

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

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

POLK COUNTY, TENNESSEE

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Audit Highlights

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

Results

Our report on Polk 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 11 findings and recommendations, which we have reviewed with Polk County management. Detailed findings and recommendations are included in the Single Audit Report.

Findings

The following are summaries of the audit findings:

POLK COUNTY

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

OFFICE OF COUNTY EXECUTIVE

- ◆ The General Fund had an undesignated fund deficit of \$29,462.
- ◆ The office did not file a debt obligation report with the director of Local Finance for two debt issues.
- ◆ The General Fund's general ledger account did not reconcile with the county trustee's balance. Accounting records were not closed in a timely manner, and adequate records were not maintained for several of the federal and state grants received by the county.

OFFICE OF HIGHWAY SUPERINTENDENT

- ◆ Purchases of items such as petroleum, rock, hot mix, oil, stripping, tires, and pipe, were not always made from the vendor who submitted the lowest bid, and competitive bids were not solicited for the purchase of a dirt loader.
- ◆ Expenditures exceeded appropriations approved by the County Commission in two major appropriation categories (the legal level of control) in the Highway/Public Works Fund.

OFFICE OF HIGHWAY SUPERINTENDENT (CONT.)

- ◆ Receivables and payables at June 30, 2005, were not determined and recorded on the accounting records.
 - ◆ A county road list was not submitted to the County Commission for approval.
-

OFFICES OF COUNTY CLERK AND SHERIFF

- ◆ Collections were not always deposited to their office bank accounts within three days of receipt as required by state statute.
-

OTHER FINDINGS

- ◆ The director of accounts and budget did not maintain the accounting records of the Highway Department as required by the Fiscal Control Acts of 1957.
- ◆ Duties were not segregated adequately in the Offices of County Executive, Highway Superintendent, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff.

INTRODUCTORY SECTION

Polk County Officials

June 30, 2005

Officials:

Hoyt Firestone, County Executive
Harold Hood, Highway Superintendent
Patsy Jenkins, Trustee
Randy Yates, Assessor of Property
Angie Sanford, County Clerk
Connie Clark, Circuit and General Sessions Courts Clerk
Kimberly Ingram, Clerk and Master
Donna Bramlett, Register
Bill Davis, Sheriff
Ruth Allen, Director of Accounts and Budget

Board of County Commissioners:

David Milen, Chairman
Greg Barker
Rodney Burris
Wanda Cheek
Wendell Lewis
Gary Mantooth
John Pippenger
Daren Waters
Fred Wilcoxon

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

December 1, 2005

Polk County Executive and
Board of County Commissioners
Polk County, Tennessee

To the County Executive and Board of County Commissioners:

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Polk County, Tennessee, as of and for the year ended June 30, 2005, as shown on pages 11 through 32, 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 Polk County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

for the county's governmental activities and discretely presented component units are not reasonably determinable.

As described in Note I, Polk 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 Polk 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 Polk 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.

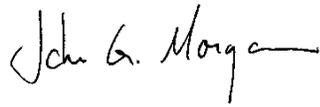
In accordance with Government Auditing Standards, we have also issued our report dated December 1, 2005, on our consideration of Polk County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

As described in Note IV.B., Polk 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 35 through 39 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 Polk 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". The signature is written in a cursive style with a long horizontal flourish at the end.

John G. Morgan
Comptroller of the Treasury

JJGM/yu

BASIC FINANCIAL STATEMENTS

Exhibit A

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

	Major Funds			Nonmajor	Total
	General	Highway / Public Works	General Debt Service	Other Govern- mental Funds	
ASSETS					
Equity in Pooled Cash and Investments	\$ 346,479	\$ 536,315	\$ 638,304	\$ 235,430	\$ 1,756,528
Accounts Receivable	43,551	356	0	810	44,717
Due from Other Governments	62,971	277,786	2,931	0	343,688
Due from Other Funds	0	0	0	108,002	108,002
Due from Component Units	0	0	0	1,312	1,312
Property Taxes Receivable	2,781,972	0	561,340	0	3,343,312
Allowance for Uncollectible Property Taxes	(256,110)	0	(44,202)	0	(300,312)
Prepaid Items	0	16,503	0	0	16,503
Total Assets	\$ 2,978,863	\$ 830,960	\$ 1,158,373	\$ 345,554	\$ 5,313,750
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 64,256	\$ 78,954	\$ 0	\$ 108,002	\$ 251,212
Payroll Deductions Payable	15,438	0	0	0	15,438
Contracts Payable	0	0	0	318,654	318,654
Retainage Payable	0	0	0	47,662	47,662
Due to Other Funds	109,802	0	0	0	109,802
Matured Interest on Bonds	0	0	5,827	0	5,827
Deferred Revenue - Current Property Taxes	2,415,519	0	502,426	0	2,917,945
Deferred Revenue - Delinquent Property Taxes	110,343	0	14,712	0	125,055
Other Deferred Revenues	11,443	137,659	977	0	150,079
Total Liabilities	\$ 2,726,801	\$ 216,613	\$ 523,942	\$ 474,318	\$ 3,941,674
Fund Balances					
Reserved for Encumbrances	\$ 173,178	\$ 0	\$ 0	\$ 7,848,979	\$ 8,022,157
Reserved for Purchase of Electronic Fingerprint Imaging System	0	0	0	18,780	18,780
Reserved for Alcohol and Drug Treatment	29,951	0	0	0	29,951
Reserved for Litigation Tax - Jail, Workhouse, or Courthouse	14,820	0	0	0	14,820
Reserved for Drug Court	6,886	0	0	0	6,886
Reserved for Computer System - Register	39,329	0	0	0	39,329
Reserved for Automation Purposes - Circuit Court	1,336	0	0	0	1,336
Reserved for Automation Purposes - General Sessions Court	8,974	0	0	0	8,974
Reserved for Automation Purposes - Juvenile Court	1,223	0	0	0	1,223
Reserved for Automation Purposes - Chancery Court	622	0	0	0	622
Reserved for Other General Purposes	5,205	0	0	0	5,205
Unreserved, Reported In:					
General Fund (Deficit)	(29,462)	0	0	0	(29,462)
Special Revenue Funds	0	614,347	0	108,688	723,035
Debt Service Funds	0	0	634,431	0	634,431
Capital Projects Funds (Deficit)	0	0	0	(8,105,211)	(8,105,211)
Total Fund Balances	\$ 252,062	\$ 614,347	\$ 634,431	\$ (128,764)	\$ 1,372,076
Total Liabilities and Fund Balances	\$ 2,978,863	\$ 830,960	\$ 1,158,373	\$ 345,554	\$ 5,313,750

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

Exhibit B

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

	Major Funds				Nonmajor Funds	Total Governmental Funds
	General	Highway / Public Works	General Debt Service	Education Capital Projects	Other Govern- mental Funds	
Revenues						
Local Taxes	\$ 3,030,331	\$ 0	\$ 334,487	\$ 0	\$ 0	\$ 3,364,818
Licenses and Permits	55,559	0	0	0	0	55,559
Fines, Forfeitures, and Penalties	129,505	0	0	0	81,711	211,216
Charges for Current Services	23,367	0	0	0	1,540	24,907
Other Local Revenues	15,897	211,094	37,498	0	7,151	271,640
Fees Received from County Officials	563,510	0	0	0	0	563,510
State of Tennessee	568,490	1,601,071	37,437	0	0	2,206,998
Federal Government	343,212	84,088	0	0	0	427,300
Other Governments and Citizens Groups	29,000	0	580,000	0	3,208	612,208
Total Revenues	\$ 4,758,871	\$ 1,896,253	\$ 989,422	\$ 0	\$ 93,610	\$ 7,738,156
Expenditures						
Current:						
General Government	\$ 595,351	\$ 0	\$ 0	\$ 0	\$ 0	\$ 595,351
Finance	399,703	0	0	0	0	399,703
Administration of Justice	333,286	0	0	0	1,540	334,826
Public Safety	1,409,580	0	0	0	133,884	1,543,464
Public Health and Welfare	968,368	0	0	0	447,453	1,415,821
Social, Cultural, and Recreational Services	33,714	0	0	0	0	33,714
Agricultural and Natural Resources	45,677	0	0	0	0	45,677
Other Operations	899,893	0	0	0	830	900,723
Highways	0	1,874,552	0	0	0	1,874,552
Debt Service:						
Principal	0	0	836,000	0	0	836,000
Interest	0	0	254,486	0	0	254,486
Other Debt Service	0	0	9,867	0	0	9,867
Capital Projects	60,000	0	0	4,632,047	874,993	5,567,040
Total Expenditures	\$ 4,745,572	\$ 1,874,552	\$ 1,100,353	\$ 4,632,047	\$ 1,458,700	\$ 13,811,224
Excess (Deficiency) of Revenues Over Expenditures	\$ 13,299	\$ 21,701	\$ (110,931)	\$ (4,632,047)	\$ (1,365,090)	\$ (6,073,068)
Other Financing Sources (Uses)						
Notes Issued	\$ 0	\$ 0	\$ 0	\$ 0	\$ 250,000	\$ 250,000
Capital Leases Issued	0	0	0	0	33,174	33,174

(Continued)

Exhibit B

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

	Major Funds				Nonmajor Funds	Total Governmental Funds
	General	Highway / Public Works	General Debt Service	Education Capital Projects	Other Govern- mental Funds	
<u>Other Financing Sources (Uses) (Cont.)</u>						
Other Loans Issued	\$ 0	\$ 0	\$ 0	\$ 4,632,047	\$ 204,899	\$ 4,836,946
Transfers In	0	0	0	0	501,231	501,231
Transfers Out	(501,231)	0	0	0	0	(501,231)
Total Other Financing Sources (Uses)	\$ (501,231)	\$ 0	\$ 0	\$ 4,632,047	\$ 989,304	\$ 5,120,120
Net Change in Fund Balances	\$ (487,932)	\$ 21,701	\$ (110,931)	\$ 0	\$ (375,786)	\$ (952,948)
Fund Balance, July 1, 2004	739,994	592,646	745,362	0	247,022	2,325,024
Fund Balance, June 30, 2005	\$ 252,062	\$ 614,347	\$ 634,431	\$ 0	\$ (128,764)	\$ 1,372,076

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

Exhibit C

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

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash	\$ 908,429
Due from Other Governments	62,857
Due from Other Funds	<u>1,800</u>
Total Assets	<u>\$ 973,086</u>
<u>LIABILITIES</u>	
Due to Other Taxing Units	\$ 62,857
Due to Litigants, Heirs, and Others	<u>910,229</u>
Total Liabilities	<u>\$ 973,086</u>

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Polk 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.

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

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

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

A. Reporting Entity

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

Blended Component Units – There are no legally separate component units of Polk 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 Polk 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 separated from the county.

The Polk County School Department operates the public school system in the county, and the voters of Polk 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 Polk County Emergency Communications District provides a simplified means of securing emergency services through a uniform emergency number for the residents of Polk County, and the Polk 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 Copper Basin Utility District provides water service for a portion of Polk County. The governing body of the Copper Basin Utility District is appointed by the County Commission. The issuance of debt by the utility district is subject to the County Commission's approval.

The Polk County School Department, the Polk County Emergency Communications District, and the Copper Basin Utility 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 Polk County Emergency Communications District's and the Copper Basin Utility District's financial statements are published as separate reports. Complete financial statements of the Polk County Emergency Communications District and the Copper Basin Utility District can be obtained from their administrative offices at the following addresses:

Administrative Offices:

Polk County Emergency Communications District
2009 Highway 64
Benton, Tennessee 37307

Copper Basin Utility District
2597 Highway 64
Turtletown, Tennessee 37391

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the county considers revenues other than grants to be available if they are collected within 30 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and the revenues are available. Polk 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.

Polk 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.

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

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

Education Capital Projects Fund – This fund accounts for debt issued by Polk County that is subsequently contributed to the discretely presented Polk County School Department for building construction and renovations.

Additionally, Polk County reports the following fund type:

Agency Funds – These funds account for amounts collected in an agency capacity by the constitutional officers, local sales taxes received by the state to be forwarded to the various cities in Polk 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 Polk County and Polk County School Department funds. Each fund’s portion of this pool is displayed on the balance sheets or statements of net assets as Equity in Pooled Cash and Investments. Most income from these pooled investments is assigned to the General Debt Service Fund. Polk County and the Polk 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. 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 at the end of the fiscal year 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 5.28 percent of the 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.

Contracts payable of \$318,654 in the Other Capital Projects Fund, represent amounts due to contractors for work performed on construction projects. These amounts are held by the county trustee as Equity in Pooled Cash and Investments.

Retainage payable of \$47,662 in the Other Capital Projects Fund represents amounts withheld from contractor payments and due to a third-party escrow bank account to ensure contract performance.

3. Prepaid Items

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items in the fund financial statements.

4. Capital Assets

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

5. Compensated Absences

It is the county's policy, with the exception of the Highway Department, to permit employees to accumulate earned but unused vacation (up to 12 days) and sick leave (up to 30 days) benefits. There is no liability for unpaid accumulated sick leave since Polk County does not have a policy to pay any amounts when employees separate from service with the government. A liability for vacation pay is reported in governmental funds only if amounts have matured, for example, as a result of employee resignations and retirements.

The general policy of the Highway Department does not allow for the accumulation of vacation or sick leave.

6. Long-term Obligations

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

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

A. Fund Deficits

The General Fund had an undesignated fund deficit of \$29,462 at June 30, 2005. This fund deficit resulted from continued spending while revenues failed to meet projections. This deficit was liquidated subsequent to June 30, 2005.

The Other Capital Projects Fund had an undesignated fund deficit of \$8,215,295 as of June 30, 2005. This fund deficit resulted from the recognition of the unperformed portion of construction contracts totaling \$7,848,979 being reserved as encumbrances in the financial statements of this report, \$318,654 in contracts payable, and \$47,662 in retainage payable. Funding for these current and future expenditures is expected to be received from other loan proceeds.

B. Expenditures and Encumbrances Exceeded Appropriations

Expenditures and encumbrances exceeded appropriations approved by the County Commission in the Drug Court (\$3,724) and Civil Defense (\$7,993) major appropriation categories (the legal level of control) of the General Fund and the Operation and Maintenance of Equipment (\$33,926) and Employee Benefits (\$5,342) major appropriation categories of the Highway/Public Works Fund. Such overexpenditures are a violation of state statutes. These overexpenditures were funded by expenditures being held below appropriations in other major categories in the General Fund and by available fund balance of the Highway/Public Works Fund.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Polk County and the Polk County School Department participate in an internal cash and investment pool through the Office of Trustee. The Polk County School Department meets the criteria for a discretely presented

component unit of Polk County. Since Polk County is presenting fund financial statements only, the financial information for the Polk 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 its balance sheets as Equity in Pooled Cash and Investments. Cash reflected in the fund financial statements represent nonpooled amounts held separately by individual funds.

Deposits

Legal Provisions. All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. 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.

The county had no pooled or nonpooled investments as of June 30, 2005.

B. Construction Commitments

At June 30, 2005, the Other Capital Projects Fund had uncompleted construction contracts of approximately \$7,848,979 for justice center facilities. Funding for these future expenditures is expected to be received from other loan 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
Fiduciary	General	\$ 1,800
Nonmajor governmental	General	108,002

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.

Due to/from primary and component units:

Receivable Fund	Payable Fund	Amount
Primary government: Drug Control	Component unit: School Federal Projects	\$ 1,312

Interfund Transfers:

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

<u>Transfers Out</u>	<u>Transfers In</u> Nonmajor Governmental Funds
General Fund	\$ <u>501,231</u>
Total	\$ <u><u>501,231</u></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.

D. Capital Leases

On February 2, 2005, Polk County entered into a three-year lease-purchase agreement for Sheriff's Department vehicles. The terms of the agreement require total lease payments of \$33,174 plus interest of 5.8 percent. Title to the vehicles transfers to Polk County at the end of the lease period. The lease payments are made by the Drug Control Fund.

Since Polk County is presenting fund financial statements only, the present value of minimum lease payments under lease agreements 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 Typical County is not presenting government-wide financial statements. Future minimum lease payments and the net present value of these minimum lease payments as of June 30, 2005, were as follows:

<u>Year Ending June 30</u>	<u>Governmental</u> <u>Funds</u>
2006	\$ 11,693
2007	11,693
Total Minimum Lease Payments	\$ 23,386
Amounts Representing Interest	<u>(1,904)</u>
Present Value of Minimum Lease Payments	\$ <u><u>21,482</u></u>

E. Long-term Debt

Since Polk 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 Polk 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. In addition, general obligation bonds have been issued to refund other general obligation bonds. 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 were issued for original terms of up to 12 years for bonds, up to three years for notes, and up to 21 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 notes and other loans included in long-term debt as of June 30, 2005, will be retired from the General Debt Service Fund.

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

Type	Interest Rate	Original Amount of Issue	Balance 6-30-05
Capital Leases	5.8 %	\$ 33,174	\$ 21,482
Other Loans	variable	13,272,460	12,251,460

In a prior year, Polk County entered into a loan agreement with the Montgomery County Public Building Authority. Under this loan agreement, the authority loaned \$8,000,000 to Polk County for the construction of a new high school. The remaining loan is repayable at an interest rate that is a tax-exempt variable rate determined by the remarketing agent daily or weekly, depending on the particular program. In addition the county pays various other fees (trustee, letter of credit, and debt remarketing) in connection with these loans. At June 30, 2005, the variable interest rate was 2.39 percent, and other fees amounted to approximately .25 percent (letter of credit), and .08 percent (remarketing fee) of outstanding principal, in addition to a trustee fee of \$1,200 annually.

Also in a prior year, Polk County entered into another loan agreement with the Montgomery County Public Building Authority. This loan agreement provides for the authority to make available \$8,129,000 to Polk County for school construction, renovation, and improvement projects. As of June 30, 2005, Polk County had borrowed \$5,067,561 of these proceeds. The

remaining loan is repayable at an interest rate that is a tax-exempt variable rate determined by the remarketing agent daily or weekly, depending on the particular program. In addition the county pays various other fees (trustee, letter of credit, and debt remarketing) in connection with these loans. At June 30, 2005, the variable interest rate was 2.18 percent, and other fees amounted to approximately .25 percent (letter of credit), and .08 percent (remarketing fee) of outstanding principal, in addition to a trustee fee of \$1,200 annually.

During the year, Polk County entered into a loan agreement with the Montgomery County Public Building Authority. This loan agreement provides for the authority to make available \$8,800,000 to Polk County for a justice center facilities construction project. As of June 30, 2005, Polk County had borrowed \$204,899 of these proceeds. The remaining loan is repayable at an interest rate that is a tax-exempt variable rate determined by the remarketing agent daily or weekly, depending on the particular program. In addition the county pays various other fees (trustee, letter of credit, and debt remarketing) in connection with these loans. At June 30, 2005, the variable interest rate was 2.5 percent, and other fees amounted to approximately .375 percent (letter of credit), and .08 percent (remarketing fee) of outstanding principal, in addition to a trustee fee of \$1,200 annually.

