	
Medical and Dental Services		112,026	
Pest Control		120	
Other Contracted Services		1,094	
Custodial Supplies		7,139	
Data Processing Supplies		105	
Electricity		11,813	
Food Preparation Supplies		2,614	
Food Supplies		30,319	
Office Supplies		55	
Prisoners Clothing		1,024	
Water and Sewer		6,522	
Other Supplies and Materials		244	
Land		3,029	
Total Jail			200,785

Fire Prevention and Control

Contracts with Government Agencies	\$	1,500	
Matching Share		16,326	
Total Fire Prevention and Control			17,826

(Continued)

Exhibit H-6

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

General Fund (Cont.)

Public Safety (Cont.)

Other Emergency Management

Communication	\$	661	
Contributions		45,000	
Gasoline		86	
Office Supplies		421	
Other Equipment		614	
Total Other Emergency Management			\$ 46,782

Other Public Safety

Other Supplies and Materials	\$	3,602	
Total Other Public Safety			3,602

Public Health and Welfare

Local Health Center

Custodial Personnel	\$	3,825	
Other Salaries & Wages		1,549	
In-Service Training		200	
Social Security		119	
Communication		1,698	
Maintenance & Repair Services- Buildings		7,194	
Postal Charges		555	
Travel		307	
Custodial Supplies		429	
Drugs and Medical Supplies		1,620	
Electricity		7,051	
Office Supplies		816	
Water and Sewer		706	
Total Local Health Center			26,069

Ambulance/Emergency Medical Services

Supervisor/Director	\$	35,844	
Medical Personnel		309,967	
Clerical Personnel		9,481	
In-Service Training		4,275	
Social Security		27,209	
Communication		6,205	
Laundry Service		3,102	
Licenses		1,038	
Maintenance & Repair Services- Equipment		3,665	
Maintenance & Repair Services- Vehicles		13,062	
Other Contracted Services		11,332	

(Continued)

Exhibit H-6

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

General Fund (Cont.)

Public Health and Welfare (Cont.)

Ambulance/Emergency Medical Services (Cont.)

Custodial Supplies	\$	2,308	
Diesel Fuel		12,051	
Drugs and Medical Supplies		31,276	
Electricity		7,855	
Natural Gas		2,765	
Office Supplies		1,596	
Uniforms		3,314	
Data Processing Equipment		1,500	
Other Equipment		1,513	
Total Ambulance/Emergency Medical Services	\$		489,358

Crippled Children Services

Contracts with Government Agencies	\$	900	
Total Crippled Children Services			900

Regional Mental Health Center

Contributions	\$	4,648	
Total Regional Mental Health Center			4,648

Appropriation to State

Contributions	\$	15,300	
Total Appropriation to State			15,300

General Welfare Assistance

Contributions	\$	1,000	
Total General Welfare Assistance			1,000

Other Local Welfare Services

Contributions	\$	2,000	
Total Other Local Welfare Services			2,000

Social, Cultural and Recreational Services

Adult Activities

Supervisor/Director	\$	9,398	
Social Security		719	
Communication		376	
Maintenance & Repair Services- Buildings		130	
Office Supplies		20	
Utilities		4,500	
Total Adult Activities			15,143

(Continued)

Exhibit H-6

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

General Fund (Cont.)

Social, Cultural and Recreational Services (Cont.)

Senior Citizens Assistance

Supervisor/Director	\$	9,630	
Social Security		737	
Communication		450	
Maintenance & Repair Services- Buildings		66	
Office Supplies		20	
Utilities		4,170	
Total Senior Citizens Assistance			\$ 15,073

Libraries

Assistant(s)	\$	6,955	
Supervisor/Director		17,716	
Data Processing Personnel		272	
Part-time Personnel		4,581	
Social Security		2,259	
Communication		1,138	
Dues and Memberships		260	
Travel		744	
Custodial Supplies		37	
Library Books/Media		4,505	
Office Supplies		1,195	
Data Processing Equipment		1,325	
Total Libraries			40,987

Agriculture & Natural Resources

Agriculture Extension Service

Salary Supplements	\$	15,685	
Secretary(s)		4,613	
Social Security		550	
Extension Service Medicare		121	
State Retirement		1,375	
Communication		2,530	
Contracts with Private Agencies		10,120	
Data Processing Equipment		2,733	
Total Agriculture Extension Service			37,727

Soil Conservation

Salary Supplements	\$	8,539	
Social Security		653	
Matching Share		5,000	
Total Soil Conservation			14,192

(Continued)

Exhibit H-6

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

General Fund (Cont.)

Other Operations

Industrial Development

Advertising	\$ 280	
Total Industrial Development		\$ 280

Housing and Urban Development

Other Contracted Services	\$ 613,338	
Total Housing and Urban Development		613,338

Other Economic and Community Development

Travel	\$ 64	
Total Other Economic and Community Development		64

Airport

Maintenance & Repair Services- Buildings	\$ 8,856	
Electricity	315	
Total Airport		9,171

Other Charges

Liability Insurance	\$ 148,098	
Premiums on Corporate Surety Bonds	6,904	
Trustee's Commission	40,556	
Workers' Compensation Insurance	69,155	
Other Charges	6,500	
Total Other Charges		271,213

Employee Benefits

State Retirement	\$ 73,327	
Unemployment Compensation	13,431	
Total Employee Benefits		86,758

Miscellaneous

Contributions	\$ 64,327	
Legal Services	9,944	
Legal Notices, Recording and Court Costs	3,473	
Postal Charges	13,869	
Other Contracted Services	4,000	
Other Charges	47,858	
Total Miscellaneous		143,471

(Continued)

Exhibit H-6

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

General Fund (Cont.)

Highways

Litter and Trash Collection

Guards	\$	18,184	
Clerical Personnel		3,200	
Social Security		1,636	
Maintenance & Repair Services- Vehicles		914	
Gasoline		2,235	
Instructional Supplies and Materials		4,766	
Other Supplies and Materials		1,056	
Total Litter and Trash Collection			\$ 31,991

Total General Fund \$ 4,016,345

Solid Waste/Sanitation Fund

Public Health and Welfare

Waste Pickup

Truck Drivers	\$	28,279	
Social Security		2,163	
Communication		284	
Maintenance & Repair Services- Equipment		1,118	
Maintenance & Repair Services- Vehicles		9,526	
Contracts for Landfill Facilities		134,544	
Diesel Fuel		10,500	
Gasoline		6,507	
Tires and Tubes		7,112	
Other Supplies and Materials		2,969	
Total Waste Pickup			\$ 203,002

Convenience Centers

Guards	\$	117,140	
Social Security		8,956	
Communication		2,707	
Electricity		4,698	
Water and Sewer		1,525	
Total Convenience Centers			135,026

Other Operations

Other Charges

Trustee's Commission	\$	5,772	
Total Other Charges			5,772

Total Solid Waste/Sanitation Fund 343,800

(Continued)

Exhibit H-6

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

Drug Control Fund

Public Safety

Drug Enforcement

Deputy(ies)	\$	34,757	
In-Service Training		119	
Social Security		2,616	
State Retirement		2,102	
Confidential Drug Enforcement Payments		14,300	
Maintenance & Repair Services- Vehicles		2,470	
Animal Food and Supplies		172	
Gasoline		1,362	
Trustee's Commission		589	
Total Drug Enforcement			\$ 58,487

Public Health and Welfare

Alcohol and Drug Programs

Instructional Supplies and Materials	\$	2,215	
Other Supplies and Materials		829	
Total Alcohol and Drug Programs			3,044

Total Drug Control Fund \$ 61,531

Highway/Public Works Fund

Highways

Administration

County Official/Administrative Officer	\$	50,496	
Accountants/Bookkeepers		35,712	
State Retirement		5,379	
Dues and Memberships		1,762	
Maintenance & Repair Services- Office Equipment		6,051	
Postal Charges		347	
Printing, Stationery and Forms		1,708	
Travel		2,386	
Office Supplies		3,115	
Other Charges		5,304	
Office Equipment		314	
Total Administration			\$ 112,574

Highway and Bridge Maintenance

Foremen	\$	38,653
Equipment Operators		107,669
Truck Drivers		58,224
Laborers		142,569

(Continued)

Exhibit H-6

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

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Highway and Bridge Maintenance (Cont.)

State Retirement	\$	12,372	
Maintenance & Repair Services- Buildings		1,859	
Other Contracted Services		389,951	
Asphalt - Cold Mix		10,138	
Asphalt - Hot Mix		541,169	
Asphalt - Liquid		168,276	
Concrete		6,080	
Crushed Stone		329,669	
General Construction Materials		6,804	
Other Road Supplies		6,181	
Pipe		38,379	
Road Signs		8,553	
Small Tools		789	
Structural Steel		4,181	
Wood Products		2,219	
Other Supplies and Materials		2,671	
Total Highway and Bridge Maintenance			\$ 1,876,406

Operation and Maintenance of Equipment

Mechanic(s)	\$	95,699	
Nightwatchmen		38,841	
State Retirement		7,019	
Diesel Fuel		65,847	
Equipment and Machinery Parts		59,762	
Garage Supplies		3,551	
Gasoline		76,870	
Lubricants		6,781	
Small Tools		517	
Tires and Tubes		26,493	
Uniforms		2,389	
Other Supplies and Materials		3,155	
Total Operation and Maintenance of Equipment			386,924

Other Charges

Communication	\$	2,923	
Electricity		3,031	
Natural Gas		5,345	
Water and Sewer		387	
Building and Contents Insurance		11,507	
Liability Insurance		16,117	

(Continued)

Exhibit H-6

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

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Other Charges (Cont.)

