

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

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

SMITH COUNTY, TENNESSEE TABLE OF CONTENTS

	Exhibit/Table	Page(s)
Audit Highlights		1-3
<u>INTRODUCTORY SECTION</u>		5
Smith County Officials		7
<u>FINANCIAL SECTION</u>		9
Independent Auditor's Report		11-13
BASIC FINANCIAL STATEMENTS:		15
Fund Financial Statements:		
Governmental Funds:		
Balance Sheet	A	17-18
Statement of Revenues, Expenditures, and Changes in Fund Balances	B	19-20
Proprietary Fund:		
Statement of Net Assets	C-1	21
Statement of Revenues, Expenses, and Changes in Net Assets	C-2	22
Statement of Cash Flows	C-3	23
Fiduciary Funds:		
Statement of Fiduciary Assets and Liabilities	D	24
Notes to the Financial Statements		25-48
REQUIRED SUPPLEMENTARY INFORMATION:		49
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Actual (Budgetary Basis) and Budget:		
General Fund	E-1	51-54
Highway/Public Works Fund	E-2	55
Notes to the Required Supplementary Information		57
COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES:		59
Nonmajor Governmental Funds:		61-62
Combining Balance Sheet	F-1	63
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	F-2	64-65

	Exhibit/Table	Page(s)
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Actual (Budgetary Basis) and Budget:		
Courthouse & Jail Maintenance Fund	F-3	66
Solid Waste/Sanitation Fund	F-4	67
Ambulance Service Fund	F-5	68
Drug Control Fund	F-6	69
Major Governmental Funds:		71
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Actual and Budget:		
General Debt Service Fund	G-1	73
Education Debt Service Fund	G-2	74
Fiduciary Funds:		75
Combining Statement of Fiduciary Assets and Liabilities	H-1	77
Combining Statement of Changes in Assets and Liabilities – All Agency Funds	H-2	78
Miscellaneous Schedules:		79
Schedule of Changes in Long-term Notes, Capital Leases, Other Loans, and Bonds	I-1	81-82
Schedule of Bond and Interest Requirements by Year	I-2	83
Schedule of Transfers – All Funds	I-3	84
Schedule of Salaries and Official Bonds of Principal Officials	I-4	85
Schedule of Detailed Revenues – All Governmental Fund Types	I-5	86-93
Schedule of Detailed Expenditures – All Governmental Fund Types	I-6	94-111
Schedule of Detailed Revenues and Expenses – Proprietary Fund	I-7	112-113
Schedule of Detailed Receipts, Disbursements, and Changes in Cash Balance – City Agency Fund	I-8	114
 <u>STATISTICAL SECTION</u>		 115
Uncollected Taxes Filed in Chancery Court	1	117
Tax Rates and Assessments – Last Ten Years	2	118

Audit Highlights

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

Results

Our report on Smith 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 23 findings and recommendations, which we have reviewed with Smith County management. Detailed findings, recommendations, and management's responses are included in the Single Audit Report.

Findings

The following are summaries of the audit findings:

SMITH COUNTY

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

OFFICE OF COUNTY MAYOR

- ◆ Questionable expenditures were noted resulting in indictments of a bookkeeper in the County Mayor's Office and her son, an employee of the Sheriff's Department.
- ◆ The office did not use the accrual basis of accounting for the Solid Waste Disposal Fund as required by generally accepted accounting principles.
- ◆ The office had numerous deficiencies in purchasing procedures.
- ◆ The Courthouse and Jail Maintenance Fund had a fund deficit of \$17,958 at June 30, 2005.
- ◆ The Ambulance Service Fund had a cash overdraft of \$70,587 at June 30, 2005.
- ◆ The Ambulance Service had operating deficiencies. Duties were not adequately segregated among employees, patients' accounts receivable and an allowance for uncollectibles were not recorded in the fund, and the Ambulance Service did not follow policies for collections and write-offs established by the County Commission.
- ◆ Capital outlay note proceeds and the related disbursements were not channeled through the county trustee.

OFFICE OF COUNTY MAYOR (CONT.)

- ◆ County officials did not verify the accuracy of their inventory records, did not have policies to ensure that new assets were added to the inventory, and did not label all assets as property of the county.
 - ◆ The Solid Waste Department did not have written policies concerning the collection and write-off of customers' accounts.
 - ◆ The county had not adopted a formal capital assets policy for recording assets in the proprietary fund.
 - ◆ The Smith County Public Library, a special revenue fund, was not audited.
-

OFFICES OF COUNTY MAYOR AND SHERIFF

- ◆ Time records forwarded to the County Mayor's Office were falsified for a part-time employee of the Sheriff's Department.
 - ◆ Some Sheriff Department employees did not adequately document hours worked and did not sign their time reports. Supervisors did not sign employees time reports as evidence of review and approval, and the department's personnel policy did not provide guidance concerning holiday pay.
-