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

Year Ending June 30	Other Loan (\$8,000,000)			Total
	Principal	Interest	Other Fees	
2006	\$ 295,000	\$ 166,798	\$ 24,231	\$ 486,029
2007	310,000	159,748	23,257	493,005
2008	325,000	152,339	22,234	499,573
2009	342,000	144,571	21,162	507,733
2010	359,000	136,397	20,033	515,430
2011-2015	2,080,000	544,561	81,191	2,705,752
2016-2020	2,655,000	269,807	43,253	2,968,060
2021	613,000	14,651	3,223	630,874
Total	\$ 6,979,000	\$ 1,588,872	\$ 238,584	\$ 8,806,456

Year Ending June 30	Other Loan (\$8,129,000)			Total
	Principal	Interest	Other Fees	
2006	\$ 342,197	\$ 177,212	\$ 28,026	\$ 547,435
2007	353,010	169,752	26,896	549,658
2008	364,165	162,057	25,731	551,953
2009	375,673	154,118	24,530	554,321
2010	387,544	145,928	23,290	556,762
2011-2015	2,129,342	597,447	96,439	2,823,228
2016-2020	1,115,630	350,209	60,143	1,525,982
Total	\$ 5,067,561	\$ 1,756,723	\$ 285,055	\$ 7,109,339

Year Ending June 30	Other Loan (\$8,800,000)			Total
	Principal	Interest	Other Fees	
2006	\$ 0	\$ 220,000	\$ 28,026	\$ 248,026
2007	0	220,000	28,026	248,026
2008	204,899	220,000	28,026	452,925
Total	\$ 204,899	\$ 660,000	\$ 84,078	\$ 948,977

There is \$634,431 available in the General Debt Service Fund to service long-term debt. Total debt per capita, including other loans and capital leases amounted to \$765, 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
Balance, July 1, 2004	\$ 305,000	\$ 0
Additions	0	250,000
Deductions	(305,000)	(250,000)
Balance, June 30, 2005	\$ 0	\$ 0
Balance Due Within One Year	\$ 0	\$ 0

Governmental Activities:

	Other Loans	Capital Leases
	<hr/>	<hr/>
Balance, July 1, 2004	\$ 7,695,514	\$ 0
Additions	4,836,946	33,174
Deductions	(281,000)	(11,692)
	<hr/>	<hr/>
Balance, June 30, 2005	<u>\$ 12,251,460</u>	<u>\$ 21,482</u>
	<hr/>	<hr/>
Balance Due Within One Year	<u>\$ 637,197</u>	<u>\$ 10,436</u>

IV. OTHER INFORMATION

A. Risk Management

The county is exposed to various risks related to general liability, property, and casualty losses. Polk County 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 pool for the risk coverage noted above. The creation of this pool provides for it to be self-sustaining through member premiums.

Polk County is also a member of the Local Government Workers' Compensation Fund, which is a public entity risk pool established by the Tennessee County Services Association, an association of member counties. The county pays annual premiums to the pool for its workers' compensation insurance coverage. The creation of the pool provides for it 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. Subsequent Events

On July 7, 2005, Polk County issued capital outlay notes totaling \$200,000 for athletic facilities.

On September 1, 2005, Polk County issued capital outlay notes totaling \$450,000 for an athletic complex.

During the period July 1, 2005, through December 1, 2005, Polk County borrowed \$2,906,990 for high school construction and renovation projects pursuant to loan agreements with the Public Building Authority of Montgomery County.

During the period July 1, 2005, through December 1, 2005, Polk County borrowed \$707,536 for the justice center facilities construction project pursuant to loan agreements with the Public Building Authority of Montgomery County.

D. Contingent Liabilities

There are numerous cases filed in the Chancery Court of Polk County on behalf of commercial rafting outfitters questioning the constitutionality of the amusement tax Polk County applies to the participation in a whitewater rafting event on the Ocoee River. Numerous rafting companies for the past few years have paid the tax under protest. If the rafting tax is held to be unconstitutional, the overall exposure to the county would be significant since the county receives between \$300,000 and \$350,000 per year in tax revenue from all of the rafting companies, the revenue loss would also be increased by the refund of taxes already paid under protest which would be approximately \$800,000 to \$900,000.

The county is also involved in other 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 financial statements of the county.

E. Change in Administration

On August 31, 2004, Ronnie Lewis left the Office of Highway Superintendent and was succeeded by Harold Hood.

F. Joint Venture

The Tenth Judicial District Drug Task Force (DTF) is a joint venture formed by an interlocal agreement between district attorney general of the Tenth Judicial District and participating municipalities in the district. The Tenth Judicial District includes Bradley, McMinn, Monroe, and Polk Counties. The purpose of the DTF is to provide multi-jurisdictional law enforcement to promote the investigation and prosecution of drug-related activities. Funds for the operations of the DTF come primarily from federal grants, drug fines, and the forfeiture of drug-related assets to the DTF. The DTF is overseen by

the district attorney general and is governed by a Board of Directors that includes the district attorney general, sheriffs, and police chiefs of participating law enforcement agencies within each judicial district. Polk County made no contributions to the DTF for the year ended June 30, 2005, and does not have any equity interest in this joint venture. Complete financial statements for the DTF can be obtained from their administrative office at the following address:

District Attorney General's Office
Tenth Judicial District
130 Washington Avenue N.E.; Suite 1
Athens, Tennessee 37371

G. Jointly Governed Organization

Polk County, in conjunction with Bradley, McMinn, and Monroe Counties participates in the Southeast Tennessee Community Corrections Program. The program's 20-member board comprises the county mayor/executive and sheriff of each of the four counties, the district attorney general, and one member from a nonprofit organization. The program provides alternative sentencing for selected nonviolent offenders and is funded by the Tennessee Department of Correction. The counties that participate in the program do not have any ongoing financial interest or responsibility for the program.

H. Retirement Commitments

Plan Description

Employees of Polk 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 Polk 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

Polk 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 8.27 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Polk County is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2005, Polk County's annual pension cost of \$272,510 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), and (c) projected 3.5 percent annual increase in the Social Security wage base. 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. Polk 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 15 years.

Trend Information

Fiscal Year Ended	Annual Pension Cost(APC)	Percentage of APC Contributed	Net Pension Obligation
6-30-05	\$272,510	100%	\$0
6-30-04	229,416	100	0
6-30-03	230,879	100	0

Required Supplementary Information
Schedule of Funding Progress for Polk County

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6-30-03	\$2,087	\$2,504	\$417	83.35%	\$3,098	13.46%
6-30-01	1,234	1,684	450	73.28	2,283	19.71
6-30-99	503	652	149	77.15	2,476	6.02

I. Office of Central Accounting, Budgeting, and Purchasing

Polk County operates under provisions of the Fiscal Control Acts of 1957. These acts provide for a central system of accounting, budgeting, and purchasing covering all funds administered by the county executive and the highway superintendent. Funds under the supervision of the county executive were maintained by the director of accounts and budget. However, funds under the supervision of the highway superintendent were maintained by employees of the Highway Department.

J. Purchasing Laws

Office of County Executive

Purchasing procedures for the County Executive's Office are governed by provisions of the County Purchasing Law of 1957, Section 5-14-101, et seq., Tennessee Code Annotated (TCA). These statutes provide for a purchasing agent to make all purchases after soliciting sealed competitive bids through public advertisement on all purchases exceeding \$5,000.

Office of Highway Superintendent

Purchasing procedures for the Highway Department are governed by provisions of the County Purchasing Law of 1957, Section 5-14-101, et seq., TCA, and Section 54-7-113, TCA (Uniform Road Law). These statutes provide for a purchasing agent to make all purchases after soliciting sealed competitive bids through public advertisement on all purchases exceeding \$10,000.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit D-1

Polk County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
General 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	\$ 3,030,331	\$ 0	\$ 0	\$ 3,030,331	\$ 3,302,500	\$ 3,302,500	\$ (272,169)
Licenses and Permits	55,559	0	0	55,559	52,900	52,900	2,659
Fines, Forfeitures, and Penalties	129,505	0	0	129,505	165,675	165,675	(36,170)
Charges for Current Services	23,367	0	0	23,367	16,500	16,500	6,867
Other Local Revenues	15,897	0	0	15,897	16,720	17,401	(1,504)
Fees Received from County Officials	563,510	0	0	563,510	563,000	563,000	510
State of Tennessee	568,490	0	0	568,490	615,196	634,602	(66,112)
Federal Government	343,212	0	0	343,212	104,600	372,216	(29,004)
Other Governments and Citizens Groups	29,000	0	0	29,000	32,800	32,800	(3,800)
Total Revenues	\$ 4,758,871	\$ 0	\$ 0	\$ 4,758,871	\$ 4,869,891	\$ 5,157,594	\$ (398,723)
<u>Expenditures</u>							
<u>General Government</u>							
County Commission	\$ 17,150	\$ 0	\$ 0	\$ 17,150	\$ 17,000	\$ 17,850	\$ 700
Board of Equalization	0	0	485	485	1,200	1,200	715
County Executive	81,276	0	0	81,276	81,345	81,345	69
Election Commission	92,988	0	9,100	102,088	96,240	110,140	8,052
Register of Deeds	86,169	(1,200)	75	85,044	86,745	89,615	4,571
County Buildings	96,804	(653)	325	96,476	99,128	102,789	6,313
Other General Administration	220,964	(2,425)	160	218,699	145,723	228,759	10,060
<u>Finance</u>							
Accounting and Budgeting	39,723	0	0	39,723	39,723	39,723	0
Property Assessor's Office	139,183	0	2,016	141,199	143,612	146,813	5,614
County Trustee's Office	97,344	0	0	97,344	97,605	98,773	1,429
County Clerk's Office	123,453	(100)	325	123,678	119,182	127,272	3,594
<u>Administration of Justice</u>							
Circuit Court	129,155	0	0	129,155	132,227	132,227	3,072

(Continued)

Exhibit D-1

Polk County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
General 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>Administration of Justice (Cont.)</u>							
General Sessions Court	\$ 67,008	\$ 0	\$ 0	\$ 67,008	\$ 67,343	\$ 67,343	\$ 335
Drug Court	3,724	0	0	3,724	0	0	(3,724)
Chancery Court	95,899	0	0	95,899	96,877	97,427	1,528
Juvenile Court	37,500	0	0	37,500	40,103	40,603	3,103
<u>Public Safety</u>							
Sheriff's Department	745,337	(16,179)	4,847	734,005	725,376	760,940	26,935
Correctional Incentive Program Improvements	560,446	(7,283)	14,900	568,063	547,490	579,790	11,727
Fire Prevention and Control	1,000	0	0	1,000	1,000	1,000	0
Civil Defense	91,424	(13,380)	108,976	187,020	141,750	179,027	(7,993)
Other Emergency Management	11,373	(1,113)	10,545	20,805	8,230	51,848	31,043
County Coroner/Medical Examiner	0	0	0	0	300	300	300
<u>Public Health and Welfare</u>							
Local Health Center	37,866	0	0	37,866	51,000	48,787	10,921
Ambulance/Emergency Medical Services	735,990	0	0	735,990	735,990	735,990	0
Crippled Children Services	938	0	0	938	1,250	1,250	312
Other Local Health Services	103,397	0	0	103,397	105,115	105,115	1,718
Sanitation Education/Information	40,143	(4,472)	465	36,136	35,333	36,136	0
Other Public Health and Welfare	50,034	0	0	50,034	45,846	66,662	16,628
<u>Social, Cultural and Recreational Services</u>							
Senior Citizens Assistance	17,462	0	0	17,462	17,462	17,462	0
Other Social, Cultural, and Recreational	16,252	0	0	16,252	17,171	16,871	619
<u>Agriculture & Natural Resources</u>							
Agriculture Extension Service	29,220	(300)	480	29,400	29,100	29,400	0
Soil Conservation	16,457	0	0	16,457	16,457	16,457	0
<u>Other Operations</u>							
Tourism	10,000	0	0	10,000	0	10,000	0

(Continued)

Exhibit D-1

Polk County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
General 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>Other Operations (Cont.)</u>							
Industrial Development	\$ 5,136	\$ 0	\$ 0	\$ 5,136	\$ 5,136	\$ 5,136	\$ 0
Other Economic and Community Development	185,371	0	0	185,371	3,800	185,371	0
Veterans' Services	7,119	0	0	7,119	6,682	7,218	99
Other Charges	122,003	0	20,479	142,482	147,000	161,678	19,196
Contributions to Other Agencies	25,000	0	0	25,000	0	25,000	0
Employee Benefits	545,264	0	0	545,264	509,350	604,180	58,916
<u>Capital Projects</u>							
Other General Government Projects	60,000	0	0	60,000	60,000	60,000	0
Total Expenditures	\$ 4,745,572	\$ (47,105)	\$ 173,178	\$ 4,871,645	\$ 4,474,891	\$ 5,087,497	\$ 215,852
Excess (Deficiency) of Revenues							
Over Expenditures	\$ 13,299	\$ 47,105	\$ (173,178)	\$ (112,774)	\$ 395,000	\$ 70,097	\$ (182,871)
<u>Other Financing Sources (Uses)</u>							
Transfers Out	\$ (501,231)	\$ 0	\$ 0	\$ (501,231)	\$ (395,000)	\$ (509,378)	\$ 8,147
Total Other Financing Sources (Uses)	\$ (501,231)	\$ 0	\$ 0	\$ (501,231)	\$ (395,000)	\$ (509,378)	\$ 8,147
Net Change in Fund Balance							
Fund Balance, July 1, 2004	\$ 739,994	(47,105)	0	692,889	796,674	796,674	(103,785)
Fund Balance, June 30, 2005	\$ 252,062	\$ 0	\$ (173,178)	\$ 78,884	\$ 796,674	\$ 357,393	\$ (278,509)

Exhibit D-2

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Other Local Revenues	\$ 211,094	\$ 255,400	\$ 172,786	\$ 38,308
State of Tennessee	1,601,071	3,693,821	1,562,248	38,823
Federal Government	84,088	86,346	84,088	0
Total Revenues	<u>\$ 1,896,253</u>	<u>\$ 4,035,567</u>	<u>\$ 1,819,122</u>	<u>\$ 77,131</u>
<u>Expenditures</u>				
<u>Highways</u>				
Administration	\$ 136,582	\$ 248,319	\$ 144,972	\$ 8,390
Highway and Bridge Maintenance	868,513	1,709,940	877,474	8,961
Operation and Maintenance of Equipment	427,384	717,650	393,458	(33,926)
Other Charges	92,885	171,800	95,177	2,292
Employee Benefits	231,750	487,908	226,408	(5,342)
Capital Outlay	117,438	840,303	136,615	19,177
Total Expenditures	<u>\$ 1,874,552</u>	<u>\$ 4,175,920</u>	<u>\$ 1,874,104</u>	<u>\$ (448)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 21,701</u>	<u>\$ (140,353)</u>	<u>\$ (54,982)</u>	<u>\$ 76,683</u>
Net Change in Fund Balance	\$ 21,701	\$ (140,353)	\$ (54,982)	\$ 76,683
Fund Balance, July 1, 2004	<u>592,646</u>	<u>526,510</u>	<u>526,510</u>	<u>66,136</u>
Fund Balance, June 30, 2005	<u>\$ 614,347</u>	<u>\$ 386,157</u>	<u>\$ 471,528</u>	<u>\$ 142,819</u>

POLK 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 Executive, 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 Drug Court (\$3,724) and Civil Defense (\$7,993) major appropriation categories (the legal level of control) of the General Fund and the Operation and Maintenance of Equipment (\$33,926) and Employee Benefits (\$5,342) major appropriation categories of the Highway/Public Works Fund. Such overexpenditures are a violation of state statutes. These overexpenditures were funded by expenditures being held below appropriations in other major categories in the General Fund and by available fund balance in the Highway/Public Works Fund.

C. FUND DEFICIT

The General Fund had an undesignated fund deficit of \$29,462 at June 30, 2005. This fund deficit primarily resulted from the over estimation of revenues.

**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.

Solid Waste/Sanitation Fund – The Solid Waste/Sanitation Fund is used to account for transactions related to solid waste disposal.

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 general capital projects of the county.

Community Development/Industrial Park Fund – The Community Development/Industrial Park Fund is used to account for revenues for industrial park projects.

Other Capital Projects Fund – The Other Capital Projects Fund is used to account for the Justice Center Facilities capital project of the county.