Premiums on Corporate Surety Bonds	\$	350	
Trustee's Commission		16,977	
Vehicle and Equipment Insurance		21,773	
Total Other Charges			\$ 78,410

Employee Benefits

Social Security	\$	44,559	
Unemployment Compensation		5,760	
Workers' Compensation Insurance		30,015	
Total Employee Benefits			80,334

Capital Outlay

Engineering Services	\$	41,760	
Highway Equipment		14,000	
Motor Vehicles		77,800	
Total Capital Outlay			133,560

Total Highway/Public Works Fund \$ 2,668,208

General Debt Service Fund

Other Operations

Other Charges

Trustee's Commission	\$	1,999	
Total Other Charges			\$ 1,999

Principal

General Government

Principal on Bonds	\$	11,300	
Principal on Notes		123,770	
Principal on Capitalized Leases		11,555	
Total General Government			146,625

Education

Principal on Bonds	\$	160,000	
Total Education			160,000

Interest

General Government

Interest on Bonds	\$	5,358	
Interest on Notes		18,171	

(Continued)

Exhibit H-6

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

<u>General Debt Service Fund (Cont.)</u>			
<u>Interest (Cont.)</u>			
<u>General Government (Cont.)</u>			
Interest on Capitalized Leases	\$	3,148	
Interest on Other Loans Payable		<u>3,207</u>	
Total General Government	\$		29,884
<u>Education</u>			
Interest on Bonds	\$	<u>144,250</u>	
Total Education			144,250
<u>Other Debt Service</u>			
<u>General Government</u>			
Other Debt Service	\$	<u>5,849</u>	
Total General Government			5,849
<u>Education</u>			
Other Debt Service	\$	<u>500</u>	
Total Education			<u>500</u>
Total General Debt Service Fund			\$ 489,107
<u>General Capital Projects Fund</u>			
<u>Capital Projects</u>			
<u>Administration of Justice Projects</u>			
Building Construction	\$	<u>285,570</u>	
Total Administration of Justice Projects			<u>\$ 285,570</u>
Total General Capital Projects Fund			285,570
<u>Community Development/Industrial Park Fund</u>			
<u>Other Operations</u>			
<u>Industrial Development</u>			
Utilities	\$	<u>14,714</u>	
Total Industrial Development	\$		14,714
<u>Other Charges</u>			
Contributions	\$	6,446	
Other Contracted Services		428	
Trustee's Commission		<u>43</u>	
Total Other Charges			<u>6,917</u>
Total Community Development/Industrial Park Fund			<u>21,631</u>
Total Governmental Funds - Primary Government			<u>\$ 7,886,192</u>

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

	Cities - Sales Tax Fund
<hr/>	
<u>Cash Receipts</u>	
Local Option Sales Tax	\$ 289,693
Total Cash Receipts	<u>\$ 289,693</u>
<u>Cash Disbursements</u>	
Remittance of Revenues Collected	\$ 286,796
Trustee's Commission	2,897
Total Cash Disbursements	<u>\$ 289,693</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

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

Year	Amount
1998	\$ 199
1999	230
2000	408
2001	263
2002	15,435
2003	38,474
2004 (Personal Property)	193
Total	\$ 55,202

Table 2

Jackson County, Tennessee
Tax Rates and Assessments
Last Ten Years

Fund	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
General	\$ 1.25	\$ 1.13	\$ 1.13	\$ 1.13	\$ 1.12	\$ 1.36	\$ 1.02	\$ 1.04	\$ 1.13	\$ 1.21
Solid Waste/Sanitation	0.35	0.32	0.32	0.32	0.10	0.20	0.34	0.34	0.33	0.25
Highway/Public Works	0.09	0.08	0.08	0.08	0.06	0.06	0.12	0.12	0.12	0.12
General Purpose School	1.38	1.33	1.33	1.33	1.06	1.06	1.06	1.07	1.07	1.07
General Debt Service	0.10	0.09	0.09	0.09	0.00	0.06	0.06	0.03	0.09	0.09
Total Tax Rate	\$ 3.17	\$ 2.95	\$ 2.95	\$ 2.95	\$ 2.34	\$ 2.74	\$ 2.60	\$ 2.60	\$ 2.74	\$ 2.74
<u>Assessed Valuation</u>										
Real and Personal	\$ 52,571,318	\$ 58,829,742	\$ 60,923,953	\$ 63,432,415	\$ 83,237,368	\$ 85,180,763	\$ 87,829,763	\$ 90,264,179	\$ 92,561,873	\$ 95,293,812
Public Utilities	9,022,572	10,972,004	9,691,920	11,248,806	13,719,844	14,251,448	13,209,895	14,458,452	13,768,370	14,292,312
Total Assessed Valuation	\$ 61,593,890	\$ 69,801,746	\$ 70,615,873	\$ 74,681,221	\$ 96,957,212	\$ 99,432,211	\$ 101,039,658	\$ 104,722,631	\$ 106,330,243	\$ 109,586,124

ANNUAL FINANCIAL REPORT
JACKSON COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF JACKSON COUNTY, TENNESSEE
FOR THE YEAR ENDED JUNE 30, 2005

DEPARTMENT OF AUDIT
JOHN G. MORGAN
Comptroller of the Treasury

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

ARTHUR L. ALEXANDER
Director

CARL LOWE, CGFM
Audit Manager

ANITA SCARLETT, CPA
Auditor 4

RODNEY MALIN, CGFM
KELLEY J. McNEAL, CPA, CGFM
State Auditors

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

**JACKSON COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF JACKSON COUNTY, TENNESSEE
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Audit Highlights
Annual Financial Report
Jackson 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 Jackson County School Department as of and for the year ended June 30, 2005.

Results

Our report on the Jackson 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 four findings and recommendations, which we have reviewed with Jackson 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:

JACKSON COUNTY SCHOOL DEPARTMENT

- ◆ Government-wide financial statements were not presented in accordance with generally accepted accounting principles, resulting in an adverse opinion.
- ◆ Certain assets were not included on the inventory, and some items listed did not include all of the information necessary to identify the assets. Also, inventory records were not verified by personnel independent of maintaining the records.
- ◆ County officials had not adopted a central system of accounting, budgeting, and purchasing.
- ◆ Duties were not segregated adequately among the official and employees at the School Department.

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

INTRODUCTORY SECTION

Jackson County School Officials
June 30, 2005

Official:

Joe Barlow, Director of Schools

Board of Education:

Mark Brown, Chairman
Tim Bowman
James Robert Childress

Stanley Hensley
Jeff Lynn
Dewey C. Mabery

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 8, 2005

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

To the Director of Schools and Board of Education:

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Jackson County School Department, a component unit of Jackson 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 Jackson 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 Jackson 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 School Department's governmental activities are not reasonably determinable.

As described in Note I, the Jackson 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 county 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 Jackson County School Department as of June 30, 2005, or the changes in its financial position for the year then ended.

However, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the Jackson 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.

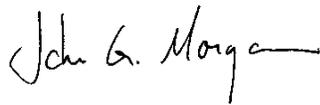
In accordance with Government Auditing Standards, we have also issued our report dated September 8, 2005, on our consideration of the Jackson County School Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Jackson County School Department has implemented Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures which modifies the School Department's disclosures for custodial credit risk and adds disclosures about other types of risk.

The budgetary comparison information on pages 27 through 33 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 Jackson County School Department's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and miscellaneous schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds, and the miscellaneous schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Very truly yours,

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/rd

BASIC FINANCIAL STATEMENTS

Exhibit A

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

	Major Funds		Nonmajor	Total Govern- mental Funds
	General Purpose School	School Federal Projects	Central Cafeteria Fund	
<u>ASSETS</u>				
Equity in Pooled Cash and Investments	\$ 3,591,907	\$ 105,890	\$ 247,371	\$ 3,945,168
Inventories	0	0	17,618	17,618
Accounts Receivable	13,412	0	0	13,412
Due from Other Governments	158,262	171,990	0	330,252
Due from Other Funds	498	0	0	498
Property Taxes Receivable	1,364,458	0	0	1,364,458
Allowance for Uncollectible Property Taxes	(39,235)	0	0	(39,235)
Total Assets	<u>\$ 5,089,302</u>	<u>\$ 277,880</u>	<u>\$ 264,989</u>	<u>\$ 5,632,171</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 1,046	\$ 348	\$ 13,711	\$ 15,105
Due to Other Funds	0	498	0	498
Deferred Revenue - Current Property Taxes	1,261,393	0	0	1,261,393
Deferred Revenue - Delinquent Property Taxes	63,830	0	0	63,830
Other Deferred Revenues	36,021	0	0	36,021
Total Liabilities	<u>\$ 1,362,290</u>	<u>\$ 846</u>	<u>\$ 13,711</u>	<u>\$ 1,376,847</u>
<u>Fund Balances</u>				
Reserved for Encumbrances	\$ 73,714	\$ 124,664	\$ 0	\$ 198,378
Reserved for Inventory	0	0	17,618	17,618
Other Local Education Reserves	536,708	0	0	536,708
Reserved for Career Ladder - Extended Contract	12,235	0	0	12,235
Reserved for Career Ladder Program	5,169	0	0	5,169
Reserved for Basic Education Program	2,139,087	0	0	2,139,087
Reserved for Title I Grants to Local Education Agencies	0	53,191	0	53,191
Reserved for Innovative Education Program Strategies	0	107	0	107
Reserved for Special Education - Grants to States	0	86,066	0	86,066
Other Federal Reserves	0	13,006	0	13,006
Unreserved, Reported In:				
General Fund	960,099	0	0	960,099
Special Revenue Funds	0	0	233,660	233,660
Total Fund Balances	<u>\$ 3,727,012</u>	<u>\$ 277,034</u>	<u>\$ 251,278</u>	<u>\$ 4,255,324</u>
Total Liabilities and Fund Balances	<u>\$ 5,089,302</u>	<u>\$ 277,880</u>	<u>\$ 264,989</u>	<u>\$ 5,632,171</u>

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

Exhibit B

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

	Major Funds		Nonmajor	Total
	General Purpose School	School Federal Projects	Funds Other Governmental Funds	
<u>Revenues</u>				
Local Taxes	\$ 1,790,898	\$ 0	\$ 0	\$ 1,790,898
Licenses and Permits	1,226	0	0	1,226
Charges for Current Services	17,274	0	258,153	275,427
Other Local Revenues	44,521	0	1,102	45,623
State of Tennessee	7,673,864	0	0	7,673,864
Federal Government	179,594	1,172,911	513,608	1,866,113
Total Revenues	<u>\$ 9,707,377</u>	<u>\$ 1,172,911</u>	<u>\$ 772,863</u>	<u>\$ 11,653,151</u>
<u>Expenditures</u>				
Current:				
Instruction	\$ 5,536,493	\$ 982,333	\$ 0	\$ 6,518,826
Support Services	3,258,572	191,578	0	3,450,150
Operation of Non-Instructional Services	169,606	0	742,912	912,518
Capital Outlay	237,276	0	0	237,276
Debt Service:				
Principal	221,000	0	0	221,000
Interest	139,232	0	0	139,232
Other Debt Service	312,746	0	0	312,746
Capital Projects	0	0	129,187	129,187
Total Expenditures	<u>\$ 9,874,925</u>	<u>\$ 1,173,911</u>	<u>\$ 872,099</u>	<u>\$ 11,920,935</u>
Excess (Deficiency) of Revenues				
Over Expenditures	\$ (167,548)	\$ (1,000)	\$ (99,236)	\$ (267,784)
<u>Other Financing Sources (Uses)</u>				
Other Loans Issued	\$ 0	\$ 0	\$ 73,366	\$ 73,366
Transfers In	76,053	0	0	76,053
Transfers Out	0	(27,136)	(48,917)	(76,053)
Total Other Financing Sources (Uses)	<u>\$ 76,053</u>	<u>\$ (27,136)</u>	<u>\$ 24,449</u>	<u>\$ 73,366</u>
Net Change in Fund Balances	\$ (91,495)	\$ (28,136)	\$ (74,787)	\$ (194,418)
Fund Balance, July 1, 2004	3,818,507	305,170	326,065	4,449,742
Fund Balance, June 30, 2005	<u>\$ 3,727,012</u>	<u>\$ 277,034</u>	<u>\$ 251,278</u>	<u>\$ 4,255,324</u>

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Jackson 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 that are presented in conformity with all the provisions of GASB Statement 34 that are applicable to fund financial statements, including the notes to the financial statements. These standards also require the fund financial statements to be presented in conformity with all other accounting principles generally accepted in the United States of America that are applicable to fund financial statements, including the notes to the financial statements.

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

A. Reporting Entity

The Jackson County School Department operates the public school system in the county, and the voters of Jackson County elect its six-member board. The School Department is a component unit of Jackson County, the primary government. 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.

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. All other governmental funds are aggregated into a single column on the fund financial statements.

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

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

The School Department reports the following major governmental funds:

General Purpose School Fund – This is the primary operating fund 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.