Exhibit E-1

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

	Special Revenue Funds			Capital Projects Funds			Total Nonmajor Governmental Funds	
	Solid Waste / Sanitation	Drug Control	Total	General Capital Projects	Community Development/ Industrial/ Park	Other Capital Projects		Total
<u>ASSETS</u>								
Equity in Pooled Cash and Investments	\$ 0	\$ 125,346	\$ 125,346	\$ 21,088	\$ 88,996	\$ 0	\$ 110,084	\$ 235,430
Accounts Receivable	0	810	810	0	0	0	0	810
Due from Other Funds	108,002	0	108,002	0	0	0	0	108,002
Due from Component Units	0	1,312	1,312	0	0	0	0	1,312
Total Assets	\$ 108,002	\$ 127,468	\$ 235,470	\$ 21,088	\$ 88,996	\$ 0	\$ 110,084	\$ 345,554
<u>LIABILITIES AND FUND BALANCES</u>								
<u>Liabilities</u>								
Accounts Payable	\$ 108,002	\$ 0	\$ 108,002	\$ 0	\$ 0	\$ 0	\$ 0	\$ 108,002
Contracts Payable	0	0	0	0	0	318,654	318,654	318,654
Retainage Payable	0	0	0	0	0	47,662	47,662	47,662
Total Liabilities	\$ 108,002	\$ 0	\$ 108,002	\$ 0	\$ 0	\$ 366,316	\$ 366,316	\$ 474,318
<u>Fund Balances</u>								
Reserved for Encumbrances	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 7,848,979	\$ 7,848,979	\$ 7,848,979
Reserved for Purchase of Electronic Fingerprint Imaging System	0	18,780	18,780	0	0	0	0	18,780
Unreserved (Deficit)	0	108,688	108,688	21,088	88,996	(8,215,295)	(8,105,211)	(7,996,523)
Total Fund Balances	\$ 0	\$ 127,468	\$ 127,468	\$ 21,088	\$ 88,996	\$ (366,316)	\$ (256,232)	\$ (128,764)
Total Liabilities and Fund Balances	\$ 108,002	\$ 127,468	\$ 235,470	\$ 21,088	\$ 88,996	\$ 0	\$ 110,084	\$ 345,554

Exhibit E-2

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

	Special Revenue Funds				Capital Projects Funds				Total Nonmajor Governmental Funds
	Solid Waste / Sanitation	Drug Control	Constitu - tional Officers - Fees	Total	General Capital Projects	Community Development/ Industrial Park	Other Capital Projects	Total	
<u>Revenues</u>									
Fines, Forfeitures, and Penalties	\$ 0	\$ 81,711	\$ 0	\$ 81,711	\$ 0	\$ 0	\$ 0	\$ 0	\$ 81,711
Charges for Current Services	0	0	1,540	1,540	0	0	0	0	1,540
Other Local Revenues	0	2,985	0	2,985	411	3,755	0	4,166	7,151
Other Governments and Citizens Groups	0	3,208	0	3,208	0	0	0	0	3,208
Total Revenues	\$ 0	\$ 87,904	\$ 1,540	\$ 89,444	\$ 411	\$ 3,755	\$ 0	\$ 4,166	\$ 93,610
<u>Expenditures</u>									
Current:									
Administration of Justice	\$ 0	\$ 0	\$ 1,540	\$ 1,540	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,540
Public Safety	0	133,884	0	133,884	0	0	0	0	133,884
Public Health and Welfare	447,453	0	0	447,453	0	0	0	0	447,453
Other Operations	0	809	0	809	4	17	0	21	830
Capital Projects	0	0	0	0	0	0	874,993	874,993	874,993
Total Expenditures	\$ 447,453	\$ 134,693	\$ 1,540	\$ 583,686	\$ 4	\$ 17	\$ 874,993	\$ 875,014	\$ 1,458,700
Excess (Deficiency) of Revenues Over Expenditures	\$ (447,453)	\$ (46,789)	\$ 0	\$ (494,242)	\$ 407	\$ 3,738	\$ (874,993)	\$ (870,848)	\$ (1,365,090)
<u>Other Financing Sources (Uses)</u>									
Notes Issued	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 250,000	\$ 250,000	\$ 250,000
Capital Leases Issued	0	33,174	0	33,174	0	0	0	0	33,174
Other Loans Issued	0	0	0	0	0	0	204,899	204,899	204,899
Transfers In	447,453	0	0	447,453	0	0	53,778	53,778	501,231
Total Other Financing Sources (Uses)	\$ 447,453	\$ 33,174	\$ 0	\$ 480,627	\$ 0	\$ 0	\$ 508,677	\$ 508,677	\$ 989,304
Net Change in Fund Balances	\$ 0	\$ (13,615)	\$ 0	\$ (13,615)	\$ 407	\$ 3,738	\$ (366,316)	\$ (362,171)	\$ (375,786)
Fund Balance, July 1, 2004	0	141,083	0	141,083	20,681	85,258	0	105,939	247,022
Fund Balance, June 30, 2005	\$ 0	\$ 127,468	\$ 0	\$ 127,468	\$ 21,088	\$ 88,996	\$ (366,316)	\$ (256,232)	\$ (128,764)

Exhibit E-3

Polk 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	
Total Revenues	\$ 0	\$ 0	\$ 0	\$ 0
<u>Expenditures</u>				
<u>Public Health and Welfare</u>				
Sanitation Management	\$ 447,453	\$ 395,000	\$ 455,600	\$ 8,147
Total Expenditures	\$ 447,453	\$ 395,000	\$ 455,600	\$ 8,147
Excess (Deficiency) of Revenues Over Expenditures	\$ (447,453)	\$ (395,000)	\$ (455,600)	\$ 8,147
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 447,453	\$ 395,000	\$ 455,600	\$ (8,147)
Total Other Financing Sources (Uses)	\$ 447,453	\$ 395,000	\$ 455,600	\$ (8,147)
Net Change in Fund Balance	\$ 0	\$ 0	\$ 0	\$ 0
Fund Balance, July 1, 2004	0	0	0	0
Fund Balance, June 30, 2005	\$ 0	\$ 0	\$ 0	\$ 0

Exhibit E-4

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2004	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Revenues</u>						
Fines, Forfeitures and Penalties	\$ 81,711	\$ 0	\$ 81,711	\$ 87,000	\$ 87,000	\$ (5,289)
Other Local Revenues	2,985	0	2,985	0	0	2,985
Other Governments and Citizens Groups	3,208	0	3,208	1,750	3,470	(262)
Total Revenues	<u>\$ 87,904</u>	<u>\$ 0</u>	<u>\$ 87,904</u>	<u>\$ 88,750</u>	<u>\$ 90,470</u>	<u>\$ (2,566)</u>
<u>Expenditures</u>						
<u>Public Safety</u>						
Drug Enforcement	\$ 133,884	\$ (500)	\$ 133,384	\$ 150,537	\$ 185,431	\$ 52,047
<u>Other Operations</u>						
Other Charges	809	0	809	600	1,088	279
Total Expenditures	<u>\$ 134,693</u>	<u>\$ (500)</u>	<u>\$ 134,193</u>	<u>\$ 151,137</u>	<u>\$ 186,519</u>	<u>\$ 52,326</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (46,789)</u>	<u>\$ 500</u>	<u>\$ (46,289)</u>	<u>\$ (62,387)</u>	<u>\$ (96,049)</u>	<u>\$ 49,760</u>
<u>Other Financing Sources (Uses)</u>						
Capital Leases Issued	\$ 33,174	0	\$ 33,174	0	\$ 33,174	0
Total Other Financing Sources (Uses)	<u>\$ 33,174</u>	<u>0</u>	<u>\$ 33,174</u>	<u>0</u>	<u>\$ 33,174</u>	<u>0</u>
Net Change in Fund Balance	\$ (13,615)	500	\$ (13,115)	\$ (62,387)	\$ (62,875)	49,760
Fund Balance, July 1, 2004	141,083	(500)	140,583	121,473	121,473	19,110
Fund Balance, June 30, 2005	<u>\$ 127,468</u>	<u>0</u>	<u>\$ 127,468</u>	<u>\$ 59,086</u>	<u>\$ 58,598</u>	<u>\$ 68,870</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, debt principal, interest, and related costs.

Exhibit F

Polk 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	\$ 334,487	\$ 329,600	\$ 329,600	\$ 4,887
Other Local Revenues	37,498	53,000	53,000	(15,502)
State of Tennessee	37,437	34,500	34,500	2,937
Other Governments and Citizens Groups	580,000	0	580,000	0
Total Revenues	<u>\$ 989,422</u>	<u>\$ 417,100</u>	<u>\$ 997,100</u>	<u>\$ (7,678)</u>
<u>Expenditures</u>				
<u>Principal</u>				
General Government	\$ 270,252	\$ 20,452	\$ 270,252	\$ 0
Education	565,748	565,748	565,748	0
<u>Interest</u>				
General Government	2,316	1,013	3,013	697
Education	252,170	401,437	397,437	145,267
<u>Other Debt Service</u>				
General Government	7,141	7,000	7,200	59
Education	2,726	1,450	3,450	724
Total Expenditures	<u>\$ 1,100,353</u>	<u>\$ 997,100</u>	<u>\$ 1,247,100</u>	<u>\$ 146,747</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (110,931)</u>	<u>\$ (580,000)</u>	<u>\$ (250,000)</u>	<u>\$ 139,069</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 0	\$ 580,000	\$ 0	\$ 0
Total Other Financing Sources (Uses)	<u>\$ 0</u>	<u>\$ 580,000</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Change in Fund Balance	\$ (110,931)	0	(250,000)	139,069
Fund Balance, July 1, 2004	<u>745,362</u>	<u>729,200</u>	<u>729,200</u>	<u>16,162</u>
Fund Balance, June 30, 2005	<u>\$ 634,431</u>	<u>\$ 729,200</u>	<u>\$ 479,200</u>	<u>\$ 155,231</u>

Fiduciary Funds

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

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

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

Exhibit G-1

Polk 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	\$ 908,429	\$ 908,429
Due from Other Governments	62,857	0	62,857
Due from Other Funds	0	1,800	1,800
Total Assets	<u>\$ 62,857</u>	<u>\$ 910,229</u>	<u>\$ 973,086</u>
<u>LIABILITIES</u>			
Due to Other Taxing Units	\$ 62,857	\$ 0	\$ 62,857
Due to Litigants, Heirs, and Others	0	910,229	910,229
Total Liabilities	<u>\$ 62,857</u>	<u>\$ 910,229</u>	<u>\$ 973,086</u>

Exhibit G-2

Polk 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	\$ 331,943	\$ 331,943	\$ 0
Due From Other Governments	57,647	62,857	57,647	62,857
Total Assets	\$ 57,647	\$ 394,800	\$ 389,590	\$ 62,857
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 57,647	\$ 394,800	\$ 389,590	\$ 62,857
Total Liabilities	\$ 57,647	\$ 394,800	\$ 389,590	\$ 62,857
<u>Constitutional Officers - Agency Fund</u>				
<u>Assets</u>				
Cash	\$ 742,681	\$ 3,380,768	\$ 3,215,020	\$ 908,429
Due From Other Funds	0	1,800	0	1,800
Total Assets	\$ 742,681	\$ 3,382,568	\$ 3,215,020	\$ 910,229
<u>Liabilities</u>				
Due to Litigants, Heirs, and Others	\$ 742,681	\$ 3,382,568	\$ 3,215,020	\$ 910,229
Total Liabilities	\$ 742,681	\$ 3,382,568	\$ 3,215,020	\$ 910,229
<u>Totals - All Agency Funds</u>				
<u>Assets</u>				
Equity in Pooled Cash and Investments	\$ 0	\$ 331,943	\$ 331,943	\$ 0
Cash	742,681	3,380,768	3,215,020	908,429
Due From Other Governments	57,647	62,857	57,647	62,857
Due From Other Funds	0	1,800	0	1,800
Total Assets	\$ 800,328	\$ 3,777,368	\$ 3,604,610	\$ 973,086
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 57,647	\$ 394,800	\$ 389,590	\$ 62,857
Due to Litigants, Heirs, and Others	742,681	3,382,568	3,215,020	910,229
Total Liabilities	\$ 800,328	\$ 3,777,368	\$ 3,604,610	\$ 973,086

MISCELLANEOUS SCHEDULES

Exhibit H-1

Polk 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
<u>NOTES PAYABLE</u>								
<u>Payable though General Debt Service Fund</u>								
Justice Center Architect	\$ 250,000	3 %	8-24-04	8-25-04	\$ 0	\$ 250,000	\$ 250,000	\$ 0
Total Notes Payable					\$ 0	\$ 250,000	\$ 250,000	\$ 0
<u>CAPITAL LEASES PAYABLE</u>								
<u>Payable though Drug Control Fund</u>								
Vehicles	33,174	5.8	2-2-05	2-2-07	\$ 0	\$ 33,174	\$ 11,692	\$ 21,482
Total Capital Leases Payable					\$ 0	\$ 33,174	\$ 11,692	\$ 21,482
<u>OTHER LOANS PAYABLE</u>								
<u>Payable though General Debt Service Fund</u>								
School Buildings	8,000,000	Variable	9-1-00	5-25-21	\$ 7,260,000	\$ 0	\$ 281,000	\$ 6,979,000
School Facilities	(1)	Variable	9-1-03	5-25-23	435,514	4,632,047	0	5,067,561
Justice Center Facilities	(2)	Variable	5-17-05	5-25-25	0	204,899	0	204,899
Total Other Loans Payable					\$ 7,695,514	\$ 4,836,946	\$ 281,000	\$ 12,251,460
<u>BONDS PAYABLE</u>								
<u>Payable though General Debt Service Fund</u>								
Refunding Issue 1993	4,725,000	2.7 to 5	6-30-1993	3-1-05	\$ 305,000	\$ 0	\$ 305,000	\$ 0
Total Bonds Payable					\$ 305,000	\$ 0	\$ 305,000	\$ 0

(1) Total amount available under this Public Building Authority Loan Agreement is \$8,129,000, of which \$3,061,439 had not been drawn as of June 30, 2005.

(2) Total amount available under this Public Building Authority Loan Agreement is \$8,800,000, of which \$8,595,101 had not been drawn as of June 30, 2005.

Exhibit H-2

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

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Solid Waste/Sanitation	Operations	\$ 447,453
General	Other Capital Projects	Reimbursement of expenditures	<u>53,778</u>
Total Transfers			<u>\$ 501,231</u>

Exhibit H-3

Polk 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 Executive	Section 8-24-102, <u>TCA</u> , and County Commission	\$ 55,970 (1) \$	50,000	The Cincinnati Insurance Company
Highway Superintendent:				
Ronnie Lewis (7-1-04 to 8-31-04)	Section 8-24-102, <u>TCA</u>	8,794	100,000	Travelers Casualty and Surety Company
Harold Hood (9-1-04 to 6-30-05)	Section 8-24-102, <u>TCA</u>	43,971	100,000	"
Trustee	Section 8-24-102, <u>TCA</u>	47,969	514,400	The Cincinnati Insurance Company
Assessor of Property	Section 8-24-102, <u>TCA</u>	47,969	10,000	Travelers Casualty and Surety Company of America
Director of Accounts and Budgets	County Commission	35,976	15,000	The Cincinnati Insurance Company
County Clerk	Section 8-24-102, <u>TCA</u>	47,969	50,000	"
Circuit Court Clerk	Section 8-24-102, <u>TCA</u>	47,969	50,000	"
Clerk and Master	Section 8-24-102, <u>TCA</u> , and Chancery Court Judge	49,509 (2)	25,000	Travelers Casualty and Surety Company of America
Register	Section 8-24-102, <u>TCA</u>	47,969	50,000	The Cincinnati Insurance Company
Sheriff	Section 8-24-102, <u>TCA</u>	53,283 (3)	25,000	"
Other Bonds:				
General County/Highway Employees			150,000	Tennessee School Boards Risk Management Trust

(1) Includes an additional \$567 appropriated by the County Commission.

(2) Includes special commissioner fees of \$1,540.

(3) Includes law enforcement training supplement of \$518.

Exhibit H-4

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

	Special Revenue Funds				Debt Service Fund	Capital Projects Funds		Total
	General	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	General Capital Projects	Community Development/ Industrial Park	
<u>Local Taxes</u>								
<u>County Property Taxes</u>								
Current Property Tax	\$ 2,079,885	\$ 0	\$ 0	\$ 0	\$ 275,818	\$ 0	\$ 0	\$ 2,355,703
Trustee's Collections - Prior Year	115,761	0	0	0	17,083	0	0	132,844
Circuit/Clerk & Master Collections - Prior Years	88,132	0	0	0	13,455	0	0	101,587
Interest and Penalty	19,309	0	0	0	2,575	0	0	21,884
Payments in Lieu of Taxes - T.V.A.	51,693	0	0	0	6,893	0	0	58,586
Payments in Lieu of Taxes - Other	65,238	0	0	0	9,929	0	0	75,167
<u>County Local Option Taxes</u>								
Local Amusement Tax	284,565	0	0	0	0	0	0	284,565
Litigation Tax - General	62,789	0	0	0	0	0	0	62,789
Litigation Tax - Jail, Workhouse, or Courthouse	14,820	0	0	0	0	0	0	14,820
Business Tax	36,296	0	0	0	4,840	0	0	41,136
<u>Statutory Local Taxes</u>								
Bank Excise Tax	29,202	0	0	0	3,894	0	0	33,096
Wholesale Beer Tax	182,641	0	0	0	0	0	0	182,641
Total Local Taxes	\$ 3,030,331	\$ 0	\$ 0	\$ 0	\$ 334,487	\$ 0	\$ 0	\$ 3,364,818
<u>Licenses and Permits</u>								
<u>Licenses</u>								
Cable TV Franchise	\$ 31,308	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 31,308
<u>Permits</u>								
Beer Permits	2,557	0	0	0	0	0	0	2,557
Building Permits	11,578	0	0	0	0	0	0	11,578
Electrical Permits	10,116	0	0	0	0	0	0	10,116
Total Licenses and Permits	\$ 55,559	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 55,559
<u>Fines, Forfeitures and Penalties</u>								
<u>Circuit Court</u>								
Fines	\$ 2,488	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,488
Officers Costs	1,698	0	0	0	0	0	0	1,698
Game and Fish Fines	20	0	0	0	0	0	0	20
Drug Control Fines	0	15,748	0	0	0	0	0	15,748
Drug Court Fees	178	0	0	0	0	0	0	178

(Continued)

Exhibit H-4

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

	Special Revenue Funds				Debt Service Fund	Capital Projects Funds		Total
	General	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	General Capital Projects	Community Development/ Industrial Park	
<u>Fines, Forfeitures and Penalties (Cont.)</u>								
<u>Circuit Court (Cont.)</u>								
Jail Fees	\$ 784	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	784
DUI Treatment Fines	255	0	0	0	0	0	0	255
Data Entry Fee - Circuit Court	360	0	0	0	0	0	0	360
<u>General Sessions Court</u>								
Fines	60,870	0	0	0	0	0	0	60,870
Officers Costs	25,968	0	0	0	0	0	0	25,968
Game and Fish Fines	1,025	0	0	0	0	0	0	1,025
Drug Control Fines	0	25,523	0	0	0	0	0	25,523
Drug Court Fees	6,886	0	0	0	0	0	0	6,886
Jail Fees	15,832	0	0	0	0	0	0	15,832
DUI Treatment Fines	5,131	0	0	0	0	0	0	5,131
Data Entry Fee - General Sessions Court	3,038	0	0	0	0	0	0	3,038
<u>Juvenile Court</u>								
Data Entry Fee - Juvenile Court	940	0	0	0	0	0	0	940
<u>Chancery Court</u>								
Officers Costs	3,900	0	0	0	0	0	0	3,900
Data Entry Fee - Chancery Court	132	0	0	0	0	0	0	132
<u>Other Fines, Forfeitures, and Penalties</u>								
Proceeds from Confiscated Property	0	40,440	0	0	0	0	0	40,440
Total Fines, Forfeitures and Penalties	\$ 129,505	\$ 81,711	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	211,216
<u>Charges for Current Services</u>								
<u>Fees</u>								
Copy Fees	\$ 2,261	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	2,261
Telephone Commissions	9,418	0	0	0	0	0	0	9,418
Vending Machine Collections	1,373	0	0	0	0	0	0	1,373
Constitutional Officers' Fees and Commissions	0	0	1,540	0	0	0	0	1,540
Data Processing Fee - Register	8,260	0	0	0	0	0	0	8,260
Data Processing Fee - Sheriff	1,395	0	0	0	0	0	0	1,395
Sexual Offender Registration Fee	660	0	0	0	0	0	0	660
Total Charges for Current Services	\$ 23,367	\$ 0	\$ 1,540	\$ 0	\$ 0	\$ 0	\$ 0	24,907

(Continued)

Exhibit H-4

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

	Special Revenue Funds				Debt Service Fund	Capital Projects Funds		Total
	General	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	General Capital Projects	Community Development/ Industrial Park	
<u>Other Local Revenues</u>								
<u>Recurring Items</u>								
Investment Income	\$ 0	\$ 0	\$ 0	\$ 0	\$ 37,498	\$ 411	\$ 1,833	\$ 39,742
Lease/Rentals	8,225	0	0	0	0	0	0	8,225
Commissary Sales	106	0	0	0	0	0	0	106
Sale of Gasoline	0	0	0	163,490	0	0	0	163,490
Sale of Maps	0	0	0	5	0	0	0	5
Sale of Recycled Materials	536	0	0	0	0	0	0	536
Miscellaneous Refunds	4,842	2,985	0	9,335	0	0	0	17,162
<u>Nonrecurring Items</u>								
Sale of Equipment	300	0	0	38,264	0	0	0	38,564
Sale of Property	1,375	0	0	0	0	0	1,922	3,297
Damages Recovered from Individuals	513	0	0	0	0	0	0	513
Total Other Local Revenues	\$ 15,897	\$ 2,985	\$ 0	\$ 211,094	\$ 37,498	\$ 411	\$ 3,755	\$ 271,640
<u>Fees Received from County Officials</u>								
<u>Fees In Lieu of Salary</u>								
County Clerk	\$ 156,004	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 156,004
Circuit Court Clerk	27,368	0	0	0	0	0	0	27,368
General Sessions Court Clerk	61,831	0	0	0	0	0	0	61,831
Clerk and Master	45,598	0	0	0	0	0	0	45,598
Register	95,535	0	0	0	0	0	0	95,535
Sheriff	7,350	0	0	0	0	0	0	7,350
Trustee	169,824	0	0	0	0	0	0	169,824
Total Fees Received from County Officials	\$ 563,510	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 563,510
<u>State of Tennessee</u>								
<u>General Government Grants</u>								
Juvenile Services Program	\$ 9,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 9,000
Child Restraint Program	5,787	0	0	0	0	0	0	5,787
Aging Programs	6,289	0	0	0	0	0	0	6,289
<u>Public Safety Grants</u>								
Law Enforcement Training Programs	8,818	0	0	0	0	0	0	8,818
Other Public Safety Grants	11,549	0	0	0	0	0	0	11,549

(Continued)

Exhibit H-4

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

	Special Revenue Funds				Debt Service Fund	Capital Projects Funds		Total
	General	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	General Capital Projects	Community Development/ Industrial Park	
<u>State of Tennessee (Cont.)</u>								
<u>Public Works Grants</u>								
Litter Program	\$ 26,248	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	26,248
<u>Other State Revenues</u>								
Income Tax	9,394	0	0	0	1,954	0	0	11,348
Beer Tax	16,778	0	0	0	0	0	0	16,778
Alcoholic Beverage Tax	26,199	0	0	0	0	0	0	26,199
State Revenue Sharing - T.V.A.	266,122	0	0	0	35,483	0	0	301,605
Contracted Prisoner Boarding	126,619	0	0	0	0	0	0	126,619
Gasoline and Motor Fuel Tax	0	0	0	1,588,160	0	0	0	1,588,160
Petroleum Special Tax	0	0	0	12,911	0	0	0	12,911
Reappraisal Program Reimbursement	8,907	0	0	0	0	0	0	8,907
Registrar's Salary Supplement	16,380	0	0	0	0	0	0	16,380
Other State Grants	30,400	0	0	0	0	0	0	30,400
Total State of Tennessee	\$ 568,490	\$ 0	\$ 0	\$ 1,601,071	\$ 37,437	\$ 0	\$ 0	2,206,998
<u>Federal Government</u>								
<u>Federal Through State</u>								
Community Development	\$ 190,737	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	190,737
Homeland Security Grants	24,254	0	0	0	0	0	0	24,254
Other Federal through State	107,154	0	0	39,742	0	0	0	146,896
<u>Direct Federal Revenue</u>								
Police Service (Lake Area)	16,411	0	0	0	0	0	0	16,411
Forest Service	0	0	0	44,346	0	0	0	44,346
Other Direct Federal Revenue	4,656	0	0	0	0	0	0	4,656
Total Federal Government	\$ 343,212	\$ 0	\$ 0	\$ 84,088	\$ 0	\$ 0	\$ 0	427,300
<u>Other Governments and Citizens Groups</u>								
<u>Other Governments</u>								
Contributions	\$ 0	\$ 3,208	\$ 0	\$ 0	\$ 580,000	\$ 0	\$ 0	583,208
Contracted Services	29,000	0	0	0	0	0	0	29,000
Total Other Governments and Citizens Groups	\$ 29,000	\$ 3,208	\$ 0	\$ 0	\$ 580,000	\$ 0	\$ 0	612,208
Total	\$ 4,758,871	\$ 87,904	\$ 1,540	\$ 1,896,253	\$ 989,422	\$ 411	\$ 3,755	\$ 7,738,156

Exhibit H-5

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

General Fund

General Government

County Commission

Board and Committee Members Fees	\$ 17,150	
Total County Commission		\$ 17,150

County Executive

County Official/Administrative Officer	\$ 55,970	
Secretary(s)	19,477	
State Retirement	4,629	
Travel	1,200	
Total County Executive		81,276

Election Commission

County Official/Administrative Officer	\$ 38,375	
Clerical Personnel	15,027	
Election Commission	7,350	
Election Workers	19,409	
In-Service Training	1,000	
Dues and Memberships	175	
Legal Notices, Recording and Court Costs	1,485	
Printing, Stationery and Forms	3,263	
Rentals	506	
Other Contracted Services	5,790	
Office Supplies	400	
Other Supplies and Materials	208	
Total Election Commission		92,988

Register of Deeds

County Official/Administrative Officer	\$ 47,969	
Clerical Personnel	23,391	
State Retirement	3,967	
Dues and Memberships	300	
Maintenance Agreements	4,740	
Printing, Stationery and Forms	2,004	
Data Processing Equipment	3,798	
Total Register of Deeds		86,169

County Buildings

Custodial Personnel	\$ 25,702	
Maintenance & Repair Services- Buildings	7,948	
Other Contracted Services	2,882	
Custodial Supplies	2,860	

(Continued)

Exhibit H-5

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

General Fund (Cont.)

General Government (Cont.)

County Buildings (Cont.)

Utilities	\$ 57,412	
Total County Buildings		\$ 96,804

Other General Administration

Audit Services	\$ 3,675	
Communication	30,666	
Dues and Memberships	2,829	
Legal Services	96,297	
Legal Notices, Recording and Court Costs	655	
Licenses	440	
Maintenance & Repair Services- Equipment	23,895	
Medical and Dental Services	16,310	
Pest Control	2,569	
Postal Charges	22,719	
Permits	460	
Other Contracted Services	15,667	
Office Supplies	3,078	
Other Supplies and Materials	1,404	
Premiums on Corporate Surety Bonds	300	
Total Other General Administration		220,964

Finance

Accounting and Budgeting

County Official/Administrative Officer	\$ 35,976	
Data Processing Services	3,747	
Total Accounting and Budgeting		39,723

Property Assessor's Office

County Official/Administrative Officer	\$ 47,969	
Assistant(s)	29,421	
Deputy(ies)	18,469	
State Retirement	3,967	
Communication	938	
Data Processing Services	8,511	
Dues and Memberships	300	
Travel	2,587	
Permits	14,413	
Other Contracted Services	11,200	
Office Supplies	1,250	
Other Supplies and Materials	158	
Total Property Assessor's Office		139,183

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Finance (Cont.)

County Trustee's Office

County Official/Administrative Officer	\$	47,969	
Deputy(ies)		34,450	
State Retirement		3,967	
Communication		896	
Data Processing Services		6,136	
Dues and Memberships		300	
Legal Notices, Recording and Court Costs		342	
Printing, Stationery and Forms		806	
Rentals		394	
Travel		930	
Data Processing Supplies		365	
Office Supplies		789	
Total County Trustee's Office			\$ 97,344

County Clerk's Office

County Official/Administrative Officer	\$	47,969	
Deputy(ies)		42,696	
State Retirement		3,967	
Communication		846	
Dues and Memberships		300	
Legal Notices, Recording and Court Costs		450	
Maintenance Agreements		7,593	
Rentals		332	
Travel		1,505	
Office Supplies		1,416	
Data Processing Equipment		16,180	
Office Equipment		199	
Total County Clerk's Office			123,453

Administration of Justice

Circuit Court

County Official/Administrative Officer	\$	47,969	
Deputy(ies)		61,313	
Board and Committee Members Fees		225	
Jury and Witness Fees		4,378	
State Retirement		3,967	
Maintenance Agreements		6,727	
Printing, Stationery and Forms		4,576	
Total Circuit Court			129,155

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Administration of Justice (Cont.)

General Sessions Court

Judge(s)	\$	60,975	
State Retirement		5,043	
Dues and Memberships		120	
Travel		870	
Total General Sessions Court			\$ 67,008

Drug Court

Contracts with Government Agencies	\$	3,724	
Total Drug Court			3,724

Chancery Court

County Official/Administrative Officer	\$	47,969	
Deputy(ies)		37,239	
State Retirement		3,967	
Data Processing Services		3,926	
Dues and Memberships		300	
Legal Notices, Recording and Court Costs		520	
Printing, Stationery and Forms		1,732	
Travel		246	
Total Chancery Court			95,899

Juvenile Court

Assistant(s)	\$	13,432	
Youth Service Officer(s)		21,962	
Attendants		200	
In-Service Training		30	
Travel		1,493	
Other Supplies and Materials		383	
Total Juvenile Court			37,500

Public Safety

Sheriff's Department

County Official/Administrative Officer	\$	52,765	
Deputy(ies)		384,750	
Investigator(s)		31,459	
Salary Supplements		8,288	
Dispatchers/Radio Operators		43,249	
Clerical Personnel		18,469	
Overtime Pay		26,884	
In-Service Training		1,233	

(Continued)

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

General Fund (Cont.)

Public Safety (Cont.)

Sheriff's Department (Cont.)

State Retirement	\$	4,364	
Communication		846	
Dues and Memberships		300	
Evaluation and Testing		140	
Maintenance & Repair Services- Equipment		2,620	
Maintenance & Repair Services- Vehicles		15,430	
Printing, Stationery and Forms		896	
Travel		1,408	
Gasoline		52,776	
Law Enforcement Supplies		28,406	
Office Supplies		1,061	
Tires and Tubes		6,120	
Uniforms		2,190	
Liability Insurance		36,083	
Vehicle and Equipment Insurance		18,600	
Data Processing Equipment		7,000	
Total Sheriff's Department			\$ 745,337

Correctional Incentive Program Improvements

Assistant(s)	\$	11,390	
Dispatchers/Radio Operators		135,167	
Guards		119,653	
Cafeteria Personnel		20,953	
Overtime Pay		54,246	
In-Service Training		444	
Social Security		27,444	
Maintenance & Repair Services- Buildings		1,987	
Maintenance & Repair Services- Equipment		6,349	
Medical and Dental Services		73,804	
Printing, Stationery and Forms		176	
Travel		1,500	
Custodial Supplies		7,078	
Food Supplies		60,108	
Gasoline		101	
Prisoners Clothing		1,582	
Uniforms		1,839	
Utilities		25,719	
Other Supplies and Materials		7,606	
Liability Insurance		2,100	
Vehicle and Equipment Insurance		1,200	
Total Correctional Incentive Program Improvements			560,446

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Public Safety (Cont.)

Fire Prevention and Control

Contracts with Government Agencies	\$ 1,000	
Total Fire Prevention and Control		\$ 1,000

Civil Defense

Contracts with Government Agencies	\$ 53,788	
Contracts with Other Public Agencies	37,636	
Total Civil Defense		91,424

Other Emergency Management

County Official/Administrative Officer	\$ 4,094	
Communication	933	
Maintenance & Repair Services- Equipment	259	
Travel	357	
Gasoline	1,225	
Other Supplies and Materials	2,620	
Communication Equipment	1,868	
Other Equipment	17	
Total Other Emergency Management		11,373

Public Health and Welfare

Local Health Center

Contracts with Government Agencies	\$ 27,750	
Janitorial Services	2,379	
Custodial Supplies	100	
Other Supplies and Materials	7,637	
Total Local Health Center		37,866

Ambulance/Emergency Medical Services

Contracts with Private Agencies	\$ 735,990	
Total Ambulance/Emergency Medical Services		735,990

Crippled Children Services

Contributions	\$ 938	
Total Crippled Children Services		938

Other Local Health Services

Assistant(s)	\$ 66,993	
Attendants	15,394	
State Retirement	5,480	
Other Fringe Benefits	6,120	

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Public Health and Welfare (Cont.)

Other Local Health Services (Cont.)

Licenses	\$	810	
Travel		8,454	
Other Supplies and Materials		146	
Total Other Local Health Services			\$ 103,397

Sanitation Education/Information

County Official/Administrative Officer	\$	3,533	
Supervisor/Director		18,833	
Social Security		1,638	
Maintenance & Repair Services- Vehicles		665	
Gasoline		1,241	
Instructional Supplies and Materials		13,502	
Office Supplies		70	
Tires and Tubes		12	
Other Supplies and Materials		649	
Total Sanitation Education/Information			40,143

Other Public Health and Welfare

Assistant(s)	\$	18,953	
Paraprofessionals		15,997	
Social Security		2,785	
State Retirement		2,793	
Employee and Dependent Insurance		1,474	
Unemployment Compensation		112	
Contracts with Government Agencies		5,787	
Travel		2,133	
Total Other Public Health and Welfare			50,034

Social, Cultural and Recreational Services

Senior Citizens Assistance

Supervisor/Director	\$	17,462	
Total Senior Citizens Assistance			17,462

Other Social, Cultural and Recreational

Part-time Personnel	\$	16,252	
Total Other Social, Cultural and Recreational			16,252

Agriculture & Natural Resources

Agriculture Extension Service

County Official/Administrative Officer	\$	8,979	
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(Continued)

Exhibit H-5

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

General Fund (Cont.)

Agriculture & Natural Resources (Cont.)

Agriculture Extension Service (Cont.)

Supervisor/Director	\$	6,796	
Secretary(s)		5,017	
Social Security		1,591	
State Retirement		2,668	
Data Processing Services		551	
Other Supplies and Materials		<u>3,618</u>	
Total Agriculture Extension Service			\$ 29,220

Soil Conservation

Contributions	\$	<u>16,457</u>	
Total Soil Conservation			16,457

Other Operations

Tourism

Contracts with Private Agencies	\$	<u>10,000</u>	
Total Tourism			10,000

Industrial Development

Contracts with Other Public Agencies	\$	<u>5,136</u>	
Total Industrial Development			5,136

Other Economic and Community Development

Contracts with Other Public Agencies	\$	5,571	
Contracts with Private Agencies		179,000	
Travel		<u>800</u>	
Total Other Economic and Community Development			185,371

Veterans' Services

Clerical Personnel	\$	5,466	
Travel		<u>1,653</u>	
Total Veterans' Services			7,119

Other Charges

Building and Contents Insurance	\$	11,953	
Trustee's Commission		62,342	
Workers' Compensation Insurance		<u>47,708</u>	
Total Other Charges			122,003

Contributions to Other Agencies

Contributions	\$	<u>25,000</u>	
Total Contributions to Other Agencies			25,000

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Other Operations (Cont.)

Employee Benefits

Social Security	\$	133,559	
State Retirement		109,880	
Employee and Dependent Insurance		299,409	
Unemployment Compensation		2,416	
Total Employee Benefits			\$ 545,264

Capital Projects

Other General Government Projects

Other Capital Outlay	\$	60,000	
Total Other General Government Projects			60,000

Total General Fund \$ 4,745,572

Solid Waste/Sanitation Fund

Public Health and Welfare

Sanitation Management

Contracts with Private Agencies	\$	447,453	
Total Sanitation Management			\$ 447,453

Total Solid Waste/Sanitation Fund 447,453

Drug Control Fund

Public Safety

Drug Enforcement

Investigator(s)	\$	66,240	
Salary Supplements		4,000	
Overtime Pay		1,000	
In-Service Training		1,500	
Communication		2,867	
Confidential Drug Enforcement Payments		6,000	
Maintenance & Repair Services- Vehicles		538	
Travel		216	
Law Enforcement Supplies		3,230	
Uniforms		614	
Other Supplies and Materials		2,813	
Principal on Capital Leases		11,692	
Motor Vehicles		33,174	
Total Drug Enforcement			\$ 133,884

(Continued)

Exhibit H-5

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

Drug Control Fund (Cont.)

Other Operations

Other Charges

Trustee's Commission	\$ 809	
Total Other Charges	<u>809</u>	\$ 809

Total Drug Control Fund \$ 134,693

Constitutional Officers - Fees Fund

Administration of Justice

Chancery Court

Special Commissioner Fees/Special Master Fees	\$ 1,540	
Total Chancery Court	<u>1,540</u>	\$ 1,540

Total Constitutional Officers - Fees Fund 1,540

Highway/Public Works Fund

Highways

Administration

County Official/Administrative Officer	\$ 52,765	
Accountants/Bookkeepers	24,264	
Data Processing Personnel	3,000	
Clerical Personnel	17,517	
Communication	17,026	
Data Processing Services	244	
Dues and Memberships	1,616	
Legal Services	1,342	
Legal Notices, Recording and Court Costs	16	
Postal Charges	359	
Rentals	720	
Travel	994	
Drugs and Medical Supplies	2,010	
Office Supplies	9,306	
Uniforms	4,880	
Other Charges	<u>523</u>	
Total Administration		\$ 136,582

Highway and Bridge Maintenance

Foremen	\$ 74,309
Equipment Operators - Heavy	51,108
Equipment Operators - Light	9,947
Truck Drivers	116,070
Laborers	175,561

(Continued)

Exhibit H-5

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

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Highway and Bridge Maintenance (Cont.)