Additionally, the School Department reports the following fund type:

Capital Projects Fund – The Education Capital Projects Fund is used to account for expenditures related to the renovation and construction of school buildings in Jackson County.

C. Assets, Liabilities, and Equity

1. Deposits and Investments

State statutes authorize counties (Jackson County, the School Department's primary 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 Jackson County and Jackson County 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 Fund. Jackson County and the Jackson 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 1.6 percent of total taxes levied.

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

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

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

3. Inventories

Inventories of the School Department consist of expendable supplies held for consumption and are recorded at cost, determined on the first-in, first-out method.

4. Capital Assets

Governmental funds do not capitalize the cost of capital outlays; these funds 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.

5. Compensated Absences

The School Department's general policy does not allow employees to accumulate earned but unused vacation leave benefits beyond year-end. The School Department does allow employees to accumulate an unlimited amount of unused sick leave; however, the granting of sick leave has no guaranteed payment attached, and therefore, is not required to be accrued or recorded.

6. Long-term Obligations

Only the matured portion (the portion that has come due for payment) of long-term indebtedness, including notes and other loans payable, is recognized as a liability and expenditure in the governmental fund financial statements.

7. Fund Equity

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Expenditures and Encumbrances Exceeded Appropriations

Expenditures and encumbrances exceeded appropriations approved by the County Commission in the Vocational Education Program (\$10,313) and Other Debt Service – Education (\$986) major appropriation categories (the legal level of control) of the General Purpose School Fund. Such overexpenditures are a violation of state statutes. These overexpenditures were funded by greater than anticipated revenues.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits

Jackson County and the School Department participate in an internal cash and investment pool through the primary government's 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 the purposes of credit risk disclosure.

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

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 Purpose School	School Federal Projects	<u>\$ 498</u>

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> General Purpose School Fund
School Federal Projects Fund	\$ 27,136
Nonmajor governmental funds	<u>48,917</u>
Total Transfers	<u>\$ 76,053</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 the School Department is not presenting government-wide financial statements.

Notes and Other Loans

The county issues other loans to provide funds for the acquisition and construction of major capital facilities for the School Department. Capital outlay notes are also issued to fund capital facilities and other capital outlay purchases, such as equipment.

The School Department's capital outlay note and other loan are direct obligations and pledge the full faith and credit of the government. The capital outlay note and other loan outstanding were issued for an original term of 13 years for the note and 28 years for the other loan. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. The note and other loan included in long-term debt as of June 30, 2005, will be retired by the General Purpose School Fund.

The capital outlay note and other loan outstanding as of June 30, 2005, are as follows:

Type	Interest Rate	Original Amount of Issue	Amount
Capital Outlay Note	0 %	\$ 562,207	\$ 207
Other Loan	variable	6,300,000	5,970,000

In prior years, Jackson County, the primary government, entered into a loan agreement with the Montgomery County Public Building Authority. Under this loan agreement, the authority loaned \$6,300,000 to the School Department for construction of a middle school. This loan is repayable at a variable interest rate based on the daily London Interbank Offer Rate (LIBOR). In addition, the School Department pays various other fees (trustee fees, debt remarketing fees, etc.) in connection with this loan. At June 30, 2005, the variable interest rate was 2.3 percent, and other fees amounted to approximately .2 percent (letter of credit), and .08 percent (remarketing fee) of the outstanding loan principal, and the trustee fee was charged at \$100 per month.

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

Year Ending June 30	Note Principal
2006	\$ 207

Year Ending June 30	Other Loan (\$6,300,000)		
	Principal	Interest	Other Fees
2006	\$ 100,000	\$ 137,310	\$ 16,816
2007	142,000	135,010	16,536
2008	149,000	131,744	16,138
2009	156,000	128,317	15,721
2010	164,000	124,729	15,284
2011-2015	951,000	563,155	69,055
2016-2020	1,214,000	442,267	54,339
2021-2025	1,551,000	287,914	35,549
2026-2029	1,543,000	90,873	11,462
Total	\$ 5,970,000	\$ 2,041,319	\$ 250,900

Total debt per capita, including the note and the other loan, amounted to \$544, based on the 2000 federal census.

Changes in Long-term Liabilities

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

Governmental Activities:	Note	Other Loan
	<hr/>	<hr/>
Balance, July 1, 2004	\$ 131,207	\$ 5,986,634
Additions	0	73,366
Deductions	(131,000)	(90,000)
	<hr/>	<hr/>
Balance, June 30, 2005	\$ 207	\$ 5,970,000
	<hr/> <hr/>	<hr/> <hr/>
Balance Due Within One Year	\$ 207	\$ 100,000
	<hr/> <hr/>	<hr/> <hr/>

IV. OTHER INFORMATION

A. Risk Management

The School Department's risks of loss relating to general liability, property, casualty, and workers' compensation are covered by their participation in the Tennessee School Boards Risk Management Trust (TSB-RMT), which is a public entity risk pool established by the Tennessee Schools Boards Association, an association of member school districts. Annual premiums are paid to the pool for the risk coverage noted above. The creation of the TSB-RMT provides for it to be self-sustaining through member premiums.

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, the School Department adopted the provisions of Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures. These provisions modified the School Department's previous custodial risk disclosures for deposits and investments

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

C. Contingent Liabilities

The management of the School Department is not aware of any pending lawsuits.

D. Retirement Commitments

Plan Description

Employees of Jackson 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 Jackson 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 Jackson County's plan, retirement information for the School Department is not available separately from the retirement information provided for the county. Complete disclosure

for the county's participation in the TCRS is described in footnote IV.H. of the Annual Financial Report of Jackson 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, \$308,429, \$169,262, and \$157,917, 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 that competitive bids be solicited through newspaper advertisement on all purchases exceeding \$5,000.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit C-1

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2004	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	\$ 1,790,898	\$ 0	\$ 0	\$ 1,790,898	\$ 1,857,950	\$ 1,857,950	\$ (67,052)
Licenses and Permits	1,226	0	0	1,226	1,100	1,100	126
Charges for Current Services	17,274	0	0	17,274	12,000	12,000	5,274
Other Local Revenues	44,521	0	0	44,521	39,900	39,900	4,621
State of Tennessee	7,673,864	0	0	7,673,864	7,516,400	7,547,077	126,787
Federal Government	179,594	0	0	179,594	170,500	139,823	39,771
Total Revenues	\$ 9,707,377	\$ 0	\$ 0	\$ 9,707,377	\$ 9,597,850	\$ 9,597,850	\$ 109,527
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 4,335,255	\$ (50,678)	\$ 1,003	\$ 4,285,580	\$ 4,574,358	\$ 4,545,501	\$ 259,921
Alternative Instruction Program	50,304	0	0	50,304	52,080	52,080	1,776
Special Education Program	636,639	(800)	0	635,839	723,220	723,220	87,381
Vocational Education Program	437,547	(1,905)	1,500	437,142	493,400	493,400	56,258
Adult Education Program	76,748	0	12,845	89,593	90,382	103,696	14,103
<u>Support Services</u>							
Attendance	60,698	0	0	60,698	72,760	72,760	12,062
Health Services	47,610	(172)	0	47,438	50,320	50,320	2,882
Other Student Support	188,478	0	0	188,478	203,550	203,550	15,072
Regular Instruction Program	382,076	(100)	540	382,516	406,210	406,210	23,694
Special Education Program	121,488	(127)	199	121,560	121,220	125,900	4,340
Vocational Education Program	89,303	0	0	89,303	78,990	78,990	(10,313)
Adult Programs	72,231	0	600	72,831	76,430	82,703	9,872
Board of Education	233,972	(250)	0	233,722	205,220	245,220	11,498
Director of Schools	98,364	(85)	0	98,279	104,030	108,620	10,341
Office of the Principal	439,664	(100)	0	439,564	465,050	489,660	50,096

(Continued)

Exhibit C-1

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2004	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>							
Fiscal Services	\$ 132,347	\$ 0	\$ 389	\$ 132,736	\$ 140,100	\$ 143,600	\$ 10,864
Operation of Plant	621,040	0	0	621,040	755,800	755,800	134,760
Maintenance of Plant	130,699	(5,388)	14,037	139,348	182,450	182,450	43,102
Transportation	640,602	(11,333)	5,393	634,662	687,920	687,920	53,258
<u>Operation of Non-Instructional Services</u>							
Food Service	63,357	0	0	63,357	64,660	64,660	1,303
Community Services	106,249	0	25	106,274	111,500	112,510	6,236
<u>Capital Outlay</u>							
Regular Capital Outlay	237,276	(118,927)	37,183	155,532	300,000	300,000	144,468
<u>Principal</u>							
Education	221,000	0	0	221,000	221,000	221,000	0
<u>Interest</u>							
Education	139,232	0	0	139,232	309,200	280,080	140,848
<u>Other Debt Service</u>							
Education	312,746	0	0	312,746	311,760	311,760	(986)
Total Expenditures	\$ 9,874,925	\$ (189,865)	\$ 73,714	\$ 9,758,774	\$ 10,801,610	\$ 10,841,610	\$ 1,082,836
<u>Excess (Deficiency) of Revenues</u>							
Over Expenditures	\$ (167,548)	\$ 189,865	\$ (73,714)	\$ (51,397)	\$ (1,203,760)	\$ (1,243,760)	\$ 1,192,363
<u>Other Financing Sources (Uses)</u>							
Transfers In	\$ 76,053	\$ 0	\$ 0	\$ 76,053	\$ 45,680	\$ 45,680	\$ 30,373
Transfers Out	0	0	0	0	(40,000)	0	0
Total Other Financing Sources (Uses)	\$ 76,053	\$ 0	\$ 0	\$ 76,053	\$ 5,680	\$ 45,680	\$ 30,373

(Continued)

Exhibit C-1

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2004	Add: Encumbrances 6/30/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
Net Change in Fund Balance	\$ (91,495)	\$ 189,865	\$ (73,714)	\$ 24,656	\$ (1,198,080)	\$ (1,198,080)	\$ 1,222,736
Fund Balance, July 1, 2004	3,818,507	(189,865)	0	3,628,642	3,605,103	3,605,103	23,539
Fund Balance, June 30, 2005	\$ 3,727,012	\$ 0	\$ (73,714)	\$ 3,653,298	\$ 2,407,023	\$ 2,407,023	\$ 1,246,275

Exhibit C-2

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2004	Add: Encumbrances 6/30/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Revenues</u>							
Federal Government	\$ 1,172,911	\$ 0	\$ 0	\$ 1,172,911	\$ 2,143,493	\$ 1,384,512	\$ (211,601)
Total Revenues	\$ 1,172,911	\$ 0	\$ 0	\$ 1,172,911	\$ 2,143,493	\$ 1,384,512	\$ (211,601)
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 651,676	\$ (80,407)	\$ 104,313	\$ 675,582	\$ 1,037,286	\$ 882,149	\$ 206,567
Special Education Program	269,739	(90)	2,200	271,849	635,888	416,191	144,342
Vocational Education Program	60,918	(10,185)	10,703	61,436	95,180	62,262	826
<u>Support Services</u>							
Other Student Support	4,417	0	0	4,417	7,021	4,417	0
Regular Instruction Program	73,113	(745)	6,095	78,463	187,331	113,331	34,868
Special Education Program	71,570	(157)	1,353	72,766	126,409	87,700	14,934
Vocational Education Program	42,478	0	0	42,478	38,500	42,473	(5)
Total Expenditures	\$ 1,173,911	\$ (91,584)	\$ 124,664	\$ 1,206,991	\$ 2,127,615	\$ 1,608,523	\$ 401,532
Excess (Deficiency) of Revenues Over Expenditures	\$ (1,000)	\$ 91,584	\$ (124,664)	\$ (34,080)	\$ 15,878	\$ (224,011)	\$ 189,931
<u>Other Financing Sources (Uses)</u>							
Transfers In	\$ 0	\$ 0	\$ 0	\$ 0	\$ 38,545	\$ 0	\$ 0
Transfers Out	(27,136)	0	0	(27,136)	(75,452)	(37,691)	10,555
Total Other Financing Sources (Uses)	\$ (27,136)	\$ 0	\$ 0	\$ (27,136)	\$ (36,907)	\$ (37,691)	\$ 10,555

(Continued)

Exhibit C-2

Jackson County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Jackson County School Department
School Federal Projects Fund (Cont.)