Contracts with Private Agencies	\$	83,291	
Asphalt - Hot Mix		167,002	
Asphalt - Liquid		38,244	
Crushed Stone		104,188	
Pipe		36,854	
Road Signs		11,767	
Other Supplies and Materials		<u>172</u>	
Total Highway and Bridge Maintenance			\$ 868,513

Operation and Maintenance of Equipment

Mechanic(s)	\$	54,731	
Maintenance & Repair Services- Equipment		150	
Diesel Fuel		140,528	
Equipment and Machinery Parts		94,167	
Garage Supplies		21,798	
Gasoline		98,565	
Lubricants		3,835	
Small Tools		344	
Tires and Tubes		13,155	
Other Supplies and Materials		<u>111</u>	
Total Operation and Maintenance of Equipment			427,384

Other Charges

Electricity	\$	3,733	
Water and Sewer		1,052	
Liability Insurance		15,000	
Premiums on Corporate Surety Bonds		2,500	
Trustee's Commission		15,942	
Vehicle and Equipment Insurance		12,398	
Workers' Compensation Insurance		<u>42,260</u>	
Total Other Charges			92,885

Employee Benefits

Social Security	\$	42,584	
State Retirement		40,730	
Employee and Dependent Insurance		141,561	
Unemployment Compensation		<u>6,875</u>	
Total Employee Benefits			231,750

(Continued)

Exhibit H-5

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

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Capital Outlay

Bridge Construction	\$	19,774	
Building Improvements		5,164	
Highway Equipment		85,500	
Motor Vehicles		7,000	
Total Capital Outlay			\$ 117,438

Total Highway/Public Works Fund \$ 1,874,552

General Debt Service Fund

Principal

General Government

Principal on Bonds	\$	20,252	
Principal on Notes		250,000	
Total General Government			\$ 270,252

Education

Principal on Bonds	\$	284,748	
Principal on Other Loans Payable		281,000	
Total Education			565,748

Interest

General Government

Interest on Bonds	\$	1,013	
Interest on Notes		21	
Interest on Other Loans Payable		1,282	
Total General Government			2,316

Education

Interest on Bonds	\$	14,236	
Interest on Other Loans Payable		237,934	
Total Education			252,170

Other Debt Service

General Government

Trustee's Commission	\$	7,041	
Other Debt Service		100	
Total General Government			7,141

Education

Other Debt Service	\$	2,726	
Total Education			2,726

Total General Debt Service Fund 1,100,353

(Continued)

Exhibit H-5

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

<u>General Capital Projects Fund</u>		
<u>Other Operations</u>		
<u>Other Charges</u>		
Trustee's Commission	\$ 4	
Total Other Charges		\$ 4
Total General Capital Projects Fund		\$ 4
<u>Community Development/Industrial Park Fund</u>		
<u>Other Operations</u>		
<u>Other Charges</u>		
Trustee's Commission	\$ 17	
Total Other Charges		\$ 17
Total Community Development/Industrial Park Fund		17
<u>Education Capital Projects Fund</u>		
<u>Capital Projects</u>		
<u>Education Capital Projects</u>		
Contributions	\$ 4,632,047	
Total Education Capital Projects		\$ 4,632,047
Total Education Capital Projects Fund		4,632,047
<u>Other Capital Projects Fund</u>		
<u>Capital Projects</u>		
<u>Public Safety Projects</u>		
Architects	\$ 336,773	
Other Debt Issuance Charges	61,600	
Building Construction	476,620	
Total Public Safety Projects		\$ 874,993
Total Other Capital Projects Fund		<u>874,993</u>
Total Governmental Funds - Primary Government		<u>\$ 13,811,224</u>

Exhibit H-6

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

	<u>Cities - Sales Tax Fund</u>
<u>Cash Receipts</u>	
Local Option Sales Tax	\$ 331,943
Total Cash Receipts	<u>\$ 331,943</u>
<u>Cash Disbursements</u>	
Contracts with Government Agencies	\$ 328,624
Trustee's Commission	3,319
Total Cash Disbursements	<u>\$ 331,943</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

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

Year	Amount
1996	\$ 742
1997	1,073
1998	1,544
1999	5,044
2000	12,456
2001	40,345
2002	64,599
2003	<u>193,137</u>
Total	<u>\$ 318,940</u>

Table 2

Polk County, Tennessee
Tax Rates and Assessments
Last Ten Years

<u>Fund</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
General	\$ 1.12	\$ 1.21	\$ 1.32	\$ 1.15	\$ 1.31	\$ 1.31	\$ 1.31	\$ 1.31	\$ 1.05	\$ 1.05
General Purpose School	1.77	1.72	1.62	1.23	1.14	1.07	1.07	1.07	0.88	0.88
General Debt Service	0.63	0.59	0.58	0.20	0.13	0.20	0.20	0.20	0.14	0.14
Total Tax Rates	\$ 3.52	\$ 3.52	\$ 3.52	\$ 2.58	\$ 2.07	\$ 2.07				
<u>Assessed Valuation</u>										
Real and Personal	\$ 79,335,420	\$ 82,406,753	\$ 87,437,904	\$ 124,787,368	\$ 131,773,023	\$ 138,246,323	\$ 143,813,753	\$ 149,413,824	\$ 187,793,266	\$ 214,238,649
Public Utilities	14,676,410	14,826,339	12,692,386	17,280,770	17,512,425	15,558,224	15,645,307	14,557,949	17,289,998	15,694,699
Total Assessed Valuation	\$ 94,011,830	\$ 97,233,092	\$ 100,130,290	\$ 142,068,138	\$ 149,285,448	\$ 153,804,547	\$ 159,459,060	\$ 163,971,773	\$ 205,083,264	\$ 229,933,348

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

DEPARTMENT OF AUDIT
JOHN G. MORGAN
Comptroller of the Treasury

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

ARTHUR L. ALEXANDER
Director

CARL LOWE, CGFM
Audit Manager

MICHAEL FORD, CPA, CGFM
Auditor 4

KATHY CLEMENTS, CGFM
JENI BOYETTE
TIMOTHY SCOTTON
State Auditors

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

**POLK COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF POLK COUNTY, TENNESSEE
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Audit Highlights

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

Results

Our report on the Polk 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 seven findings and recommendations, which we have reviewed with the Polk 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:

POLK COUNTY SCHOOL DEPARTMENT

- ◆ Government-wide financial statements were not presented in accordance with generally accepted accounting principles, resulting in an adverse opinion.
- ◆ The General Purpose School Fund had an undesignated fund deficit of \$167,257 at June 30, 2005.
- ◆ Expenditures and other uses exceeded appropriations in the General Purpose School Fund by \$442,654. The Central Cafeteria Fund was not operated under a formal budget adopted by the County Commission. Some budget amendments were posted to the accounting records that were not approved by the County Commission, and some approved amendments were incorrectly posted. The actual fund balance and reserves of the General Purpose School Fund was \$558,704 at July 1, 2004; however, the estimated fund balance and reserves reflected in the budget was \$0. Estimated revenues exceeded actual revenues by \$464,900 in the General Purpose School Fund.
- ◆ Documentation that goods had been received and/or services had been rendered was not always maintained, and invoices were not always cancelled or marked paid.
- ◆ The School Department did not maintain inventory records.
- ◆ Central Cafeteria Fund transactions were not channeled through the Trustee's Office.
- ◆ Duties were not segregated adequately among officials and employees in the School Department.

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

INTRODUCTORY SECTION

Polk County School Department
June 30, 2005

Dr. William Wade, Director of Schools

Board of Education:

Gary Silvers, Chairman
David Bigham
Greg Brooks
Carlton Deal
Tom Hunt
David Hyatt
Jason Lamb
Tracy McAbee
Grady Samples

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

December 1, 2005

Polk County Director of Schools and
Board of Education
Polk 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 Polk County School Department, a component unit of Polk County, Tennessee, as of and for the year ended June 30, 2005, as shown on pages 11 through 31, which collectively comprise a portion of the Polk 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 Polk 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 Polk 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 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 the Polk County School Department as of June 30, 2005, or the changes in its financial position or its cash flows, where applicable, for the year then ended.

However, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the Polk County School Department as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, 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.

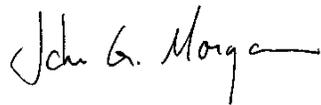
In accordance with Government Auditing Standards, we have also issued our report dated December 1, 2005, on our consideration of the Polk County School Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 Polk 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 35 through 39 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 Polk 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/yu

BASIC FINANCIAL STATEMENTS

Exhibit A

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

	<u>Major Funds</u>		<u>Nonmajor</u>	<u>Total</u>
	<u>General</u>	<u>Education</u>	<u>Funds</u>	
	<u>Purpose</u>	<u>Capital</u>	<u>Other</u>	<u>Governmental</u>
	<u>School</u>	<u>Projects</u>	<u>Governmental</u>	<u>Funds</u>
			<u>Funds</u>	<u>Funds</u>
<u>ASSETS</u>				
Cash	\$ 0	\$ 0	\$ 156,564	\$ 156,564
Equity in Pooled Cash and Investments	219,506	836,797	83,818	1,140,121
Accounts Receivable	0	0	1,194	1,194
Due from Other Governments	237,187	0	232,341	469,528
Due from Other Funds	16,883	0	74,911	91,794
Property Taxes Receivable	2,009,990	0	0	2,009,990
Allowance for Uncollectible Property Taxes	(197,666)	0	0	(197,666)
Total Assets	\$ 2,285,900	\$ 836,797	\$ 548,828	\$ 3,671,525
<u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 31,510	\$ 0	\$ 0	\$ 31,510
Payroll Deductions Payable	234,695	0	22,331	257,026
Contracts Payable	0	622,671	0	622,671
Retainage Payable	0	68,368	0	68,368
Due to Other Funds	74,911	0	16,883	91,794
Due to Primary Government	0	0	1,312	1,312
Deferred Revenue - Current Property Taxes	1,719,846	0	0	1,719,846
Deferred Revenue - Delinquent Property Taxes	92,478	0	0	92,478
Other Deferred Revenues	132,268	0	0	132,268
Total Liabilities	\$ 2,285,708	\$ 691,039	\$ 40,526	\$ 3,017,273
<u>Fund Balances</u>				
Reserved for Encumbrances	\$ 137,977	\$ 3,103,195	\$ 81,545	\$ 3,322,717
Reserved for Career Ladder - Extended Contract	29,472	0	0	29,472
Reserved for Title I Grants to Local Education Agencies	0	0	57,712	57,712
Reserved for Special Education - Grants to States	0	0	66,120	66,120
Other Federal Reserves	0	0	13,122	13,122
Unreserved, Reported In:				
General Fund (Deficit)	(167,257)	0	0	(167,257)
Special Revenue Funds	0	0	289,803	289,803
Capital Projects Funds (Deficit)	0	(2,957,437)	0	(2,957,437)
Total Fund Balances	\$ 192	\$ 145,758	\$ 508,302	\$ 654,252
Total Liabilities and Fund Balances	\$ 2,285,900	\$ 836,797	\$ 548,828	\$ 3,671,525

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

Exhibit B

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

	Major Funds		Nonmajor	Total
	General Purpose School	Education Capital Projects	Funds Other Governmental Funds	
<u>Revenues</u>				
Local Taxes	\$ 3,227,326	\$ 0	\$ 0	\$ 3,227,326
Licenses and Permits	3,334	0	0	3,334
Fines, Forfeitures and Penalties	625	0	0	625
Charges for Current Services	0	0	403,401	403,401
Other Local Revenues	106,443	462,000	15,082	583,525
Fees Received from County Officials	62	0	0	62
State of Tennessee	10,352,465	0	13,869	10,366,334
Federal Government	304,408	0	1,851,126	2,155,534
Other Governments and Citizens Groups	0	4,632,047	0	4,632,047
Total Revenues	\$ 13,994,663	\$ 5,094,047	\$ 2,283,478	\$ 21,372,188
<u>Expenditures</u>				
Current:				
Instruction	\$ 9,715,579	\$ 0	\$ 999,535	\$ 10,715,114
Support Services	4,305,710	0	179,711	4,485,421
Operation of Non-Instructional Services	76,269	0	963,438	1,039,707
Capital Outlay	11,998	0	0	11,998
Debt Service:				
Other Debt Service	400,000	180,000	0	580,000
Capital Projects	0	5,363,231	0	5,363,231
Total Expenditures	\$ 14,509,556	\$ 5,543,231	\$ 2,142,684	\$ 22,195,471
Excess (Deficiency) of Revenues Over Expenditures	\$ (514,893)	\$ (449,184)	\$ 140,794	\$ (823,283)
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 85,034	\$ 175,000	\$ 0	\$ 260,034
Transfers Out	(175,000)	0	(85,034)	(260,034)
Total Other Financing Sources (Uses)	\$ (89,966)	\$ 175,000	\$ (85,034)	\$ 0
Net Change in Fund Balances	\$ (604,859)	\$ (274,184)	\$ 55,760	\$ (823,283)
Fund Balance, July 1, 2004	605,051	419,942	452,542	1,477,535
Fund Balance, June 30, 2005	\$ 192	\$ 145,758	\$ 508,302	\$ 654,252

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

Exhibit C-1

Polk County School Department
Statement of Net Assets
Proprietary Fund
June 30, 2005

	<u>Governmental Activities - Internal Service Fund Self-Insurance Fund</u>
<u>ASSETS</u>	
Current Assets:	
Cash	\$ 37,255
Total Assets	<u>\$ 37,255</u>
<u>NET ASSETS</u>	
Unrestricted	<u>\$ 37,255</u>
Total Net Assets	<u><u>\$ 37,255</u></u>

The accompanying notes are an integral part of this statement.

Exhibit C-2

Polk County School Department
Statement of Revenues, Expenses, and
Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2005

	Governmental Activities - Internal Service Fund <hr/> Self-Insurance Fund <hr/>
<u>Operating Revenues</u>	
Other Local Revenues	\$ 0
Operating Income (Loss)	<hr/> \$ 0
 <u>Non-operating Revenues</u>	
Investment Income	\$ 462
 Change in Net Assets	\$ 462
Net Assets, July 1, 2004	<hr/> 36,793
 Net Assets, June 30, 2005	 <hr/> <hr/> \$ 37,255

The accompanying notes are an integral part of this statement.

Exhibit C-3

Polk County School Department
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2005

	Governmental Activities - Internal Service Fund <hr/> Self-Insurance Fund <hr/>
<u>Cash Flows From Operating Activities</u>	
Payments for claims	\$ (800)
Net Cash Provided By (Used In) Operating Activities	<u>\$ (800)</u>
<u>Cash Flows From Investing Activities</u>	
Interest on investments	\$ 462
Net Cash Provided By (Used In) Investing Activities	<u>\$ 462</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (338)
Cash and Cash Equivalents, July 1, 2004	<u>37,593</u>
Cash and Cash Equivalents, June 30, 2005	<u><u>\$ 37,255</u></u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Used in Operating Activities</u>	
Operating Income (Loss)	\$ 0
Adjustments to Reconcile Net Operating Income (Loss)	
To Net Cash Provided by (Used In) Operating Activities:	
Change in Assets and Liabilities:	
Increase (Decrease) in Accounts Payable	<u>(800)</u>
Net Cash Provided By (Used In) Operating Activities	<u><u>\$ (800)</u></u>

The accompanying notes are an integral part of this statements.

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Polk 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 and business-type activities. The two government-wide financial statements, the statement of net assets and the statement of activities, should be included in the basic financial statements to conform with the provisions of GASB Statement 34 and accounting principles generally accepted in the United States of America. The School Department has elected instead only to implement the provisions of the statement and other accounting principles generally accepted in the United States of America that relate to the fund financial statements. This departure from GAAP results in an incomplete presentation and has caused the School Department's auditor to issue an adverse opinion on the School Department's financial statements.

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

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

A. Reporting Entity

The School Department operates the public school system in the county, and the voters of Polk County elect its nine-member board. The School Department is a component unit of Polk 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 Polk 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/expenses. 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 reports one proprietary fund, an internal service fund. It has no 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. The internal service fund is 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 School Department considers revenues other than grants to be available if they are collected within 30 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and the revenues are available. The School Department considers grant and similar revenues to be available if they are collected within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Principal and interest on long-term debt are recognized as fund liabilities when due or when amounts have been accumulated in the appropriate funds for payments to be made early in the following year.

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

Proprietary 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.

The School Department reports the following major governmental funds:

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

Education Capital Projects Fund – This fund is used to account for transactions relating to the construction and renovation of school buildings in Polk County.

Additionally, the School Department reports the following fund types:

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

Internal Service Fund – The Self-Insurance Fund is used to account for the School Department’s employee self-insurance dental program. In the past, school funds were placed into this fund for the payment of dental claims for the School Department’s employees who wished to participate in the program. However, due to the increased costs of the plan, operations ceased in October 2002, but a balance remains in the fund for future use.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. The School Department has one proprietary fund, an internal service fund used to account for the employees’ dental insurance program. As previously noted, the employees’ dental insurance plan was discontinued in October 2002, due to the increased cost of the plan. The balance of \$37,255, at June 30, 2005, is being maintained in the Self-Insurance Fund for future use. The revenue received by the fund is interest earned on the balance. There were no expenses for the fund during the year.

When both restricted and unrestricted resources are available for use, it is the government’s policy to use restricted revenues first, then unrestricted resources as they are needed.

C. **Assets, Liabilities, and Net Assets or Equity**

1. **Deposits and Investments**

For purposes of the statement of cash flows, cash includes demand deposits.

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 School Department funds. Each fund's portion of this pool is displayed on the balance sheets as Equity in Pooled Cash and Investments. The income from these pooled investments is assigned to the primary government's General Debt Service Fund. Polk County and the School Department have adopted a policy of reporting U.S. Treasury obligations, U.S. agency obligations, and repurchase agreements with maturities of one year or less when purchased on the balance sheet at amortized cost. Certificates of deposit are reported at cost. 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 at the end of the fiscal year 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 5.28 percent of total taxes levied.

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

Property taxes receivable are also reported as of June 30 for the taxes that are levied, collected, and reported as revenue during the current fiscal year. These property taxes receivable are presented on the balance sheet with offsetting deferred revenue to reflect amounts not available as of June 30. Property taxes collected within 30 days of year-end are not material for financial reporting purposes and thus

are 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.

Contracts payable of \$622,671 in the Education Capital Projects Fund, represent amounts due to contractors for work performed on construction projects. These amounts are held by the county trustee as Equity in Pooled Cash and Investments.

Retainage payable of \$68,368 in the Education Capital Projects Fund represents amounts withheld from contractor payments and due to a third-party escrow bank account to ensure contract performance.

3. 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.

4. Compensated Absences

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

5. Long-term Obligations

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

Governmental funds recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of

debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Net Assets and Fund Equity

In the proprietary fund, equity is classified as net assets and may be displayed in three components:

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

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Fund Deficits

The General Purpose School Fund had an undesignated fund deficit of \$167,257 at June 30, 2005. This fund deficit resulted from expenditures and encumbrances exceeding available funding caused in part by overestimated revenues, underestimated expenditures, and poor budgeting procedures. This deficit was liquidated subsequent to June 30, 2005.

The Education Capital Projects Fund had an undesignated fund deficit of \$2,957,437 as of June 30, 2005. This fund deficit resulted from the recognition of the unperformed portion of construction contracts totaling \$3,103,195 being reserved as encumbrances in the financial statements of this report. Funding for these future expenditures is expected to be received from other loan proceeds.

B. Expenditures and Other Uses Exceeded Appropriations

Expenditures and other uses exceeded total appropriations approved by the Polk County Commission in the General Purpose School Fund by \$442,654. Such overexpenditures are a violation of state statutes.

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

The actual beginning fund balance in the General Purpose School Fund was \$558,704 at July 1, 2004. However, the estimated beginning fund balance reflected in the budget for July 1, 2004 was \$0. Therefore, the actual fund balance was \$558,704 more than the estimated fund balance presented to the County Commission during the budget approval process.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

Deposits

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

The county had no pooled or nonpooled investments as of June 30, 2005.