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2004	Add: Encumbrances 6/30/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
Net Change in Fund Balance	\$ (28,136)	\$ 91,584	\$ (124,664)	\$ (61,216)	\$ (21,029)	\$ (261,702)	\$ 200,486
Fund Balance, July 1, 2004	305,170	(91,584)	0	213,586	261,702	261,702	(48,116)
Fund Balance, June 30, 2005	\$ 277,034	\$ 0	\$ (124,664)	\$ 152,370	\$ 240,673	\$ 0	\$ 152,370

**JACKSON COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF JACKSON 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 Jackson County Commission and any authorized revisions. Unencumbered appropriations lapse at the end of each fiscal year.

The budgetary level of control is at the major category level established by the State Uniform Chart of Accounts, as prescribed by the Comptroller of the Treasury of the State of Tennessee. Major categories are at the department level (examples of General Purpose School Fund major categories: Regular Instruction Program, Special Education Program, Board of Education, Director of Schools, etc.). Management may make revisions within major categories, but only the Jackson 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 exceeded appropriations approved by the County Commission on the Vocational Education Program (\$10,313) and the Other Debt Service - Education (\$986) major appropriation categories (the legal level of control) of the General Purpose School Fund. Such overexpenditures are a violation of state statutes. These overexpenditures were funded by greater than anticipated revenues.

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

Nonmajor Governmental Funds

Special Revenue Fund

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

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

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used in the acquisition or construction of major capital projects.

Education Capital Projects Fund – The Education Capital Projects Fund is used to account for expenditures related to the renovation and construction of school buildings. During the year, construction was completed, and this fund was closed.

Exhibit D-1

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

	Special Revenue Fund	Capital Projects Fund	Total Nonmajor Governmental Funds
	Central Cafeteria	Education Capital Projects	
<u>Revenues</u>			
Charges for Current Services	\$ 258,153	\$ 0	\$ 258,153
Other Local Revenues	1,102	0	1,102
Federal Government	513,608	0	513,608
Total Revenues	<u>\$ 772,863</u>	<u>\$ 0</u>	<u>\$ 772,863</u>
<u>Expenditures</u>			
Current:			
Operation of Non-Instructional Services	\$ 742,912	\$ 0	\$ 742,912
Capital Projects	0	129,187	129,187
Total Expenditures	<u>\$ 742,912</u>	<u>\$ 129,187</u>	<u>\$ 872,099</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 29,951</u>	<u>\$ (129,187)</u>	<u>\$ (99,236)</u>
<u>Other Financing Sources (Uses)</u>			
Other Loans Issued	\$ 0	\$ 73,366	\$ 73,366
Transfers Out	(48,917)	0	(48,917)
Total Other Financing Sources (Uses)	<u>\$ (48,917)</u>	<u>\$ 73,366</u>	<u>\$ 24,449</u>
Net Change in Fund Balances	\$ (18,966)	\$ (55,821)	\$ (74,787)
Fund Balance, July 1, 2004	<u>270,244</u>	<u>55,821</u>	<u>326,065</u>
Fund Balance, June 30, 2005	<u>\$ 251,278</u>	<u>\$ 0</u>	<u>\$ 251,278</u>

Exhibit D-2

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Charges for Current Services	\$ 258,153	\$ 300,000	\$ 300,000	\$ (41,847)
Other Local Revenues	1,102	1,500	1,500	(398)
Federal Government	513,608	539,000	539,000	(25,392)
Total Revenues	<u>\$ 772,863</u>	<u>\$ 840,500</u>	<u>\$ 840,500</u>	<u>\$ (67,637)</u>
<u>Expenditures</u>				
<u>Operation of Non-Instructional Services</u>				
Food Service	\$ 742,912	\$ 860,782	\$ 860,782	\$ 117,870
Total Expenditures	<u>\$ 742,912</u>	<u>\$ 860,782</u>	<u>\$ 860,782</u>	<u>\$ 117,870</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 29,951</u>	<u>\$ (20,282)</u>	<u>\$ (20,282)</u>	<u>\$ 50,233</u>
<u>Other Financing Sources (Uses)</u>				
Transfers Out	\$ (48,917)	\$ (48,917)	\$ (48,917)	\$ 0
Total Other Financing Sources (Uses)	<u>\$ (48,917)</u>	<u>\$ (48,917)</u>	<u>\$ (48,917)</u>	<u>\$ 0</u>
Net Change in Fund Balance	\$ (18,966)	\$ (69,199)	\$ (69,199)	\$ 50,233
Fund Balance, July 1, 2004	270,244	268,283	268,283	1,961
Fund Balance, June 30, 2005	<u>\$ 251,278</u>	<u>\$ 199,084</u>	<u>\$ 199,084</u>	<u>\$ 52,194</u>

MISCELLANEOUS SCHEDULES

Exhibit E-1

Jackson County, Tennessee
Schedule of Changes in Long-term Notes and Other Loans
Jackson 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>								
Asbestos Removal	\$ 12,207	0 %	6-8-1993	6-8-06	\$ 1,207	\$ 0	\$ 1,000	\$ 207
School Roofing	550,000	4.75 to 6	2-1-1994	5-1-05	130,000	0	130,000	0
Total Notes Payable					<u>\$ 131,207</u>	<u>\$ 0</u>	<u>\$ 131,000</u>	<u>\$ 207</u>
<u>OTHER LOANS PAYABLE</u>								
<u>Payable through General Purpose School Fund</u>								
School Construction	6,300,000	Variable	3-5-01	5-25-29	<u>\$ 5,986,634</u>	<u>\$ 73,366</u>	<u>\$ 90,000</u>	<u>\$ 5,970,000</u>

Exhibit E-2

Jackson County, Tennessee
Schedule of Transfers - All Funds
Jackson 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 cost	\$ 27,136
Central Cafeteria	General Purpose School	Salary reimbursement - supervisor	<u>48,917</u>
Total Transfers			<u>\$ 76,053</u>

Exhibit E-3

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

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
Director of Schools	State Board of Education and Jackson County Board of Education	\$ 68,880 (1)	\$ 50,000	Western Surety Company
Employee Blanket Bond Coverage: School Department Employees			150,000	Tennessee School Boards Risk Management Trust

(1) Includes career ladder supplement of \$1,400.

Exhibit E-4

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

	General Purpose School	School Federal Projects	Central Cafeteria	Total
<u>Local Taxes</u>				
<u>County Property Taxes</u>				
Current Property Tax	\$ 1,090,112	\$ 0	\$ 0	\$ 1,090,112
Trustee's Collections - Prior Year	61,340	0	0	61,340
Circuit/Clerk & Master Collections - Prior Years	22,121	0	0	22,121
Interest and Penalty	10,428	0	0	10,428
<u>County Local Option Taxes</u>				
Local Option Sales Tax	431,863	0	0	431,863
Wheel Tax	162,373	0	0	162,373
<u>Statutory Local Taxes</u>				
Bank Excise Tax	10,827	0	0	10,827
Interstate Telecommunications Tax	1,834	0	0	1,834
Total Local Taxes	\$ 1,790,898	\$ 0	\$ 0	\$ 1,790,898
<u>Licenses and Permits</u>				
<u>Licenses</u>				
Marriage Licenses	\$ 1,226	\$ 0	\$ 0	\$ 1,226
Total Licenses and Permits	\$ 1,226	\$ 0	\$ 0	\$ 1,226
<u>Charges for Current Services</u>				
<u>Education Charges</u>				
Lunch Payments - Children	\$ 0	\$ 0	\$ 128,480	\$ 128,480
Lunch Payments - Adults	0	0	26,943	26,943
Income from Breakfast	0	0	36,791	36,791
A la carte Sales	0	0	65,939	65,939
Receipts from Individual Schools	17,274	0	0	17,274
Total Charges for Current Services	\$ 17,274	\$ 0	\$ 258,153	\$ 275,427
<u>Other Local Revenues</u>				
<u>Recurring Items</u>				
Investment Income	\$ 0	\$ 0	\$ 1,102	\$ 1,102
Lease/Rentals	3,400	0	0	3,400
Miscellaneous Refunds	39,463	0	0	39,463
<u>Nonrecurring Items</u>				
Sale of Equipment	25	0	0	25
Damages Recovered from Individuals	992	0	0	992
Contributions & Gifts	641	0	0	641
Total Other Local Revenues	\$ 44,521	\$ 0	\$ 1,102	\$ 45,623
<u>State of Tennessee</u>				
<u>State Education Funds</u>				
Basic Education Program	\$ 7,310,058	\$ 0	\$ 0	\$ 7,310,058
School Food Service	10,577	0	0	10,577
Driver Education	3,305	0	0	3,305
Other State Education Funds	177,277	0	0	177,277
Career Ladder Program	117,619	0	0	117,619
Career Ladder - Extended Contract	24,351	0	0	24,351
<u>Other State Revenues</u>				
Other State Grants	30,677	0	0	30,677
Total State of Tennessee	\$ 7,673,864	\$ 0	\$ 0	\$ 7,673,864

(Continued)

Exhibit E-4

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

	General Purpose School	School Federal Projects	Central Cafeteria	Total
<u>Federal Government</u>				
<u>Federal Through State</u>				
USDA School Lunch Program	\$ 0	\$ 0	\$ 353,618	\$ 353,618
Breakfast	0	0	159,990	159,990
Adult Education State Grant Program	85,961	0	0	85,961
Vocational Education - Basic Grants to States	0	42,142	0	42,142
Other Vocational	0	40,449	0	40,449
Title I Grants to Local Education Agencies	0	380,936	0	380,936
Innovative Education Program Strategies	0	8,453	0	8,453
Special Education - Grants to States	0	387,382	0	387,382
Special Education Preschool Grants	0	13,074	0	13,074
Eisenhower Professional Development State Grants	0	57,793	0	57,793
Job Training Partnership Act	0	17,595	0	17,595
Other Federal through State	93,633	225,087	0	318,720
Total Federal Government	\$ 179,594	\$ 1,172,911	\$ 513,608	\$ 1,866,113
Total	\$ 9,707,377	\$ 1,172,911	\$ 772,863	\$ 11,653,151

Exhibit E-5

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

General Purpose School Fund

Instruction

Regular Instruction Program

Teachers	\$	3,160,605	
Career Ladder Program		74,903	
Career Ladder Extended Contracts		18,000	
Homebound Teachers		180	
Educational Assistants		67,202	
Other Salaries & Wages		18,870	
Certified Substitute Teachers		68,458	
Social Security		195,395	
State Retirement		183,194	
Medical Insurance		201,915	
Unemployment Compensation		4,657	
Employer Medicare		45,697	
Other Fringe Benefits		8,710	
Maintenance & Repair Services- Equipment		717	
Other Contracted Services		12,625	
Instructional Supplies and Materials		54,129	
Textbooks		179,114	
Regular Instruction Equipment		40,884	
Total Regular Instruction Program			\$ 4,335,255

Alternative Instruction Program

Teachers	\$	40,811	
Social Security		2,331	
State Retirement		2,245	
Medical Insurance		2,051	
Unemployment Compensation		43	
Employer Medicare		545	
Other Fringe Benefits		100	
Instructional Supplies and Materials		750	
Other Equipment		1,428	
Total Alternative Instruction Program			50,304

Special Education Program

Teachers	\$	436,899
Career Ladder Program		2,000
Homebound Teachers		3,965
Educational Assistants		58,567
Other Salaries & Wages		13,397
Certified Substitute Teachers		11,600

(Continued)

Exhibit E-5

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

General Purpose School Fund (Cont.)

Instruction (Cont.)

Special Education Program (Cont.)

Social Security	\$	30,367	
State Retirement		28,220	
Medical Insurance		28,664	
Unemployment Compensation		951	
Employer Medicare		7,102	
Other Fringe Benefits		1,400	
Contracts with Other Public Agencies		765	
Contracts with Other School Systems		10,686	
Contracts with Private Agencies		168	
Instructional Supplies and Materials		852	
Other Supplies and Materials		946	
Other Charges		90	
Total Special Education Program			\$ 636,639

Vocational Education Program

Teachers	\$	239,984	
Career Ladder Program		3,940	
Certified Substitute Teachers		5,000	
Social Security		15,032	
State Retirement		13,999	
Medical Insurance		13,253	
Unemployment Compensation		286	
Employer Medicare		3,516	
Other Fringe Benefits		500	
Instructional Supplies and Materials		8,139	
Other Supplies and Materials		1,439	
Other Charges		128,797	
Vocational Instruction Equipment		3,662	
Total Vocational Education Program			437,547

Adult Education Program

Teachers	\$	61,933	
Other Salaries & Wages		3,115	
Social Security		3,839	
State Retirement		2,243	
Medical Insurance		2,392	
Unemployment Compensation		208	
Employer Medicare		898	
Other Fringe Benefits		100	

(Continued)

Exhibit E-5

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

General Purpose School Fund (Cont.)

Instruction (Cont.)

Adult Education Program (Cont.)

Instructional Supplies and Materials	\$	1,348	
Other Supplies and Materials		672	
Total Adult Education Program			\$ 76,748

Support Services

Attendance

Supervisor/Director	\$	45,592	
Career Ladder Program		1,000	
Social Security		2,476	
State Retirement		2,562	
Medical Insurance		5,245	
Unemployment Compensation		44	
Employer Medicare		579	
Other Fringe Benefits		100	
Travel		616	
Other Supplies and Materials		137	
Attendance Equipment		2,347	
Total Attendance			60,698

Health Services

Medical Personnel	\$	29,602	
Other Salaries & Wages		6,063	
Social Security		1,851	
State Retirement		2,225	
Medical Insurance		4,838	
Unemployment Compensation		44	
Employer Medicare		433	
Other Fringe Benefits		100	
Dues and Memberships		91	
Travel		1,055	
Drugs and Medical Supplies		1,258	
In Service/Staff Development		50	
Total Health Services			47,610

Other Student Support

Career Ladder Program	\$	3,500	
Guidance Personnel		151,899	
Social Security		9,093	
State Retirement		8,547	

(Continued)

Exhibit E-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Other Student Support (Cont.)

Medical Insurance	\$	6,065	
Unemployment Compensation		136	
Employer Medicare		2,127	
Other Fringe Benefits		350	
Evaluation and Testing		6,761	
Total Other Student Support			\$ 188,478

Regular Instruction Program

Supervisor/Director	\$	79,931	
Career Ladder Program		8,500	
Librarians		150,789	
Instructional Computer Personnel		45,592	
Other Salaries & Wages		30,036	
Certified Substitute Teachers		1,542	
Social Security		18,665	
State Retirement		17,099	
Medical Insurance		11,139	
Unemployment Compensation		358	
Employer Medicare		4,365	
Other Fringe Benefits		550	
Travel		3,789	
Other Contracted Services		754	
Library Books/Media		2,087	
Other Supplies and Materials		2,086	
In Service/Staff Development		4,444	
Other Charges		350	
Total Regular Instruction Program			382,076

Special Education Program

Supervisor/Director	\$	53,630	
Career Ladder Program		5,000	
Psychological Personnel		33,208	
Assessment Personnel		8,841	
Social Security		5,857	
State Retirement		5,537	
Medical Insurance		4,203	
Unemployment Compensation		87	
Employer Medicare		1,370	
Other Fringe Benefits		240	

(Continued)

Exhibit E-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Special Education Program (Cont.)

Travel	\$	2,335	
Other Supplies and Materials		579	
In Service/Staff Development		185	
Other Equipment		416	
Total Special Education Program			\$ 121,488

Vocational Education Program

Supervisor/Director	\$	41,037	
Secretary(s)		19,385	
Social Security		3,086	
State Retirement		2,884	
Unemployment Compensation		88	
Employer Medicare		722	
Communication		489	
Travel		1,663	
Other Supplies and Materials		559	
In Service/Staff Development		584	
Other Charges		18,806	
Total Vocational Education Program			89,303

Adult Programs

Supervisor/Director	\$	50,809	
Other Salaries & Wages		3,312	
Social Security		3,153	
State Retirement		2,814	
Medical Insurance		2,102	
Unemployment Compensation		65	
Employer Medicare		737	
Other Fringe Benefits		100	
Travel		879	
In Service/Staff Development		3,404	
Other Charges		4,856	
Total Adult Programs			72,231

Board of Education

Other Salaries & Wages	\$	4,900	
Social Security		305	
Life Insurance		7,899	
Employer Medicare		71	

(Continued)

Exhibit E-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Board of Education (Cont.)

Audit Services	\$	3,000	
Contributions		39,500	
Dues and Memberships		5,971	
Travel		34	
Liability Insurance		66,138	
Premiums on Corporate Surety Bonds		175	
Trustee's Commission		48,977	
Workers' Compensation Insurance		56,190	
In Service/Staff Development		812	
Total Board of Education			\$ 233,972

Director of Schools

County Official/Administrative Officer	\$	67,480	
Career Ladder Program		1,400	
Social Security		4,112	
State Retirement		3,788	
Medical Insurance		2,102	
Unemployment Compensation		44	
Employer Medicare		962	
Other Fringe Benefits		100	
Communication		7,208	
Postal Charges		2,505	
Travel		1,375	
Other Contracted Services		1,298	
Office Supplies		1,800	
In Service/Staff Development		531	
Administration Equipment		3,659	
Total Director of Schools			98,364

Office of the Principal

Principals	\$	202,168	
Career Ladder Program		5,000	
Career Ladder Extended Contracts		4,000	
Assistant Principals		43,061	
Secretary(s)		60,111	
Clerical Personnel		41,553	
Social Security		20,975	
State Retirement		19,669	
Medical Insurance		13,730	

(Continued)

Exhibit E-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Office of the Principal (Cont.)

Unemployment Compensation	\$	591	
Employer Medicare		4,905	
Other Fringe Benefits		400	
Communication		20,380	
Dues and Memberships		1,600	
Travel		901	
Office Supplies		44	
In Service/Staff Development		576	
Total Office of the Principal			\$ 439,664

Fiscal Services

Supervisor/Director	\$	26,286	
Accountants/Bookkeepers		23,823	
Secretary(s)		21,914	
Clerical Personnel		17,505	
Other Salaries & Wages		12,116	
Social Security		6,247	
State Retirement		5,818	
Unemployment Compensation		268	
Employer Medicare		1,461	
Travel		942	
Other Contracted Services		9,195	
Data Processing Supplies		3,135	
Office Supplies		511	
Administration Equipment		3,126	
Total Fiscal Services			132,347

Operation of Plant

Custodial Personnel	\$	194,308	
Social Security		11,952	
State Retirement		8,680	
Unemployment Compensation		830	
Employer Medicare		2,795	
Rentals		16,606	
Other Contracted Services		1,300	
Custodial Supplies		34,479	
Electricity		279,915	
Fuel Oil		20,313	
Natural Gas		25,089	

(Continued)

Exhibit E-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Operation of Plant (Cont.)

Water and Sewer	\$ 21,677	
Plant Operation Equipment	3,096	
Total Operation of Plant		\$ 621,040

Maintenance of Plant

Supervisor/Director	\$ 32,892	
Other Salaries & Wages	23,162	
Social Security	3,409	
State Retirement	3,498	
Unemployment Compensation	94	
Employer Medicare	797	
Maintenance & Repair Services- Buildings	8,310	
Maintenance & Repair Services- Equipment	5,712	
Travel	977	
Other Contracted Services	25,943	
Other Supplies and Materials	18,239	
Maintenance Equipment	7,666	
Total Maintenance of Plant		130,699

Transportation

Mechanic(s)	\$ 21,444	
Bus Drivers	147,254	
Other Salaries & Wages	8,605	
Social Security	10,819	
State Retirement	5,521	
Unemployment Compensation	692	
Employer Medicare	2,530	
Contracts with Vehicle Owners	258,685	
Maintenance & Repair Services- Vehicles	2,404	
Other Contracted Services	9,657	
Gasoline	47,265	
Lubricants	2,558	
Tires and Tubes	14,286	
Vehicle Parts	17,360	
Other Supplies and Materials	6,183	
Vehicle and Equipment Insurance	14,881	
Other Charges	3,573	
Transportation Equipment	66,885	
Total Transportation		640,602

(Continued)

Exhibit E-5

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

General Purpose School Fund (Cont.)

Operation of Non-Instructional Services

Food Service

Supervisor/Director	\$	50,716	
Career Ladder Program		1,000	
Social Security		2,762	
State Retirement		2,844	
Medical Insurance		5,245	
Unemployment Compensation		44	
Employer Medicare		646	
Other Fringe Benefits		100	
Total Food Service			\$ 63,357

Community Services

Supervisor/Director	\$	40,629	
Teachers		32,819	
Educational Assistants		12,052	
Social Security		4,872	
State Retirement		4,785	
Medical Insurance		5,093	
Unemployment Compensation		132	
Employer Medicare		1,140	
Other Fringe Benefits		100	
Communication		403	
Travel		1,411	
Other Contracted Services		403	
Other Supplies and Materials		2,410	
Total Community Services			106,249

Capital Outlay

Regular Capital Outlay

Architects	\$	466	
Administration Equipment		5,135	
Building Construction		64,363	
Building Improvements		167,312	
Total Regular Capital Outlay			237,276

Principal

Education

Principal on Notes	\$	131,000	
Principal on Other Loans Payable		90,000	
Total Education			221,000

(Continued)

Exhibit E-5

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

General Purpose School Fund (Cont.)