B. Construction Commitments

At June 30, 2005, the School Department had uncompleted construction contracts of approximately \$3,103,195 for the construction of a school. Funding for these future expenditures is expected to be received from other loan 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 Purpose School	Nonmajor governmental	\$ 16,883
Nonmajor governmental	General Purpose School	74,911

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.

Due to/from primary and component units:

Receivable Fund	Payable Fund	Amount
Primary government: Drug Control	Component unit - School Department: School Federal Projects	\$ 1,312

Interfund Transfers:

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

Transfers Out	Transfers In	
	General Purpose School Fund	Education Capital Projects Fund
General Purpose School Fund	\$ 0	\$ 175,000
Nonmajor governmental funds	85,034	0
Total	\$ 85,034	\$ 175,000

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.

D. Capital Leases

On July 24, 2002, the School Department entered into a three-year lease purchase agreement for computers. The terms of the agreement require total lease payments of \$130,206 plus interest of 12 percent. Title to the computers transfers to the School Department at the end of the lease period. The lease-purchase agreement was not entered into in compliance with state statutes. The lease payments are made by the General Purpose School Fund.

On August 7, 2003, the School Department entered into a two-year lease purchase agreement for computers. The terms of the agreement require total lease payments of \$26,261 plus interest of 13.6 percent. Title to the computers transfers to the School Department at the end of the lease period. The lease-purchase agreement was not entered into in compliance with state statutes. The lease payments are made by the School Federal Projects Fund.

Since the School Department is presenting fund financial statements only, the present value of minimum lease payments under lease agreements 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 the School Department is not presenting government-wide financial statements. Capital leases are reported as a liability in the fund financial statements of enterprise funds. Future minimum lease payments and the net present value of these minimum lease payments as of June 30, 2005, were as follows:

<u>Year Ending June 30</u>	<u>Governmental Funds</u>
2006	\$ 9,823
Total Minimum Lease Payments	\$ 9,823
Amounts Representing Interest	<u>(1,176)</u>
Present Value of Minimum Lease Payments	<u>\$ 8,647</u>

E. 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

The county issues capital outlay notes for the School Department to fund capital facilities and other capital outlay purchases, such as equipment.

Capital outlay notes are direct obligations and pledge the full faith and credit of the government. Capital outlay notes outstanding were issued for original terms of up to 11 years. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. The note included in long-term debt as of June 30, 2005, will be retired from the General Purpose School Fund.

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

Type	Interest Rate	Original Amount of Issue	Balance 6-30-05
Capital Outlay Note	0 %	\$ 22,500	\$ 580
Capital Lease	13.6	26,261	8,647

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

Year Ending June 30	Notes	
	Principal	Interest
2006	\$ 580	\$ 0
Total	\$ 580	\$ 0

Total debt per capita, including notes and capital leases, amounted to \$0.57, based on the 2000 federal census.

Changes in Long-term Liabilities

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

Governmental Activities:

	Notes	Capital Leases
Balance, July 1, 2004	\$ 1,580	\$ 59,562
Additions	0	0
Deductions	(1,000)	(50,915)
Balance, June 30, 2005	\$ 580	\$ 8,647
Balance Due Within One Year	\$ 580	\$ 8,647

IV. OTHER INFORMATION

A. Risk Management

The School Department is exposed to various risks related to general liability, property, casualty, and workers' compensation losses. The School Department is a member of the Tennessee School Boards Risk Management Trust (TSB-RMT), a public entity risk pool established by the Tennessee School Boards Association. The School Department pays annual premiums to the TSB-RMT for its general liability, property, casualty, and workers'

compensation insurance coverage. The creation of this pool provides for it to be self-sustaining through member premiums.

The School Department provides health insurance to its employees through the Local Government Group Insurance (LGGIF), a public entity risk pool established to provide a program of health insurance coverage for employees of local governments and quasi-governmental entities that were established for the primary purpose of providing services for or on behalf of state and local governments. In accordance with Section 8-27-207, Tennessee Code Annotated, all local governments and quasi-governmental entities described above are eligible to participate. The LGGIF is included in the Comprehensive Annual Report of the State of Tennessee, but the state does not retain any risk for losses by this fund. The state statute provides for LGGIF to be self-sustaining through member premiums.

The School Department maintains the Self-Insurance Fund for risks associated with the employees' dental insurance plan. The Self-Insurance Fund is accounted for as an internal service fund where assets are set aside for claims settlements. The employee's dental insurance plan was discontinued in October 2002 due to increased costs of the plan. The balance of \$37,255 at June 30, 2005, is being maintained in the Self-Insurance Fund for future use.

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. Subsequent Events

Dr. William Wade resigned as director of schools on August 5, 2005, and was succeeded by James Jones.

On July 7, 2005, Polk County issued capital outlay notes totaling \$200,000 for athletic facilities.

On September 1, 2005, Polk County issued capital outlay notes totaling \$450,000 for an athletic complex.

During the period July 1, 2005, through December 1, 2005, Polk County borrowed \$2,906,990 for high school construction and renovation projects

pursuant to loan agreements with the Public Building Authority of Montgomery County.

D. Contingent Liabilities

The School Board's attorney has advised of a pending litigation. It is the opinion of the insurer's counsel that the chances of a total defense are good; however, should the outcome be unfavorable, it is likely that the award would be at or below the insurance maximum.

E. Retirement Commitments

Plan Description

Employees of Polk 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 Polk 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 Polk County School Department participates in Polk County's plan, retirement information for the Polk County 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 Polk County, Tennessee.

SCHOOL TEACHERS

Plan Description

The Polk County 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 Polk County 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 Polk County 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 \$433,757, \$231,189, and \$245,023, respectively, equal to the required contributions for each year.

F. Other Post-employment Benefits

In addition to the retirement commitments described above, the School Department offers retiring employees, with 25 years or more of service, either a lump-sum payment equal to \$200 for each year of service or will provide a portion of the employee's health care insurance until the employee reaches Medicare age. As of June 30, 2005 there were 21 school retirees who were receiving the health insurance benefit. The School Department pays a portion of the employees health care insurance premiums based on the retiree's years of service. During the year, expenditures totaling \$53,365 were recognized for post-employment health care.

G. Purchasing Law

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

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit D

Polk County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Polk 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	\$ 3,227,326	\$ 0	\$ 0	\$ 3,227,326	\$ 3,215,619	\$ 3,215,619	\$ 11,707
Licenses and Permits	3,334	0	0	3,334	2,600	2,600	734
Fines, Forfeitures and Penalties	625	0	0	625	0	0	625
Other Local Revenues	106,443	0	0	106,443	116,300	122,300	(15,857)
Fees Received from County Officials	62	0	0	62	0	0	62
State of Tennessee	10,352,465	0	0	10,352,465	10,440,394	10,699,956	(347,491)
Federal Government	304,408	0	0	304,408	718,955	419,088	(114,680)
Total Revenues	\$ 13,994,663	\$ 0	\$ 0	\$ 13,994,663	\$ 14,493,868	\$ 14,459,563	\$ (464,900)
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 7,933,426	\$ (46,347)	\$ 107,032	\$ 7,994,111	\$ 7,663,496	\$ 7,870,244	\$ (123,867)
Special Education Program	800,649	0	0	800,649	782,419	809,158	8,509
Vocational Education Program	605,508	0	0	605,508	600,262	622,562	17,054
Student Body Education Program	341,439	0	25,189	366,628	189,305	344,836	(21,792)
Adult Education Program	34,557	0	0	34,557	59,036	37,081	2,524
<u>Support Services</u>							
Attendance	87,859	0	0	87,859	90,532	90,025	2,166
Health Services	42,093	0	0	42,093	41,321	42,021	(72)
Other Student Support	286,844	0	0	286,844	286,185	284,191	(2,653)
Regular Instruction Program	336,474	0	0	336,474	323,533	320,483	(15,991)
Special Education Program	52,389	0	0	52,389	52,108	52,633	244
Vocational Education Program	35,233	0	0	35,233	37,588	37,588	2,355
Adult Programs	45,433	0	0	45,433	39,822	62,417	16,984
Board of Education	253,733	0	70	253,803	272,197	278,003	24,200
Director of Schools	229,357	0	0	229,357	229,060	229,326	(31)

(Continued)

Exhibit D

Polk County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Polk 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>							
Office of the Principal	\$ 841,395	\$ 0	\$ 0	\$ 841,395	\$ 840,987	\$ 851,721	\$ 10,326
Fiscal Services	52,345	0	0	52,345	57,059	56,068	3,723
Operation of Plant	1,046,702	0	0	1,046,702	1,075,788	1,076,217	29,515
Maintenance of Plant	173,991	0	5,586	179,577	181,345	190,460	10,883
Transportation	821,862	0	100	821,962	644,886	585,690	(236,272)
<u>Operation of Non-Instructional Services</u>							
Food Service	76,269	0	0	76,269	611,939	77,808	1,539
<u>Capital Outlay</u>							
Regular Capital Outlay	11,998	0	0	11,998	415,000	15,000	3,002
<u>Other Debt Service</u>							
Education	400,000	0	0	400,000	0	400,000	0
Total Expenditures	\$ 14,509,556	\$ (46,347)	\$ 137,977	\$ 14,601,186	\$ 14,493,868	\$ 14,333,532	\$ (267,654)
Excess (Deficiency) of Revenues							
Over Expenditures	\$ (514,893)	\$ 46,347	\$ (137,977)	\$ (606,523)	\$ 0	\$ 126,031	\$ (732,554)
<u>Other Financing Sources (Uses)</u>							
Transfers In	\$ 85,034	\$ 0	\$ 0	\$ 85,034	\$ 0	\$ 0	\$ 85,034
Transfers Out	(175,000)	0	0	(175,000)	0	0	(175,000)
Total Other Financing Sources (Uses)	\$ (89,966)	\$ 0	\$ 0	\$ (89,966)	\$ 0	\$ 0	\$ (89,966)

(Continued)

Exhibit D

Polk County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Polk 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	\$ (604,859)	\$ 46,347	\$ (137,977)	\$ (696,489)	0	\$ 126,031	\$ (822,520)
Fund Balance, July 1, 2004	605,051	(46,347)	0	558,704	0	0	558,704
Fund Balance, June 30, 2005	\$ 192	\$ 0	\$ (137,977)	\$ (137,785)	0	\$ 126,031	\$ (263,816)

**POLK COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF POLK 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 Polk 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 Polk 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 OTHER USES EXCEEDED APPROPRIATIONS

Expenditures, encumbrances, and other uses exceeded total appropriations approved by the County Commission in the General Purpose School Fund by \$442,654. Such overexpenditures are a violation of state statutes.

C. FUND DEFICIT

The General Purpose School Fund had an undesignated fund deficit of \$167,257 at June 30, 2005. This fund deficit resulted primarily from the School Department overestimating revenues, underestimating expenditures, and overall poor budgeting procedures. This deficit was liquidated subsequent to June 30, 2005.

D. THE ACTUAL FUND BALANCE EXCEEDED THE ESTIMATED BEGINNING FUND BALANCE BY A MATERIAL AMOUNT

The actual fund balance and reserves in the General Purpose School Fund was \$558,704 at July 1, 2004, however, the estimated fund balance and reserves reflected in the budget was \$0. Therefore, the actual fund balance and reserves was \$558,704 more than the estimated fund balance and reserves presented to the County Commission during the budget approval process.

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

Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

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

	<u>Special Revenue Funds</u>		
	School Federal Projects	Central Cafeteria	Total Nonmajor Governmental Funds
<u>ASSETS</u>			
Cash	\$ 0	\$ 156,564	\$ 156,564
Equity in Pooled Cash and Investments	83,818	0	83,818
Accounts Receivable	1,194	0	1,194
Due from Other Governments	173,838	58,503	232,341
Due from Other Funds	175	74,736	74,911
Total Assets	\$ 259,025	\$ 289,803	\$ 548,828
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Payroll Deductions Payable	\$ 22,331	\$ 0	\$ 22,331
Due to Other Funds	16,883	0	16,883
Due to Primary Government	1,312	0	1,312
Total Liabilities	\$ 40,526	\$ 0	\$ 40,526
<u>Fund Balances</u>			
Reserved for Encumbrances	\$ 81,545	\$ 0	\$ 81,545
Reserved for Title I Grants to Local Education Agencies	57,712	0	57,712
Reserved for Special Education - Grants to States	66,120	0	66,120
Other Federal Reserves	13,122	0	13,122
Unreserved	0	289,803	289,803
Total Fund Balances	\$ 218,499	\$ 289,803	\$ 508,302
Total Liabilities and Fund Balances	\$ 259,025	\$ 289,803	\$ 548,828

Exhibit E-2

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

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	School Federal Projects	Central Cafeteria	
<u>Revenues</u>			
Charges for Current Services	\$ 0	\$ 403,401	\$ 403,401
Other Local Revenues	0	15,082	15,082
State of Tennessee	0	13,869	13,869
Federal Government	1,238,341	612,785	1,851,126
Total Revenues	<u>\$ 1,238,341</u>	<u>\$ 1,045,137</u>	<u>\$ 2,283,478</u>
<u>Expenditures</u>			
Current:			
Instruction	\$ 999,535	\$ 0	\$ 999,535
Support Services	179,711	0	179,711
Operation of Non-Instructional Services	0	963,438	963,438
Total Expenditures	<u>\$ 1,179,246</u>	<u>\$ 963,438</u>	<u>\$ 2,142,684</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 59,095</u>	<u>\$ 81,699</u>	<u>\$ 140,794</u>
<u>Other Financing Sources (Uses)</u>			
Transfers Out	\$ (17,234)	\$ (67,800)	\$ (85,034)
Total Other Financing Sources (Uses)	<u>\$ (17,234)</u>	<u>\$ (67,800)</u>	<u>\$ (85,034)</u>
Net Change in Fund Balances	\$ 41,861	\$ 13,899	\$ 55,760
Fund Balance, July 1, 2004	176,638	275,904	452,542
Fund Balance, June 30, 2005	<u>\$ 218,499</u>	<u>\$ 289,803</u>	<u>\$ 508,302</u>

Exhibit E-3

Polk County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Polk 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	\$ 1,238,341	\$ 0	\$ 0	\$ 1,238,341	\$ 1,236,704	\$ 1,241,020	\$ (2,679)
Total Revenues	\$ 1,238,341	\$ 0	\$ 0	\$ 1,238,341	\$ 1,236,704	\$ 1,241,020	\$ (2,679)
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 530,072	\$ (850)	\$ 8,238	\$ 537,460	\$ 583,828	\$ 583,828	\$ 46,368
Special Education Program	445,651	0	150	445,801	451,881	477,176	31,375
Vocational Education Program	23,812	0	24,930	48,742	46,176	49,581	839
<u>Support Services</u>							
Health Services	17,520	0	0	17,520	27,594	27,594	10,074
Other Student Support	21,112	0	0	21,112	35,855	37,766	16,654
Regular Instruction Program	91,819	0	266	92,085	132,902	122,331	30,246
Special Education Program	17,760	0	323	18,083	27,078	20,583	2,500
Transportation	31,500	0	47,638	79,138	100,000	81,200	2,062
Total Expenditures	\$ 1,179,246	\$ (850)	\$ 81,545	\$ 1,259,941	\$ 1,405,314	\$ 1,400,059	\$ 140,118
Excess (Deficiency) of Revenues Over Expenditures	\$ 59,095	\$ 850	\$ (81,545)	\$ (21,600)	\$ (168,610)	\$ (159,039)	\$ 137,439
<u>Other Financing Sources (Uses)</u>							
Transfers Out	\$ (17,234)	\$ 0	\$ 0	\$ (17,234)	\$ (7,510)	\$ (18,081)	\$ 847
Total Other Financing Sources (Uses)	\$ (17,234)	\$ 0	\$ 0	\$ (17,234)	\$ (7,510)	\$ (18,081)	\$ 847

(Continued)

Exhibit E-3

Polk County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Polk 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	\$ 41,861	\$ 850	\$ (81,545)	\$ (38,834)	\$ (176,120)	\$ (177,120)	\$ 138,286
Fund Balance, July 1, 2004	176,638	(850)	0	175,788	177,120	177,120	(1,332)
Fund Balance, June 30, 2005	\$ 218,499	\$ 0	\$ (81,545)	\$ 136,954	\$ 1,000	\$ 0	\$ 136,954

MISCELLANEOUS SCHEDULES

Exhibit F-1

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

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-04	Paid and/or Matured During Period	Outstanding 6-30-05
<u>NOTES PAYABLE</u>							
<u>Payable though General Purpose School Fund</u>							
Asbestos Removal	\$ 22,500	0 %	9-1-1994	9-1-05	\$ 1,580	\$ 1,000	\$ 580
<u>CAPITAL LEASES PAYABLE</u>							
<u>Payable though General Purpose School Fund</u>							
Computers	130,206	12	7-24-02	7-24-04	\$ 43,219	\$ 43,219	\$ 0
<u>Payable though School Federal Projects Fund</u>							
Computers	26,261	13.6	8-7-03	8-7-05	16,343	7,696	8,647
Total Capital Leases Payable					\$ 59,562	\$ 50,915	\$ 8,647

Exhibit F-2

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

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Purpose School	Education Capital Projects	Capital project obligations	\$ 175,000
School Federal Projects	General Purpose School	Indirect costs	17,234
Central Cafeteria	General Purpose School	Indirect costs	<u>67,800</u>
Total Transfers			<u>\$ 260,034</u>

Exhibit F-3

Polk County, Tennessee
Schedule of Salaries and Official Bonds of Principal Officials
Polk 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 Polk County Board of Education	\$ 107,003 (1)	(2)	
Employee Blanket Bond Coverage: School Department Employees			\$ 150,000	Tennessee School Boards Risk Management Trust

(1) Includes negotiated annual allowance of \$7,800 for in-county travel.
(2) The director of schools is covered by the \$150,000 employee blanket bond.