Interest

Education

Interest on Notes	\$	6,175	
Interest on Other Loans Payable		133,057	
Total Education			\$ 139,232

Other Debt Service

Education

Debt Service Contribution to Primary Government	\$	304,250	
Other Debt Service		8,496	
Total Education			312,746

Total General Purpose School Fund \$ 9,874,925

School Federal Projects Fund

Instruction

Regular Instruction Program

Teachers	\$	344,102	
Educational Assistants		22,337	
Other Salaries & Wages		1,463	
Certified Substitute Teachers		4,912	
Social Security		22,362	
State Retirement		20,384	
Medical Insurance		9,473	
Unemployment Compensation		541	
Employer Medicare		5,230	
Other Fringe Benefits		700	
Instructional Supplies and Materials		217,862	
Regular Instruction Equipment		2,310	
Total Regular Instruction Program			\$ 651,676

Special Education Program

Teachers	\$	3,021	
Educational Assistants		128,508	
Other Salaries & Wages		2,000	
Social Security		8,072	
State Retirement		7,348	
Medical Insurance		394	
Unemployment Compensation		588	
Employer Medicare		1,908	
Contracts with Private Agencies		108,745	

(Continued)

Exhibit E-5

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

School Federal Projects Fund (Cont.)

Instruction (Cont.)

Special Education Program (Cont.)

Instructional Supplies and Materials	\$	1,826	
Other Supplies and Materials		637	
Special Education Equipment		6,692	
Total Special Education Program			\$ 269,739

Vocational Education Program

Teachers	\$	14,993	
Other Salaries & Wages		550	
Social Security		952	
State Retirement		859	
Unemployment Compensation		19	
Employer Medicare		223	
Travel		579	
Instructional Supplies and Materials		22,723	
Vocational Instruction Equipment		20,020	
Total Vocational Education Program			60,918

Support Services

Other Student Support

Travel	\$	3,456	
In Service/Staff Development		961	
Total Other Student Support			4,417

Regular Instruction Program

Supervisor/Director	\$	33,857	
Social Security		2,099	
State Retirement		1,862	
Medical Insurance		3,147	
Unemployment Compensation		26	
Employer Medicare		491	
Postal Charges		185	
Travel		10,025	
Other Contracted Services		9,051	
In Service/Staff Development		7,028	
Other Charges		1,662	
Other Equipment		3,680	
Total Regular Instruction Program			73,113

(Continued)

Exhibit E-5

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

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Special Education Program

Psychological Personnel	\$	10,914	
Assessment Personnel		41,998	
Social Security		3,002	
State Retirement		2,910	
Medical Insurance		3,691	
Unemployment Compensation		80	
Employer Medicare		702	
Travel		2,992	
Other Supplies and Materials		1,903	
In Service/Staff Development		3,294	
Other Charges		84	
Total Special Education Program			\$ 71,570

Vocational Education Program

Other Salaries & Wages	\$	20,300	
Social Security		1,259	
State Retirement		1,116	
Unemployment Compensation		23	
Employer Medicare		294	
Travel		3,065	
Other Supplies and Materials		3,905	
In Service/Staff Development		11,016	
Other Charges		1,500	
Total Vocational Education Program			42,478

Total School Federal Projects Fund \$ 1,173,911

Central Cafeteria Fund

Operation of Non-Instructional Services

Food Service

Cafeteria Personnel	\$	273,964
Social Security		16,687
State Retirement		14,104
Unemployment Compensation		1,080
Employer Medicare		3,902
Communication		1,216
Maintenance & Repair Services- Equipment		6,673
Travel		2,942
Other Contracted Services		4,240

(Continued)

Exhibit E-5

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

<u>Central Cafeteria Fund (Cont.)</u>		
<u>Operation of Non-Instructional Services (Cont.)</u>		
<u>Food Service (Cont.)</u>		
Food Supplies	\$ 331,108	
Other Supplies and Materials	47,498	
In Service/Staff Development	1,077	
Food Service Equipment	<u>38,421</u>	
Total Food Service		\$ <u>742,912</u>
Total Central Cafeteria Fund		\$ 742,912
<u>Education Capital Projects Fund</u>		
<u>Capital Projects</u>		
<u>Education Capital Projects</u>		
Architects	\$ 294	
Building Improvements	90,297	
Furniture and Fixtures	<u>38,596</u>	
Total Education Capital Projects		\$ <u>129,187</u>
Total Education Capital Projects Fund		<u>129,187</u>
Total Governmental Funds - Jackson County School Department		\$ <u><u>11,920,935</u></u>

SINGLE AUDIT REPORT
JACKSON COUNTY, TENNESSEE
AND
JACKSON COUNTY SCHOOL DEPARTMENT
FOR THE YEAR ENDED JUNE 30, 2005

DEPARTMENT OF AUDIT
JOHN G. MORGAN
Comptroller of the Treasury

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

ARTHUR L. ALEXANDER
Director

CARL LOWE, CGFM
Audit Manager

ANITA SCARLETT, CPA
Auditor 4

RODNEY MALIN, CGFM
KELLEY J. McNEAL, CPA, CGFM
State Auditors

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

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

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

September 8, 2005

Jackson County Mayor, Board of County Commissioners,
Director of Schools, and Board of Education
Jackson 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 Jackson County, Tennessee, and the Jackson County School Department as of and for the year ended June 30, 2005, which collectively comprise a portion of Jackson County's and the Jackson County School Department's basic financial statements and have issued our reports thereon dated September 8, 2005. Our reports on the financial statements of Jackson County, Tennessee, and the Jackson 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 Jackson County's and the Jackson 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 Jackson County's and the Jackson 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 05.03(B,C), 05.04, 05.05, 05.06(B), 05.07, 05.08, 05.09, 05.10, 05.11, 05.12, 05.13(B.2), 05.14(D,E), 05.17, and 05.18.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 05.03(B,C) and 05.06(B) to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Jackson County's and the Jackson 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(A), 05.06(A), 05.13(A,B.1), 05.14(A,B,C), 05.15, and 05.16.

We also noted certain matters that we reported to the management of Jackson County and the Jackson 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/rd



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 8, 2005

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

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

Compliance

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

In our opinion, Jackson County and the Jackson 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 Jackson County and the Jackson 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 Jackson County's and the Jackson 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 Jackson County, Tennessee, and the Jackson County School Department as of and for the year ended June 30, 2005, and have issued our reports thereon dated September 8, 2005. Our reports on the financial statements of Jackson County and the Jackson 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 stroke at the end.

John G. Morgan
Comptroller of the Treasury

JGM/rd

Jackson County, Tennessee, and the Jackson 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
Office of National Drug Control Policy:			
Passed through Fiscal Court of Laurel County, Kentucky:			
Appalachia High Intensity Drug Traffic Area Program	07.XXX	I5PAPP5012	\$ 9,277
U.S. Department of Agriculture:			
Passed-through State Department of Agriculture:			
Food Donation (Noncash Assistance)	10.550	N/A	\$ 63,840
Passed-through State Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	159,990
National School Lunch Program	10.555	N/A	353,618
Total U.S. Department of Agriculture			\$ 577,448
U.S. Department of Commerce:			
Direct Program:			
Grants for Public Works and Economic Development Facilities	11.300	N/A	\$ 354,965
U.S. Department of Housing and Urban Development:			
Passed-through State Housing Development Agency:			
HOME Investment Partnerships Program	14.239	HM-03-41	\$ 258,373
U.S. Department of Interior:			
Direct Program:			
Payments in Lieu of Taxes	15.226	N/A	\$ 25,321
U.S. Department of Justice:			
Direct Program:			
Public Safety Partnerships and Community Policing Grants	16.710	N/A	\$ 29,428
U.S. Department of Labor:			
Passed-through Upper Cumberland Human Resource Agency:			
WIA Youth Activities	17.259	05-07-087-005-09-82	\$ 17,595
WIA Incentive Grants - Section 503 Grants to States	17.267	Z-04-019474-00	12,310
Total U.S. Department of Labor			\$ 29,905
U.S. Department of Transportation:			
Passed-through State Department of Transportation:			
Highway Planning and Construction	20.205	STP-H-4400(48)	\$ 50,000
State and Community Highway Safety	20.600	Z-05-024075-00	4,823
Total U.S. Department of Transportation			\$ 54,823
U.S. Department of Education:			
Passed-through State Department of Labor and Workforce Development:			
Adult Education - State Grant Program	84.002	Z-04-016679-00	\$ 14,241 (3)
Adult Education - State Grant Program	84.002	Z-05-022232-00	59,410 (3)
Passed-through State Department of Education:			
Adult Education - State Grant Program	84.002	GG-05-11209-01	30,005 (3)
Title I Grant to Local Educational Agencies	84.010	N/A	352,102
Special Education - Grants to States	84.027	N/A	329,918
Vocational Education - Basic Grants to States	84.048	N/A	60,212
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	N/A	65,922
Special Education - Preschool Grants	84.173	N/A	11,392
Safe and Drug Free Schools and Communities - State Grants	84.186	(2)	12,161
Tech-Prep Education	84.243	N/A	2,000
State Grants for Innovative Programs	84.298	N/A	48,401
Education Technology State Grants	84.318	(2)	10,107
Reading First State Grants	84.357	GG-04-11040-00	289,497
Improving Teacher Quality State Grants	84.367	N/A	41,782
Total U.S. Department of Education			\$ 1,327,150

Jackson County, Tennessee, and the Jackson 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.S. Department of Health and Human Services:			
Passed-through Upper Cumberland Development District: Special Programs for the Aging - Title III, Part B Grants for Supportive Services and Senior Centers	93.044	(2)	\$ 6,208
Passed-through State Department of Health: State Rural Hospital Flexibility Program	93.241	GG-05-11472-00	31,200
Passed-through State Department of Labor and Workforce Development: Temporary Assistance for Needy Families	93.558	Z-05-022324-00	23,586
Total U.S. Department of Health and Human Services			\$ 60,994
U.S. Department of Homeland Security:			
Passed-through State Department of the Military: State Domestic Preparedness Equipment Support Program	97.004	Z-03-017765-00	\$ 13,111 (4)
State Domestic Preparedness Equipment Support Program	97.004	Z-04-020110-01	16,400 (4)
Homeland Security Preparedness Technical Assistance	97.007	Z-04-020187-00	3,800
Public Assistance Grants	97.036	Z-05-024731-00	329,532
Total U.S. Department of Homeland Security			\$ 362,843
Total Expenditures of Federal Awards			\$ 3,090,527
<u>State Grants</u>			
Adult Education - State Department Labor and Workforce Development	N/A	(2)	\$ 19,578
Aging Program - Upper Cumberland Development District	N/A	(2)	5,608
Reappraisal Program - Comptroller of the Treasury	N/A	(2)	8,916
Litter Program - State Department of Transportation	N/A	(2)	26,000
Safe School Act Grant - State Department of Education	N/A	(2)	11,107
Law Enforcement Training - State Department of Safety	N/A	(2)	6,743
Local Health Services Grant - State Department of Health	N/A	(2)	1,200
State Supplement Grant Program - State Commission on Children and Youth	N/A	(2)	9,000
Family Resource Center - State Department of Education	N/A	(2)	33,300
Early Childhood Education - State Department of Education	N/A	(2)	48,750
Families First - State Department of Labor and Workforce Development	N/A	(2)	11,099
Touching the Lives of Children Program - State Department of Education	N/A	(2)	7,123
Waste Tire Storage and Disposal - State Department of Environment and Conservation	N/A	(2)	5,305
Total State Grants			\$ 193,729

CFDA = Catalog of Federal Domestic Assistance

N/A = Not Applicable

(1) - Presented in conformity with generally accepted accounting principles using the modified accrual basis of accounting.

(2) - Information not available.

(3) - Total Adult Education - State Grant Program (CFDA # 84.002) from the U.S. Department of Education was \$103,656.

(4) - Total State Domestic Preparedness Equipment Support Program (CFDA # 97.004) from the U.S. Department of Homeland Security was \$29,511.

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

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

JACKSON COUNTY AND JACKSON COUNTY SCHOOL DEPARTMENT

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

OFFICE OF COUNTY MAYOR

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
04.02	13	Funds were improperly transferred to the General Fund
04.04(B)	14	Expenditures exceeded appropriations
04.06(A, B, C, E)	15	The office had deficiencies in its purchasing procedures
04.07(B, C)	16	The office did not properly maintain inventory records and controls over assets

OFFICE OF HIGHWAY SUPERINTENDENT

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
04.11(B)	19	Adequate controls over consumable assets were not maintained
04.12	19	Purchase orders were not issued for some applicable purchases

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
04.14	20	The office did not have formal policies and procedures for computer operations
04.15	20	The office had deficiencies in computer system backup procedures
04.16	21	The office did not develop a disaster recovery plan

OFFICES OF CLERK AND MASTER AND SHERIFF

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
04.17	22	Funds were not deposited within three days of collection in the Offices of Clerk and Master and Sheriff

OFFICE OF SHERIFF

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
04.18(A)	22	The office had deficiencies in the administration of drug control funds

OTHER FINDINGS AND RECOMMENDATIONS

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
04.20	23	A central system of accounting, budgeting, and purchasing had not been adopted
04.21	24	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

**JACKSON COUNTY, TENNESSEE, AND THE
JACKSON 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 Jackson County and the Jackson County School Department.
2. The audit of the financial statements disclosed reportable conditions in internal control of Jackson County and the Jackson County School Department. Two of these conditions were also considered to be material weaknesses in Jackson County.
3. The audit disclosed two instances of noncompliance that were material to the financial statements of Jackson County and one instance of noncompliance that was material to the financial statements of Jackson County School Department.
4. The audit disclosed no reportable conditions in internal control over major programs.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit revealed no audit findings that are required to be reported under Section 510(a) of OMB Circular A-133.
7. The Child Nutrition Cluster: the School Breakfast Program and the National School Lunch Program (CFDA Nos. 10.553 and 10.555); the Title I Grants to Local Educational Agencies (CFDA No. 84.010); the Special Education Cluster: Special Education - Grants to States and Special Education – Preschool Grants (CFDA Nos. 84.027 and 84.173), Grants for Public Works and Economic Development Facilities (CFDA No. 11.300); and Public Assistance Grants (CFDA No. 97.036) 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. Jackson County and the Jackson 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. The written responses of the clerk and master are quoted in this report. Other officials offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

JACKSON COUNTY AND THE JACKSON 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)

Jackson County and the Jackson County School Department did not identify and determine the historical value of their capital assets and the related depreciation amounts of these assets. Therefore, Jackson County and the Jackson 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, Jackson County’s and the Jackson 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. Jackson County’s and the Jackson County School Department’s financial statements are presented in compliance with these requirements.

RECOMMENDATION

Jackson County and the Jackson 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 cost of their capital assets and the related depreciation amounts of these assets. This information is necessary to present the financial statements in accordance with generally accepted accounting principles.

OFFICE OF COUNTY MAYOR

FINDING 05.02 **DRUG CONTROL FUNDS WERE IMPROPERLY EXPENDED (Noncompliance Under Government Auditing Standards)**

The county transferred \$2,853 from the Drug Control Fund to the General Fund for operating expenditures that had been approved by the County Commission. Section 39-17-420, Tennessee Code Annotated, provides that drug control funds can only be expended for (1) the local drug enforcement program, (2) the local drug education program, (3) the local drug treatment program, and (4) nonrecurring general law enforcement expenditures. Operating expenditures do not meet any of the four criteria for the expenditure of drug funds.

RECOMMENDATION

The Drug Control Fund should only be expended for items that comply with the criteria as provided by state statute.

FINDING 05.03 **THE OFFICE HAD DEFICIENCIES IN BUDGET OPERATIONS (A. – Noncompliance Under Government Auditing Standards; B. and C. – Internal Control – Material Weakness Under Government Auditing Standards)**

Our examination of budget operations revealed the following deficiencies:

- A. Expenditures exceeded appropriations in the General Debt Service Fund and the Drug Control Fund by \$4,928 and \$7,850, respectively. Also, expenditures exceeded appropriations in ten major appropriation categories (legal level of control) of the General Fund by amounts ranging from \$176 to \$10,879. Section 5-9-401, Tennessee Code Annotated, states that “all funds ... including, but not limited to ... taxes, county aid funds, federal funds, and fines, which are to be used in the operation and respective programs of the various departments, commissions, institutions, boards, offices and agencies of county governments shall be appropriated to such use by the county legislative bodies.”
- B. The General Fund’s actual fund balance at July 1, 2004, was \$539,853; however, the estimated fund balance reflected in the General Fund’s budget at July 1, 2004, was \$304,068. Therefore, the actual fund balance exceeded the estimated fund balance presented to the County Commission by \$235,785.

- C. The Solid Waste/Sanitation Fund's actual fund balance at July 1, 2004, was \$167,940; however, the estimated fund balance reflected in the Solid Waste/Sanitation Fund's budget at July 1, 2004, was \$369,695. Therefore, the actual fund balance was less than the estimated fund balance presented to the County Commission by \$201,755.

RECOMMENDATION

Expenditures should be held within appropriations approved by the County Commission. Also, estimated beginning fund balances should be made on a more realistic basis to provide county officials with accurate information to base funding decisions.

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

Our examination of purchasing procedures revealed the following deficiencies:

- A. In several instances, purchase orders were not issued. Purchase orders are necessary to control who has authority to make purchases and to document purchasing commitments. Also, in some instances purchase orders were issued after the purchases were made. This practice defeats the purpose of the purchase order and makes it an approval of payment rather than an approval of the purchase. Furthermore, our examination of purchase orders disclosed that descriptions and dollar amounts of purchases were not listed on some purchase orders. The dollar amounts and descriptions of items on purchase orders are necessary to quantify purchasing commitments and to identify the items purchased.
- B. In several instances, invoices were paid without documentation that goods had been received and/or services had been rendered. This practice weakens controls over the purchasing process. We extended our audit procedures and determined that these goods were received and services were rendered.
- C. In some instances, invoices were not on file to support the purchases. We extended our audit procedures and determined that these disbursements were for the benefit of the county.
- D. Several expenditures were coded to expenditure accounts that did not reflect the true nature of the expenditure. Misclassifying expenditures diminishes the usefulness of the accounting records as a management tool. Any misclassifications noted during our examination were reclassified by management in the financial statements of this report.

RECOMMENDATION

Purchase orders should be issued for all applicable purchases before purchases are made and should include the dollar amounts and descriptions of items purchased. Documentation should be obtained indicating that goods have been received and/or services have been rendered before invoices are paid. Invoices should be on file to support all purchases. Also, expenditures should be coded to the accounts that most appropriately reflect the true nature of the transactions.

FINDING 05.05 **THE OFFICE DID NOT PROPERLY MAINTAIN INVENTORY RECORDS AND CONTROLS OVER ASSETS** (Internal Control – Reportable Condition under Government Auditing Standards)

Our examination of controls over county assets revealed the following deficiencies:

- A. We noted certain assets that were not included on the inventory, such as, two computer monitors, a digital camera, a revolver, and a machine gun.
- B. Inventory records did not include all of the information necessary to identify the asset, such as, the serial number.
- C. Inventory records were not verified by personnel who are independent of maintaining the inventory records.
- D. During the year under examination, the county purchased 70 tires totaling \$3,858 for the Sheriff's Department. These tires were delivered to and stored at a local business until a patrol car needed new tires. The employees of the local business acknowledged receipt of the tires by signing the delivery tickets accompanying the tires. Neither the County Mayor's Office nor the Sheriff's Department had internal control procedures to track the tire inventory and relied on the local business to keep up with the county's inventory.

Generally accepted accounting principles require accountability for all county-owned assets, such as equipment, furniture, and vehicles. The failure to properly maintain inventory records results in a loss of control over assets.

RECOMMENDATION

The county should improve controls over assets. County officials should ensure that inventory lists include all of the county's assets and that the asset descriptions are sufficient to identify the asset. The county should ensure that personnel independent of the record-keeping process periodically verify inventory records. Furthermore, tires purchased for county vehicles should not be delivered to and stored at a private business.

OFFICE OF HIGHWAY SUPERINTENDENT

FINDING 05.06 **THE OFFICE HAD DEFICIENCIES IN BUDGET OPERATIONS**
(A. – Material Noncompliance Under Government Auditing Standards; B. – Internal Control – Material Weakness Under Government Auditing Standards)

Our examination of budget operations revealed the following deficiencies:

- A. Expenditures exceeded appropriations approved by the County Commission in the Highway/Public Works Fund by \$188,597. Section 5-9-401, Tennessee Code Annotated, states that “all funds ... including, but not limited to ... taxes, county aid funds, federal funds, and fines, which are to be used in the operation and respective programs of the various departments, commissions, institutions, boards, offices and agencies of county governments shall be appropriated to such use by the county legislative bodies.”
- B. The Highway/Public Works Fund’s actual fund balance at July 1, 2004, was \$578,850; however, the estimated fund balance reflected in the Highway/Public Works Fund’s budget at July 1, 2004, was \$355,800. Therefore, the actual fund balance exceeded the estimated fund balance presented to the County Commission by \$223,050.

RECOMMENDATION

Expenditures should be held within appropriations approved by the County Commission. The estimate of the beginning fund balance should be made on a more realistic basis to provide county officials with accurate information to base funding decisions.

FINDING 05.07 **ADEQUATE CONTROLS WERE NOT MAINTAINED OVER ROCK**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The office did not maintain adequate controls over rock. The failure to maintain adequate records for consumable assets results in a loss of control over the assets and increases the risk of inventory loss.

RECOMMENDATION

The office should maintain records of consumable assets, such as rock. Furthermore, personnel independent of maintaining the inventory should periodically verify these records.

FINDING 05.08 THE OFFICE DID NOT PROPERLY ISSUE PURCHASE ORDERS
(Internal Control – Reportable Condition Under Government Auditing Standards)

Purchase orders were not issued in several instances. Purchase orders are necessary to control who has authority to make purchases and to document purchasing commitments. Also, in some instances, purchase orders were issued after the purchases were made. This practice defeats the purpose of the purchase order and makes it an approval of payment rather than an approval of the purchase. Furthermore, our examination noted that some purchase orders were not dated.