Exhibit F-4

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

	General Purpose School	School Federal Projects	Central Cafeteria	Education Capital Projects	Total
<u>Local Taxes</u>					
<u>County Property Taxes</u>					
Current Property Tax	\$ 1,733,721	\$ 0	\$ 0	\$ 0	\$ 1,733,721
Trustee's Collections - Prior Year	102,282	0	0	0	102,282
Circuit/Clerk & Master Collections - Prior Years	75,487	0	0	0	75,487
Interest and Penalty	16,671	0	0	0	16,671
Payments in Lieu of Taxes - T.V.A.	43,324	0	0	0	43,324
Payments in Lieu of Taxes - Other	53,123	0	0	0	53,123
<u>County Local Option Taxes</u>					
Local Option Sales Tax	1,139,374	0	0	0	1,139,374
Business Tax	33,868	0	0	0	33,868
<u>Statutory Local Taxes</u>					
Bank Excise Tax	24,474	0	0	0	24,474
Interstate Telecommunications Tax	5,002	0	0	0	5,002
Total Local Taxes	\$ 3,227,326	\$ 0	\$ 0	\$ 0	\$ 3,227,326
<u>Licenses and Permits</u>					
<u>Licenses</u>					
Marriage Licenses	\$ 3,334	\$ 0	\$ 0	\$ 0	\$ 3,334
Total Licenses and Permits	\$ 3,334	\$ 0	\$ 0	\$ 0	\$ 3,334
<u>Fines, Forfeitures and Penalties</u>					
<u>Juvenile Court</u>					
Fines	\$ 625	\$ 0	\$ 0	\$ 0	\$ 625
Total Fines, Forfeitures and Penalties	\$ 625	\$ 0	\$ 0	\$ 0	\$ 625
<u>Charges for Current Services</u>					
<u>Education Charges</u>					
Lunch Payments - Children	\$ 0	\$ 0	\$ 244,930	\$ 0	\$ 244,930
Lunch Payments - Adults	0	0	21,179	0	21,179
Income from Breakfast	0	0	23,071	0	23,071
Special Milk Sales	0	0	12,369	0	12,369
A la carte Sales	0	0	86,202	0	86,202
<u>Other Charges for Services</u>					
Other Charges for Services	0	0	15,650	0	15,650
Total Charges for Current Services	\$ 0	\$ 0	\$ 403,401	\$ 0	\$ 403,401
<u>Other Local Revenues</u>					
<u>Recurring Items</u>					
Investment Income	\$ 28	\$ 0	\$ 362	\$ 0	\$ 390
Lease/Rentals	14,288	0	0	0	14,288
Miscellaneous Refunds	73,437	0	0	0	73,437
<u>Nonrecurring Items</u>					
Sale of Equipment	8,750	0	0	0	8,750
Sale of Property	0	0	0	462,000	462,000
Contributions & Gifts	9,387	0	0	0	9,387
<u>Other Local Revenues</u>					
Other Local Revenues	553	0	14,720	0	15,273
Total Other Local Revenues	\$ 106,443	\$ 0	\$ 15,082	\$ 462,000	\$ 583,525

(Continued)

Exhibit F-4

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

	General Purpose School	School Federal Projects	Central Cafeteria	Education Capital Projects	Total
<u>Fees Received from County Officials</u>					
<u>Fees In Lieu of Salary</u>					
County Clerk	\$ 62	\$ 0	\$ 0	\$ 0	\$ 62
Total Fees Received from County Officials	\$ 62	\$ 0	\$ 0	\$ 0	\$ 62
<u>State of Tennessee</u>					
<u>State Education Funds</u>					
Basic Education Program	\$ 9,775,859	\$ 0	\$ 0	\$ 0	\$ 9,775,859
School Food Service	13,869	0	13,869	0	27,738
Driver Education	8,165	0	0	0	8,165
Other State Education Funds	97,300	0	0	0	97,300
Career Ladder Program	119,136	0	0	0	119,136
Career Ladder - Extended Contract	65,351	0	0	0	65,351
<u>Other State Revenues</u>					
Income Tax	6,574	0	0	0	6,574
State Revenue Sharing - T.V.A.	223,036	0	0	0	223,036
Other State Grants	43,175	0	0	0	43,175
Total State of Tennessee	\$ 10,352,465	\$ 0	\$ 13,869	\$ 0	\$ 10,366,334
<u>Federal Government</u>					
<u>Federal Through State</u>					
USDA School Lunch Program	\$ 0	\$ 0	\$ 462,127	\$ 0	\$ 462,127
Breakfast	0	0	143,791	0	143,791
USDA - Other	0	0	6,867	0	6,867
Adult Education State Grant Program	93,994	0	0	0	93,994
Title I Grants to Local Education Agencies	0	494,794	0	0	494,794
Special Education - Grants to States	0	516,819	0	0	516,819
Eisenhower Professional Development State Grants	0	151,660	0	0	151,660
Other Federal through State	143,895	75,068	0	0	218,963
<u>Direct Federal Revenue</u>					
Forest Service	66,519	0	0	0	66,519
Total Federal Government	\$ 304,408	\$ 1,238,341	\$ 612,785	\$ 0	\$ 2,155,534
<u>Other Governments and Citizens Groups</u>					
<u>Other Governments</u>					
Contributions	\$ 0	\$ 0	\$ 0	\$ 4,632,047	\$ 4,632,047
Total Other Governments and Citizens Groups	\$ 0	\$ 0	\$ 0	\$ 4,632,047	\$ 4,632,047
Total	\$ 13,994,663	\$ 1,238,341	\$ 1,045,137	\$ 5,094,047	\$ 21,372,188

Exhibit F-5

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

General Purpose School Fund

Instruction

Regular Instruction Program

Teachers	\$ 5,283,956	
Career Ladder Program	67,777	
Career Ladder Extended Contracts	37,750	
Educational Assistants	100,677	
Other Salaries & Wages	106,434	
Certified Substitute Teachers	94,572	
Social Security	342,740	
State Retirement	304,942	
Life Insurance	3,869	
Medical Insurance	735,819	
Dental Insurance	54,341	
Unemployment Compensation	3,499	
Employer Medicare	79,990	
Penalties	11,681	
Other Contracted Services	1,000	
Instructional Supplies and Materials	74,006	
Textbooks	231,744	
Other Supplies and Materials	188	
Other Charges	398,441	
Total Regular Instruction Program		\$ 7,933,426

Special Education Program

Teachers	\$ 420,334	
Career Ladder Program	10,000	
Career Ladder Extended Contracts	2,000	
Homebound Teachers	50,069	
Educational Assistants	119,481	
Certified Substitute Teachers	3,712	
Social Security	35,738	
State Retirement	32,603	
Life Insurance	555	
Medical Insurance	103,575	
Dental Insurance	4,532	
Unemployment Compensation	3,107	
Employer Medicare	8,358	
Instructional Supplies and Materials	6,585	
Total Special Education Program		800,649

(Continued)

Exhibit F-5

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

General Purpose School Fund (Cont.)

Instruction (Cont.)

Vocational Education Program

Teachers	\$	446,665	
Career Ladder Program		5,000	
Certified Substitute Teachers		5,085	
Social Security		25,725	
State Retirement		24,597	
Life Insurance		324	
Medical Insurance		71,318	
Dental Insurance		4,944	
Employer Medicare		6,016	
Instructional Supplies and Materials		15,834	
Total Vocational Education Program			\$ 605,508

Student Body Education Program

Other Salaries & Wages	\$	48,848	
Social Security		3,029	
State Retirement		2,687	
Life Insurance		27	
Dental Insurance		412	
Employer Medicare		708	
Other Contracted Services		4,090	
Other Supplies and Materials		154,369	
Other Charges		3,949	
Principal on Notes		1,000	
Principal on Capital Leases		43,219	
Interest on Capital Leases		5,157	
Other Equipment		73,944	
Total Student Body Education Program			341,439

Adult Education Program

Teachers	\$	18,980	
Other Salaries & Wages		11,600	
Social Security		1,847	
Unemployment Compensation		1,636	
Employer Medicare		494	
Total Adult Education Program			34,557

Support Services

Attendance

Supervisor/Director	\$	62,895	
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(Continued)

Exhibit F-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Attendance (Cont.)

Career Ladder Program	\$	1,000	
Social Security		3,798	
State Retirement		3,514	
Life Insurance		27	
Medical Insurance		4,643	
Dental Insurance		412	
Employer Medicare		888	
Travel		2,306	
Other Contracted Services		8,376	
Total Attendance			\$ 87,859

Health Services

Medical Personnel	\$	32,072	
Social Security		1,988	
State Retirement		1,764	
Life Insurance		27	
Medical Insurance		4,643	
Dental Insurance		412	
Employer Medicare		465	
Other Contracted Services		722	
Total Health Services			42,093

Other Student Support

Career Ladder Program	\$	6,000	
Guidance Personnel		109,168	
Psychological Personnel		45,150	
Career Ladder Extended Contracts		4,000	
Assessment Personnel		64,621	
Social Security		13,958	
State Retirement		12,592	
Life Insurance		108	
Medical Insurance		18,522	
Dental Insurance		1,735	
Employer Medicare		3,264	
Evaluation and Testing		6,900	
Travel		826	
Total Other Student Support			286,844

(Continued)

Exhibit F-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Regular Instruction Program

Supervisor/Director	\$	63,000	
Career Ladder Program		6,000	
Career Ladder Extended Contracts		2,000	
Librarians		152,494	
Other Salaries & Wages		21,642	
Social Security		15,016	
State Retirement		14,506	
Life Insurance		189	
Medical Insurance		31,301	
Dental Insurance		1,648	
Employer Medicare		3,512	
Travel		1,901	
In Service/Staff Development		465	
Other Charges		22,800	
Total Regular Instruction Program			\$ 336,474

Special Education Program

Supervisor/Director	\$	31,266	
Career Ladder Program		1,000	
Clerical Personnel		4,517	
Social Security		2,222	
State Retirement		2,148	
Life Insurance		27	
Medical Insurance		4,470	
Dental Insurance		412	
Employer Medicare		520	
Travel		5,807	
Total Special Education Program			52,389

Vocational Education Program

Supervisor/Director	\$	28,061	
Social Security		1,608	
State Retirement		1,543	
Life Insurance		19	
Medical Insurance		3,370	
Dental Insurance		256	
Employer Medicare		376	
Total Vocational Education Program			35,233

(Continued)

Exhibit F-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Adult Programs

Supervisor/Director	\$	28,000	
Clerical Personnel		1,200	
Social Security		1,811	
State Retirement		100	
Life Insurance		32	
Medical Insurance		4,285	
Dental Insurance		412	
Employer Medicare		423	
In Service/Staff Development		1,960	
Other Charges		7,210	
Total Adult Programs			\$ 45,433

Board of Education

Secretary to Board	\$	833	
Board and Committee Members Fees		15,800	
Social Security		1,031	
State Retirement		69	
Employer Medicare		241	
Audit Services		8,750	
Dues and Memberships		8,512	
Legal Services		13,032	
Travel		315	
Other Contracted Services		1,867	
Liability Insurance		34,723	
Premiums on Corporate Surety Bonds		1,781	
Trustee's Commission		80,517	
Workers' Compensation Insurance		86,262	
Total Board of Education			253,733

Director of Schools

County Official/Administrative Officer	\$	99,203	
Secretary(s)		20,546	
Social Security		6,966	
State Retirement		7,608	
Life Insurance		54	
Medical Insurance		14,640	
Dental Insurance		1,275	
Employer Medicare		1,858	
Communication		54,494	

(Continued)

Exhibit F-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Director of Schools (Cont.)

Dues and Memberships	\$	1,330	
Travel		8,551	
Other Contracted Services		8,938	
Office Supplies		2,494	
Other Charges		1,400	
Total Director of Schools			\$ 229,357

Office of the Principal

Principals	\$	376,343	
Career Ladder Program		7,083	
Accountants/Bookkeepers		56,192	
Career Ladder Extended Contracts		3,000	
Assistant Principals		104,710	
Clerical Personnel		110,835	
Social Security		38,954	
State Retirement		35,455	
Life Insurance		550	
Medical Insurance		90,133	
Dental Insurance		4,065	
Unemployment Compensation		2,652	
Employer Medicare		9,110	
Travel		2,313	
Total Office of the Principal			841,395

Fiscal Services

Secretary(s)	\$	11,140	
Clerical Personnel		21,345	
Social Security		1,866	
State Retirement		2,687	
Life Insurance		54	
Medical Insurance		6,890	
Employer Medicare		436	
Travel		68	
Other Contracted Services		5,328	
Office Supplies		2,531	
Total Fiscal Services			52,345

Operation of Plant

Custodial Personnel	\$	257,871	
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(Continued)

Exhibit F-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Operation of Plant (Cont.)

Social Security	\$	15,876	
State Retirement		9,583	
Life Insurance		540	
Medical Insurance		67,412	
Employer Medicare		3,713	
Other Contracted Services		43,564	
Custodial Supplies		60,467	
Electricity		369,961	
Fuel Oil		59,262	
Water and Sewer		48,341	
Boiler Insurance		5,698	
Building and Contents Insurance		103,814	
Plant Operation Equipment		600	
Total Operation of Plant			\$ 1,046,702

Maintenance of Plant

Maintenance Personnel	\$	72,175	
Other Salaries & Wages		2,000	
Social Security		4,685	
State Retirement		5,969	
Life Insurance		96	
Medical Insurance		15,276	
Employer Medicare		1,096	
Other Contracted Services		45,306	
Other Supplies and Materials		25,763	
Maintenance Equipment		1,625	
Total Maintenance of Plant			173,991

Transportation

Mechanic(s)	\$	62,361
Bus Drivers		299,656
Clerical Personnel		3,800
Other Salaries & Wages		39,935
Social Security		25,085
State Retirement		12,751
Life Insurance		745
Medical Insurance		48,376
Employer Medicare		5,867
Medical and Dental Services		1,471

(Continued)

Exhibit F-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Transportation (Cont.)

Travel	\$	296	
Gasoline		77,768	
Tires and Tubes		10,270	
Vehicle Parts		73,591	
Vehicle and Equipment Insurance		32,052	
In Service/Staff Development		952	
Other Charges		886	
Transportation Equipment		<u>126,000</u>	
Total Transportation	\$		821,862

Operation of Non-Instructional Services

Food Service

Supervisor/Director	\$	23,406	
Clerical Personnel		21,345	
Social Security		2,775	
State Retirement		3,701	
Life Insurance		54	
Medical Insurance		9,063	
Employer Medicare		649	
Travel		1,407	
Other Charges		<u>13,869</u>	
Total Food Service			76,269

Capital Outlay

Regular Capital Outlay

Other Capital Outlay	\$	<u>11,998</u>	
Total Regular Capital Outlay			11,998

Other Debt Service

Education

Debt Service Contribution to Primary Government	\$	<u>400,000</u>	
Total Education			<u>400,000</u>

Total General Purpose School Fund \$ 14,509,556

School Federal Projects Fund

Instruction

Regular Instruction Program

Teachers	\$	240,140	
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(Continued)

Exhibit F-5

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

School Federal Projects Fund (Cont.)

Instruction (Cont.)

Regular Instruction Program (Cont.)

Educational Assistants	\$	102,554	
Certified Substitute Teachers		4,603	
Social Security		20,481	
State Retirement		16,308	
Life Insurance		231	
Medical Insurance		65,036	
Dental Insurance		2,955	
Employer Medicare		4,724	
Instructional Supplies and Materials		1,342	
Other Charges		71,698	
Total Regular Instruction Program			\$ 530,072

Special Education Program

Educational Assistants	\$	97,750	
Other Salaries & Wages		6,881	
Certified Substitute Teachers		5,457	
Social Security		7,085	
State Retirement		6,174	
Life Insurance		142	
Medical Insurance		33,490	
Employer Medicare		1,789	
Contracts with Private Agencies		86,753	
Other Contracted Services		21,086	
Other Supplies and Materials		123,651	
Other Charges		12,183	
Special Education Equipment		43,210	
Total Special Education Program			445,651

Vocational Education Program

Other Contracted Services	\$	3,267	
Principal on Capital Leases		7,696	
Interest on Capital Leases		2,718	
Vocational Instruction Equipment		10,131	
Total Vocational Education Program			23,812

Support Services

Health Services

Medical Personnel	\$	14,547	
Social Security		902	

(Continued)

Exhibit F-5

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

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Health Services (Cont.)

State Retirement	\$	855	
Life Insurance		16	
Employer Medicare		211	
Travel		198	
Drugs and Medical Supplies		791	
Total Health Services			\$ 17,520

Other Student Support

Other Salaries & Wages	\$	9,000	
Social Security		547	
State Retirement		335	
Employer Medicare		128	
Travel		3,675	
Other Contracted Services		5,396	
Other Supplies and Materials		2,031	
Total Other Student Support			21,112

Regular Instruction Program

Supervisor/Director	\$	29,638	
Secretary(s)		10,540	
Social Security		2,592	
State Retirement		2,591	
Life Insurance		26	
Medical Insurance		4,482	
Dental Insurance		206	
Employer Medicare		606	
Travel		1,354	
Library Books/Media		12,291	
Other Supplies and Materials		332	
In Service/Staff Development		27,161	
Total Regular Instruction Program			91,819

Special Education Program

Secretary(s)	\$	4,517	
Social Security		280	
State Retirement		270	
Life Insurance		5	
Medical Insurance		500	
Employer Medicare		67	

(Continued)

Exhibit F-5

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

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Special Education Program (Cont.)

Travel	\$	6,293	
Other Supplies and Materials		2,139	
In Service/Staff Development		3,689	
Total Special Education Program			\$ 17,760

Transportation

Transportation Equipment	\$	31,500	
Total Transportation			31,500

Total School Federal Projects Fund \$ 1,179,246

Central Cafeteria Fund

Operation of Non-Instructional Services

Food Service

Cafeteria Personnel	\$	373,374	
Social Security		23,149	
Employee and Dependent Insurance		166	
Life Insurance		739	
Medical Insurance		7,465	
Unemployment Compensation		1,532	
Employer Medicare		5,414	
Communication		1,390	
Dues and Memberships		687	
Maintenance Agreements		5,000	
Maintenance & Repair Services- Equipment		12,270	
Penalties		432	
Other Contracted Services		5,022	
Food Supplies		472,277	
Other Supplies and Materials		38,855	
Refunds		24	
In Service/Staff Development		995	
Food Service Equipment		14,647	
Total Food Service			\$ 963,438

Total Central Cafeteria Fund 963,438

(Continued)

Exhibit F-5

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

Education Capital Projects Fund

Other Debt Service

Education

Debt Service Contribution to Primary Government	\$ 180,000	
Total Education		\$ 180,000

Capital Projects

Education Capital Projects

Architects	\$ 60,625	
Building Construction	5,142,299	
Building Improvements	143,172	
Other Capital Outlay	17,135	
Total Education Capital Projects		<u>5,363,231</u>

Total Education Capital Projects Fund		<u>\$ 5,543,231</u>
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Total Governmental Funds - Polk County School Department		<u>\$ 22,195,471</u>
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SINGLE AUDIT REPORT
POLK COUNTY, TENNESSEE
AND
POLK COUNTY SCHOOL DEPARTMENT
FOR THE YEAR ENDED JUNE 30, 2005

DEPARTMENT OF AUDIT
JOHN G. MORGAN
Comptroller of the Treasury

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

ARTHUR L. ALEXANDER
Director

CARL LOWE, CGFM
Audit Manager

MICHAEL FORD, CPA, CGFM
Auditor 4

KATHY CLEMENTS, CGFM
JENI BOYETTE
TIMOTHY SCOTTON
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**

December 1, 2005

Polk County Executive, Board of County Commissioners,
Director of Schools, and Board of Education
Polk County, Tennessee

To the County Executive, 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 Polk County, Tennessee, and the Polk County School Department as of and for the year ended June 30, 2005, which collectively comprise a portion of Polk County's and the Polk County School Department's basic financial statements and have issued our reports thereon dated December 1, 2005. Our reports on the financial statements of Polk County, Tennessee, and the Polk 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 Polk County's and the Polk 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 Polk County's and the Polk

County School Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 05.02, 05.04, 05.07, 05.09, 05.10(D,E), 05.11, 05.12, and 05.16.