RECOMMENDATION

Purchase orders should be issued for all applicable purchases before purchases are made and should reflect the date issued.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 05.09 THE OFFICE DID NOT PROPERLY MAINTAIN INVENTORY RECORDS AND CONTROLS OVER ASSETS
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination of controls over School Department assets revealed the following deficiencies:

- A. We noted certain assets that were not included on the inventory, such as, a computer, a monitor, and a printer.
- B. Inventory records did not include all of the information necessary to identify the asset, such as, the serial number or vehicle identification number.
- C. Inventory records were not verified by personnel who are independent of maintaining the inventory records.

Generally accepted accounting principles require accountability for all county-owned assets, such as equipment, furniture, and vehicles. The failure to properly maintain inventory records results in a loss of control over assets.

RECOMMENDATION

The School Department should improve controls over assets. School Department officials should ensure that inventory lists include all of the department's assets, and that the asset descriptions are sufficient to identify the asset. Furthermore, the School Department should ensure that personnel independent of the record-keeping process periodically verify inventory records.

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

FINDING 05.10 **THE OFFICE DID NOT HAVE FORMAL POLICIES AND PROCEDURES FOR COMPUTER OPERATIONS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Office of Circuit and General Sessions Courts Clerk did not have written policies and procedures for routine computer operations. Routine operations include system startup/shutdown, application access, system access security, system backup and retention schedules, hardware/software maintenance, output distribution, and other general data processing functions. Formal policies and procedures are necessary to ensure adequate management control over computer operations.

RECOMMENDATION

Management should prepare a computer policies and procedures manual for operations such as system backups, security measures, and other general data processing functions. Upon completion, the manual should be distributed to all appropriate personnel.

FINDING 05.11 **THE OFFICE HAD DEFICIENCIES IN COMPUTER SYSTEM BACKUP PROCEDURES**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The following weaknesses regarding computer system backup procedures in the Office of Circuit and General Sessions Courts Clerk were identified:

- A. Daily backups were not stored in a secure location. Unsecured access to system backups exposes the data to environmental hazards as well as to possible sabotage.

- B. System backups were not stored off-site. In the event of a disaster, all backup data could be destroyed, resulting in costly delays in generating and recording information accounted for through the automated process.
- C. A backup log was not maintained. If system backups are not labeled and inventoried systematically, discrepancies may occur and affect the integrity of system backups in the event of a hardware or software failure.

RECOMMENDATION

Management should implement daily system backup procedures. A backup labeled for each day of the week should be maintained and stored in a secure fireproof location. In addition to daily system backups, a weekly system backup should be performed, and two copies should be maintained. These backups should be rotated off-site on a weekly basis. A complete systems backup should also be performed at fiscal year-end, should be stored off-site, and retained indefinitely. Some possibilities for an off-site storage location would be another county office building with a fireproof vault or a safe-deposit box at a local bank. Furthermore, a current log of all backups that includes label descriptions, date of creation, contents, and storage location should be maintained.

FINDING 05.12 **THE OFFICE DID NOT DEVELOP A DISASTER RECOVERY PLAN**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Office of Circuit and General Sessions Courts Clerk did not develop a disaster recovery plan to assist in re-creating its data processing environment in the event of a disaster. Without a formal, written plan, critical computerized applications could be disrupted indefinitely until the system could be repaired or a backup facility could be found and made operational.

RECOMMENDATION

Management should develop and regularly update a disaster recovery plan defining procedures for personnel to follow in the event of a major hardware or software failure, or temporary or permanent destruction of facilities. The plan should contain provisions for a contingency operations site, as well as the adequate backup of data files, system programs, user documentation, supplies, and computer hardware so that operations could continue as normally as possible. A copy of the plan should be kept in a secure area within the office as well as at a secure off-site location.

OFFICE OF CLERK AND MASTER

FINDING 05.13

THE OFFICE HAD CASH SHORTAGES OF \$3,238.23

(A. and B.1. – Noncompliance Under Government Auditing Standards;
B.2. – Internal Control – Reportable Condition Under Government Auditing Standards)

The office had cash shortages totaling \$3,238.23 during the year. These cash shortages are discussed below:

- A. A cash shortage totaling \$2,108.23 existed on March 3, 2005, resulting from funds receipted on November 11, 2004, that had not been deposited to the office's bank account. We contacted several of the individuals who paid by check on that date, and they confirmed that their checks had not cleared their personal bank accounts. In order to reconcile the bank statement with the general ledger, we noted that the clerk and master had adjusted the general ledger to present these November 11, 2004, transactions as cash on hand rather than as cash in bank. However, with this adjustment, the cash on hand account on the general ledger failed to reconcile with the actual cash in the office. On June 30, 2005, the clerk and master deposited \$2,108.23 to liquidate the cash shortage. This deposit was comprised of customer checks totaling \$971.78 from the original November 11, 2004, receipts and \$1,136.45 from the clerk and master's personal funds.
- B. A cash shortage totaling \$1,130 existed on June 30, 2005, and is detailed below:
 1. A cash shortage totaling \$540 resulted from child support funds receipted on December 21, 2004, not being deposited. This amount was included on the June 30, 2005, bank reconciliation as a deposit in transit. The clerk and master stated that he was not aware that these receipts had not been deposited, and on July 15, 2005, the clerk and master liquidated the cash shortage by remitting personal funds.
 2. A cash shortage totaling \$590 resulted from the clerk and master cashing a personal check from office funds that was returned by his bank for insufficient funds. This amount was noted on the June 30, 2005, bank statement reconciliation as a returned check; however, the payee was not identified on the reconciliation. On August 4, 2005, the clerk and master liquidated this cash shortage from personal funds.

The clerk and master did not deposit the above-noted collections to the office bank account within three days of collection as required by Section 5-8-207, Tennessee Code Annotated. This statute requires county officials to deposit all funds within three days of collection.

We have discussed these matters with the district attorney general.

RECOMMENDATION

To strengthen internal controls over cash collections and deposits, the clerk and master should deposit all funds intact within three days of collection. Also, the clerk and master should not cash personal checks from office funds.

FINDING 05.14 **THE OFFICE HAD ACCOUNTING AND INTERNAL CONTROL DEFICIENCIES**

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

Our audit disclosed the following deficiencies in the Office of Clerk and Master:

- A. On April 1, 2005, the clerk was holding two checks dated March 12, 2005, for \$21,600 and \$2,955 that had not been receipted. We were advised that these checks were down payments on property sold through the court, and that the clerk and master was holding the checks because the bid on the property could be raised for ten days after the sale. When the sale was finalized, the checks would be receipted and applied to the purchase price of the property or would be returned to the losing bidder. We were also advised that property sales were routinely handled in this manner. Sections 9-2-103 to 9-2-104, Tennessee Code Annotated (TCA), require official prenumbered receipts be issued for all collections when received. Furthermore, Section 5-8-207, TCA, requires officials to deposit funds to the office bank account within three days of collection.
- B. Prenumbered receipts were not issued for child support collections. Instead, individuals were given a piece of paper pre-signed by the clerk and master documenting the payee's name, the date paid, and the amount paid. These papers were not numbered and did not include a child support case number. Sections 9-2-103 to 9-2-104, TCA, require official prenumbered receipts be issued when collections are received. It should be noted that the office's computerized child support accounting system has the capability of generating prenumbered receipts that are posted to the system when the receipt is generated.
- C. Funds were not deposited to the office bank account within three days of collection. Deposits were routinely made one to two weeks after the dates on the receipts. In one instance, receipts dated October 1, 2004, were not deposited until November 11, 2004, some 41 days after they were receipted. Section 5-8-207, TCA, requires officials to deposit funds to the office bank account within three days of collection.
- D. Collections were not adequately secured until deposited.

- E. Bank statements did not reconcile with general ledger accounts from September 2004 through February 2005. At the end of each month, the clerk and master would make an adjustment between the cash on hand and the cash in bank accounts on the general ledger to make the bank reconciliation agree with the general ledger. However, by making this adjustment, the general ledger cash on hand account would not agree with the actual cash in the office. Because of these deficiencies, the amounts presented on the general ledger for cash on hand and cash in bank were incorrect.

RECOMMENDATION

The clerk should issue official prenumbered receipts for all collections when received, and these collections should be deposited to the bank account within three days as required by state statutes. Also the clerk should adequately secure collections until they are deposited. Furthermore, the general ledger accounts should be reconciled monthly and any inconsistencies investigated and corrected.

MANAGEMENT'S RESPONSE – CLERK AND MASTER (Direct Quote)

- A. “Checks that were being held from a land sale are not considered court funds until the Chancellor approves the sale, and a deed is issued. At each sale, it is announced that the checks will be held and not deposited as a down payment. After the sale is confirmed, if the bid is not raised, the purchaser can bring the total amount due or bring the portion that has not been paid by the down payment. Most clerks throughout the state follow the same procedure with regards to down payments.
- B. The office has purchased a receipt book for child support collections.
- D. A locked file cabinet is not provided by the county so that deposits are kept in what we have.
- E. The bank statements were reconciled each month with the general ledger. Adjustments were made with cash on hand that had not been deposited into the bank for that month. If a deposit was made the first day of the next month, it was not posted until the next month. Deposits were only posted the day the deposit slip is stamped deposited by the bank.”

REBUTTAL

- A. Sections 9-2-103 to 9-2-104, Tennessee Code Annotated (TCA), require official, prenumbered receipts be issued for collections when received, and Section 5-8-207, TCA, requires officials to deposit funds to the office bank account within three days of collection.
- D. The clerk and master is responsible for the security of funds collected by the office and should ensure that all funds are adequately protected.

- E. The reconciliations prepared by the clerk and master each month did agree with the general ledger balance because the clerk and master forced the reconciliations to agree. Adjustments between the cash on hand and the cash in bank accounts on the general ledger should only be made to correct errors. Deposits should be made in tact within three days of the date of the receipts.
-

OFFICE OF SHERIFF

FINDING 05.15 **COLLECTIONS WERE NOT PROPERLY DEPOSITED (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 county officials to deposit all funds within three days of collection.

RECOMMENDATION

The office should deposit funds within three days of collection as required by state statute.

FINDING 05.16 **THE OFFICE HAD DEFICIENCIES IN THE ADMINISTRATION OF DRUG CONTROL FUNDS (Noncompliance Under Government Auditing Standards)**

Several forms and reports required by the Office of the Comptroller of the Treasury were not completed or prepared. These forms and reports are necessary to document the administration of confidential funds and to account for cash transactions related to undercover investigative operations.

RECOMMENDATION

The sheriff should ensure that the office completes all forms and prepares all reports required by the Office of the Comptroller of the Treasury to document confidential drug payments.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 05.17 A CENTRAL SYSTEM OF ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

RECOMMENDATION

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

FINDING 05.18 DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF COUNTY MAYOR, HIGHWAY SUPERINTENDENT, DIRECTOR OF SCHOOLS, TRUSTEE, COUNTY CLERK, CIRCUIT AND GENERAL SESSIONS COURTS CLERK, CLERK AND MASTER, REGISTER, AND SHERIFF
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among the officials and employees in the Offices of County Mayor, Highway Superintendent, Director of Schools, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff. Officials and employees responsible for maintaining 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.

**JACKSON COUNTY, TENNESSEE, AND THE
JACKSON 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.