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 05.07 and 05.10(D,E) to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Polk County's and the Polk 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 item 05.01, 05.03, 05.05, 05.06, 05.08, 05.10(A,B,C), 05.13, 05.14, and 05.15.

We have also noted certain matters that we reported to the management of Polk County and the Polk 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/yu



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

December 1, 2005

Polk County Executive, Board of County Commissioners,
Director of Schools and Board of Education
Polk County, Tennessee

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

Compliance

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

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

Internal Control Over Compliance

The management of Polk County and the Polk 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 Polk County's and the Polk 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 Polk County, Tennessee and the Polk County School Department, as of and for the year ended June 30, 2005, and have issued our reports thereon dated December 1, 2005. Our reports on the financial statements of Polk County and the Polk 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/yu

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

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Passed-through Entity Identifying Number	Expenditures
U.S. Department of Agriculture:			
Passed-through State Department of Agriculture:			
Food Donation (Noncash Assistance)	10.550	N/A	\$ 68,806
Passed-through State Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	143,791
National School Lunch Program	10.555	N/A	468,993
Total U.S. Department of Agriculture			\$ 681,590
U.S. Department of Housing and Urban Development:			
Passed-through State Housing Development Agency:			
HOME Investment Partnerships Program	14.239	HM-03-58	\$ 190,737
U.S. Department of Transportation:			
Direct Program:			
Payments in Lieu of Taxes	15.226	N/A	\$ 118,361
U.S. Department of Labor:			
Pass-through Southeast Tennessee Development District:			
Workforce Investment Act of 1998	17.250	03-05-PY2-YOUTH	\$ 19,264
U.S. Department of Transportation			
Passed-through State Department of Transportation:			
Occupant Protection	20.602	Z-05-024126-00	\$ 5,787
U.S. Department of Education:			
Passed-through State Department of Education:			
Adult Education - State Grant Program	84.002	Z-04-016702-00	\$ 93,994
Title I Grants to Local Educational Agencies	84.010	N/A	478,303
Special Education - Grants to States	84.027	N/A	517,967
Vocational Education - Basic Grants to States	84.048	N/A	27,466
Safe and Drug Free Schools and Communities - National Programs	84.184	Z-05-021793-00	5,505
Safe and Drug Free Schools and Communities - State Grants	84.186	(2)	20,959
Eisenhower Professional Development State Grants	84.281	N/A	139,317
Twenty-First Century Community Learning Centers	84.287	Z-05-021736-00	110,967
State Grants for Innovative Programs	84.298	N/A	12,468
Advanced Placement Program	84.330	Z-03-03332-00	1,777
Total U.S. Department of Education			\$ 1,408,723
U.S. Department of Health and Human Services:			
Passed-through State Commission on Aging:			
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	(2)	\$ 85,354
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	(2)	21,800
Total U.S. Department of Health and Human Services			\$ 107,154
U.S. Corporation for National Service:			
Passed-through State Department of Education:			
Learn and Serve America - School and Community Based Programs	94.004	GG-05-11275-00	\$ 6,382
U.S. Department of Homeland Security:			
Passed-through State Department of Military:			
State Domestic Preparedness Equipment Support Program	97.004	Z-04-020136-00	\$ 11,977 (3)
State Domestic Preparedness Equipment Support Program	97.004	Z-04-020136-01	12,277 (3)
Public Assistance Grants	97.036	1464	39,742
Total U.S. Department of Homeland Security			\$ 63,996
Total Expenditures of Federal Awards			\$ 2,601,994

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

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Passed-through Entity Identifying Number	Expenditures
<u>State Grants</u>			
ABC Art Grant - State Arts Commission	N/A	05-14	\$ 800
Family Resource - State Department of Education	N/A	Z-05-21412-00	20,123
School Safety - State Department of Education	N/A	(2)	3,652
State Reappraisal Program - Comptroller of the Treasury	N/A	(2)	8,907
Juvenile Services Program - State Commission on Children and Youth	N/A	(2)	9,000
Litter Program - State Department of Transportation	N/A	(2)	26,248
Senior Center - State Commission on Aging	N/A	(2)	6,289
Local Health Services - State Department of Health	N/A	OP-05-08	30,400
Waste Tire Grant - State Department of Environment and Conservation	N/A	Z-03-011295-00	11,549
Tobacco - State Department of Health	N/A	GG-04-10236-00	18,600
Total State Grants			\$ 135,568

CFDA = Catalog of Federal Domestic Assistance

N/A = Not applicable

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

(2) - Information not available.

(3) - Total State Domestic Preparedness Equipment Support Program (CFDA #97.004) from the U. S. Department of Homeland Security \$24,254.

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

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

POLK COUNTY AND POLK COUNTY SCHOOL DEPARTMENT

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

OFFICE OF HIGHWAY SUPERINTENDENT

Finding Number	Page Number	Subject
04.03	13	Receivables and payables were not determined and recorded in the Highway/Public Works Fund

OFFICE OF DIRECTOR OF SCHOOLS

Finding Number	Page Number	Subject
04.05	14	Central Cafeteria Fund transactions were not channeled through the Trustee's Office
04.06	15	Deficiencies were noted in budget operations
04.07(A)	15	Deficiencies were noted in purchasing procedures
04.08	16	The School Department did not maintain inventory records

OFFICES OF COUNTY CLERK AND SHERIFF

Finding Number	Page Number	Subject
04.12	19	Funds were not deposited within three days

OTHER FINDINGS AND RECOMMENDATIONS

Finding Number	Page Number	Subject
04.13	19	The provisions of the Fiscal Control Acts of 1957 were not followed
04.14	20	Duties were not segregated adequately in the Offices of County Executive, Highway Superintendent, Director of Schools, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff

**POLK COUNTY, TENNESSEE, AND THE
POLK 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 Polk County and the Polk County School Department.
2. The audit of the financial statements of Polk County and the Polk County School Department disclosed reportable conditions in internal control. Of these conditions, one was considered to be a material weakness for Polk County, and one was considered to be a material weakness for the Polk County School Department.
3. The audit disclosed three instances of noncompliance that are material to the financial statements of Polk County and three instances of noncompliance that are material to the financial statements of the Polk County School Department.
4. The audit disclosed no reportable conditions in internal control over major programs.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit revealed no findings that are required to be reported under Section 510(a) of OMB Circular A-133.
7. The Child Nutrition Cluster: the School Breakfast Program and the National School Lunch Program (CFDA Nos. 10.553 and 10.555), Title I Grants to Local Educational Agencies (CFDA No. 84.010), and Special Education - Grants to States (CFDA No. 84.027) 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. Polk County and the Polk 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. Officials offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

POLK COUNTY AND POLK 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)

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

RECOMMENDATION

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

OFFICE OF COUNTY EXECUTIVE

**FINDING 05.02 THE GENERAL FUND HAD A FUND DEFICIT
(Internal Control – Reportable Condition Under Government Auditing Standards)**

The General Fund had an undesignated fund deficit of \$29,462 at June 30, 2005. This fund deficit resulted from continued spending while revenues failed to meet projections and certain amounts of fund balance were being legally restricted. This deficit was liquidated subsequent to June 30, 2005.

RECOMMENDATION

County officials should take steps to ensure that the fund deficit does not recur. Expenditures should be closely monitored when revenue estimates are below projections. Revenue estimates should be made on a more realistic basis to provide county officials with accurate information to base funding decisions.

**FINDING 05.03 THE OFFICE DID NOT FILE THE DEBT OBLIGATIONS REPORT WITH THE STATE DIRECTOR OF LOCAL FINANCE
(Noncompliance Under Government Auditing Standards)**

The office did not file a Report on Debt Obligations with the state director of Local Finance for a capital lease (\$33,174) for sheriff vehicles and a capital outlay note (\$250,000) for the construction of the justice center. Section 9-21-151, Tennessee Code Annotated, requires that within 45 days following the issuance of debt, the county must provide to the state director of Local Finance certain information, such as a description of the purchase/construction for which the debt was issued, a description of the debt obligation, and an itemized description of the costs of issuance.

RECOMMENDATION

All debt obligations should be reported to the state director of Local Finance as required by state statute.

**FINDING 05.04 THE OFFICE HAD DEFICIENCIES IN THE MAINTENANCE OF ACCOUNTING RECORDS
(Internal Control – Reportable Condition Under Government Audit Standards)**

Our audit noted the following deficiencies in the maintenance of accounting records:

- A. The General Fund's general ledger account for Cash on Deposit with Trustee did not reconcile with the trustee's report by approximately \$69,000. Our audit of this account revealed that warrants had been incorrectly posted. We have provided county officials with an audit adjustment for their approval and posting in order to properly present this account in the financial statements of this report.
- B. The office did not close its accounting records for the 2004-2005 fiscal year until November 2005. This delay prevented the county executive from providing the County Commission with current financial information.
- C. The office did not provide auditors with a list of federal grants received and each grant's corresponding Catalog of Federal Domestic Assistance (CFDA) numbers as required by federal single audit guidelines and as agreed upon in management's representation letter. We obtained this information for the Schedule of Expenditures of Federal Awards and State Grants from transmittals and direct deposit information maintained by the County Trustee's Office.

RECOMMENDATION

Monthly reconciliations should be performed to document that balances on the general ledger are accurate. Variances between general ledger balances and the trustee's records should be identified and corrected promptly. The office should close its accounting records within 60 days following the end of the accounting period to provide the public with current financial information. The County Executive's Office should maintain a list of federal grants received and each grant's corresponding CFDA number.

OFFICE OF HIGHWAY SUPERINTENDENT

FINDING 05.05 **THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES** (Material Noncompliance Under Government Auditing Standards)

Our examination of purchasing procedures revealed the following deficiencies:

- A. The Highway Department solicited and received bids for petroleum, rock, hot mix, oil, stripping, tires and pipe as required by the County Purchasing Law of 1957, Section 5-14-101, et seq. and the Uniform Road Law, Section 54-7-113, Tennessee Code Annotated, (TCA). However, the Highway Department did not accept or reject the bids. Instead, the highway superintendent stated that he purchased from the lowest bidder based on where these supplies and materials were to be delivered and their availability. However, no documentation was on hand to support this practice.

In the case, Owen of Georgia, Inc., versus Shelby County, 442F. Supp. 314 (w.b. Tenn. 1977), the court stated that “to reject the bid of the lowest bidder there must be such evidence of the irresponsibility of the bidder as would cause fair-minded and reasonable men to believe that it was not for the best interest of the municipality to award the contract to the lowest bidder.”

- B. Competitive bids were not solicited for the purchase of a dirt loader (\$47,500). The County Purchasing Law of 1957, Section 5-14-101, et seq. and the Uniform Road Law, Section 54-7-113, TCA, require that sealed bids be solicited on purchases exceeding \$10,000.

RECOMMENDATION

Purchases should be made from the vendor with the lowest price that meets bid specifications unless adequate documentation is on file supporting the decision to reject the lowest bid. Also, competitive bids should be solicited for purchases exceeding \$10,000.

FINDING 05.06 **EXPENDITURES EXCEEDED APPROPRIATIONS**
(Noncompliance Under Government Auditing Standards)

Highway/Public Works Fund expenditures exceeded appropriations approved by the County Commission in the Operation and Maintenance of Equipment (\$33,926) and Employee Benefits (\$5,342) major appropriation categories (the legal level of control). Section 5-9-401, Tennessee Code Annotated (TCA), states that “All funds ... including, but not limited to ... taxes, county aid funds, federal funds, and fines, which are to be used in the operation and respective programs of the various departments, commissions, institutions, boards, offices and agencies of the county governments shall be appropriated to such use by the county legislative bodies.”

RECOMMENDATION

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

FINDING 05.07 **RECEIVABLES AND PAYABLES WERE NOT DETERMINED AND RECORDED IN THE HIGHWAY/PUBLIC WORKS FUND**
(Internal Control – Material Weakness Under Government Auditing Standards)

Receivables and payables at June 30, 2005, were not determined and recorded on the accounting records of the Highway/Public Works Fund as required by generally accepted accounting principles. We performed additional audit procedures to determine receivables and payables at June 30, 2005. Audit adjustments to receivables (\$140,483) and payables (\$78,954) were presented to management for approval and posting to the financial records.

As a result of these adjustments, the receivables and payables of the Highway/Public Works Fund are properly presented in the financial statements of this report.

RECOMMENDATION

Receivables and payables should be properly determined and recorded on the accounting records of the Highway/Public Works Fund at June 30 of each year.

FINDING 05.08 **A COUNTY ROAD LIST WAS NOT SUBMITTED TO THE COUNTY COMMISSION FOR APPROVAL**
(Noncompliance Under Government Auditing Standards)

The highway superintendent did not prepare and submit a list of county roads to the County Commission as required by state statute. Section 54-10-103, Tennessee Code Annotated, requires the highway superintendent to submit a list of county roads to the County Commission for its approval at the January session each year. This list must include the classification, width and distance of each county-maintained road, and a summary of changes from the prior year that provides the road name, date the change was approved by the County Commission, and the reason for the change. Highway Department officials need a current approved list of county roads to determine which roads the department is authorized to work.

RECOMMENDATION

The highway superintendent should submit a list of county roads to the County Commission for approval in January of each year as required by state statute.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 05.09 **THE GENERAL PURPOSE SCHOOL FUND HAD A FUND DEFICIT**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The General Purpose School Fund had an undesignated fund deficit of \$167,257 at June 30, 2005. This fund deficit resulted from expenditures and encumbrances exceeding available funding caused in part by overestimated revenues, underestimated expenditures, and poor budgetary procedures. This deficit was liquidated subsequent to June 30, 2005.

RECOMMENDATIONS

Officials should take steps to ensure that the fund deficit does not recur. Revenue and expenditure estimates should be made on a more realistic basis to provide county officials with accurate information to base funding decisions.

FINDING 05.10 THE OFFICE HAD DEFICIENCIES IN BUDGET OPERATIONS
(A. and B. Material Noncompliance Under Government Auditing Standards; C. Noncompliance Under Government Auditing Standards; D. and E. Internal Control – Material Weakness Under Government Auditing Standards)

Our examination of budget operations revealed the following deficiencies:

- A. Total expenditures and other uses exceeded appropriations approved by the County Commission in the General Purpose School Fund by \$442,654. Section 5-9-401, Tennessee Code Annotated (TCA), states that “All funds ...including, but not limited to ... taxes, county aid funds, federal funds, and fines, which are to be used in the operations and respective programs of the various departments, commissions, institutions, boards, offices and agencies of the county governments shall be appropriated to such use by the county legislative bodies.”
- B. The Central Cafeteria Fund was not operated under a formal budget adopted by the County Commission as required by Section 5-9-401, TCA.
- C. Some budget amendments posted to the accounting records were not approved by the County Commission. Section 5-9-407, TCA, requires the County Commission’s approval for budget amendments that affect a major category. Also, some properly approved budget amendments were incorrectly posted to the accounting records. We have properly presented the budget and budget amendments in the financial statements of this report.
- D. The General Purpose School Fund’s actual fund balance and reserves at July 1, 2004, was \$558,704; however, the estimated fund balance and reserves reflected in the county’s budget was \$0. Therefore, the actual fund balance and reserves exceeded the estimated fund balance and reserves presented to the County Commission by \$558,704.
- E. Estimated revenues exceeded actual revenues by \$464,900 in the General Purpose School Fund.

RECOMMENDATION

General Purpose School Fund expenditures and other uses should be held within appropriations approved by the County Commission, and the Central Cafeteria Fund should be operated under a formal budget adopted by the County Commission. Budget amendments affecting major categories should be approved by the Board of Education and the County Commission, and should be accurately posted to the accounting records. The estimate of beginning fund balance and all revenues should be made on a more realistic basis to provide county officials with accurate information to base funding decisions.

FINDING 05.11 **THE OFFICE HAD DEFICIENCIES IN PROCESSING VENDOR PAYMENTS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The office had deficiencies in processing vendor payments. Documentation that goods had been received or services had been rendered was not always maintained, and invoices were not always cancelled or marked paid. These weaknesses could result in the department's paying for items not received or paying invoices more than once.

RECOMMENDATION

The director of schools should establish and follow procedures for processing and paying invoices. The office should maintain documentation that goods have been received or services have been rendered, and invoices should be cancelled when paid.

FINDING 05.12 **THE SCHOOL DEPARTMENT DID NOT MAINTAIN INVENTORY RECORDS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The School Department did not maintain inventory records for its assets. Generally accepted accounting principles require accountability for all county-owned assets, such as equipment, furniture, and vehicles. Without inventory records, the department cannot adequately control its assets.

RECOMMENDATION

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

FINDING 05.13 CENTRAL CAFETERIA FUND TRANSACTIONS WERE NOT CHANNELED THROUGH THE TRUSTEE'S OFFICE
(Material Noncompliance Under Government Auditing Standards)

Transactions of the Central Cafeteria Fund were not channeled through the Trustee's Office as required by state statute. Instead, these transactions were channeled through a bank account administered by the director of schools and food service director. Section 49-2-301, Tennessee Code Annotated, requires that school funds be expended by issuing warrants drawn on the county trustee.

RECOMMENDATION

Operating funds of the Central Cafeteria Fund should be deposited with the county trustee and disbursed by county warrant.

OFFICES OF COUNTY CLERK AND SHERIFF

FINDING 05.14 COLLECTIONS WERE NOT DEPOSITED WITHIN THREE DAYS OF RECEIPT
(Noncompliance Under Government Auditing Standards)

Collections were not deposited to the office bank accounts within three days of receipt as required by Section 5-8-207, Tennessee Code Annotated.

RECOMMENDATION

All collections should be deposited to the office bank accounts within three days of receipt.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 05.15 THE DIRECTOR OF ACCOUNTS AND BUDGET DID NOT MAINTAIN THE ACCOUNTING RECORDS FOR THE HIGHWAY DEPARTMENT
(Material Noncompliance Under Government Auditing Standards)

Polk County operates under the Fiscal Control Acts of 1957, which require the director of accounts and budget to maintain accounting records for funds administered by the county executive and the highway superintendent. However, the director of accounts and budget did not maintain the accounting records for the Highway Department; instead, Highway Department personnel maintained their own accounting records.

RECOMMENDATION

The director of accounts and budget should maintain all accounting records of the Highway Department as required by the Fiscal Control Acts of 1957.

FINDING 05.16

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

(Internal Control – Reportable Condition Under Government Auditing Standards)

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

**PART III, FINDINGS AND QUESTIONED
COSTS FOR FEDERAL AWARDS**

There were no findings and questioned costs for federal awards.

**POLK COUNTY, TENNESSEE, AND THE
POLK 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.