OFFICE OF HIGHWAY SUPERINTENDENT

- ◆ Purchase orders were not issued in some required instances, and some purchase orders did not reflect the date of issuance. In some instances, invoices were paid without documentation that goods and/or services had been received. Competitive bids were not solicited for an \$18,000 lease-purchase of a loader.
 - ◆ Highway Department officials did not verify the accuracy of their inventory records and did not have policies to ensure that new assets were added to the inventory. Some equipment listed on the inventory was not labeled or otherwise clearly marked as county property.
 - ◆ The highway superintendent's list of county roads submitted to the County Commission did not include the required classification, width and distance of each road, and a summary of changes from the prior year.
 - ◆ Office employees of the Highway Department were not bonded.
-

OFFICE OF SHERIFF

- ◆ Commissary and drug control funds were not posted to the cash journal. Bank statements for the commissary and the drug control funds were not reconciled with cash control records. Official prenumbered receipts were not issued for all collections, and funds were not always deposited within three days of collection as required by state statutes.
 - ◆ The sheriff used signature stamps to approve invoices and travel reimbursement claims forwarded to the County Mayor's Office for payment.
 - ◆ The office used confidential drug funds to pay nonconfidential expenditures.
-

OTHER FINDINGS

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

INTRODUCTORY SECTION

Smith County Officials
June 30, 2005

Officials:

Michael Nesbitt, County Mayor
Ralph Coble, Highway Superintendent
Lee Ann Williams, Trustee
Terry Collins, Assessor of Property
Jimmy Norris, County Clerk
Myra Hardcastle, Circuit and General Sessions Courts Clerk
Dianna Dillehay, Clerk and Master
Carol Gibbs, Register
Johnny Bane, Sheriff

Board of County Commissioners:

Michael Nesbitt, Chairman	
Richard Brimm	Larry Kilzer
Phillip Enoch	Kenneth Massey
Scott Fitzpatrick	Earl North
Jerry Futrell	C. D. Poindexter
Mack Gann	Leslie Proffitt
Cristy Geisenhoffer	Ted Russell
Frank Gibbs	Charles Slack
James Milton Gibbs, Jr.	Fred Smith
Billy Halliburton	Margaret Stevens
Vernon Hesson	James Winfree
Clint High	Billy Woodard
Royal Howard	Frank Woodard

FINANCIAL SECTION



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
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JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0269
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INDEPENDENT AUDITOR'S REPORT

January 26, 2006

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

To the County Mayor and Board of County Commissioners:

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Smith County, Tennessee, as of and for the year ended June 30, 2005, as shown on pages 17 through 48, 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 Smith 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, business-type 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, business-type activities, and discretely presented component units are not reasonably determinable.

As described in Note I, Smith 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 Smith County, Tennessee, as of June 30, 2005, or the changes in its financial position or its cash flows, where applicable, for the year then ended.

The financial statements of the Smith County Public Library, a nonmajor special revenue fund, were not audited and available for inclusion in this report. Accordingly the aggregate remaining fund information of Smith County, Tennessee, referred to above does not include the financial statements of the Smith County Public Library, which should be included to conform with accounting principles generally accepted in the United States of America and the basis of accounting prescribed by the Comptroller of the Treasury of the State of Tennessee. The effects on the financial statements are not reasonably determinable.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Smith County, Tennessee, 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 January 26, 2006, on our consideration of Smith County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

As described in Note IV.B., Smith 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 51 through 57 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 Smith 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 and the Education 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 Education 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

JGM/yu

BASIC FINANCIAL STATEMENTS

Exhibit A

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

	Major Funds				Nonmajor	Total
	General	Highway/ Public Works	General Debt Service	Education Debt Service	Funds Other Govern- mental Funds	
ASSETS						
Equity in Pooled Cash and Investments	\$ 386,768	\$ 191,205	\$ 672,095	\$ 1,398,034	\$ 156,556	\$ 2,804,658
Accounts Receivable	8	0	0	0	89,210	89,218
Due from Other Governments	122,508	269,417	0	70,175	0	462,100
Due from Other Funds	9,839	0	0	0	6,250	16,089
Property Taxes Receivable	2,434,028	146,673	399,378	349,456	0	3,329,535
Allowance for Uncollectible Property Taxes	(81,722)	(4,685)	(15,115)	(13,225)	0	(114,747)
Prepaid Items	8,998	0	0	0	0	8,998
Total Assets	\$ 2,880,427	\$ 602,610	\$ 1,056,358	\$ 1,804,440	\$ 252,016	\$ 6,595,851

LIABILITIES AND FUND BALANCES

Liabilities

Payroll Deductions Payable	\$ 5,395	\$ 0	\$ 0	\$ 0	\$ 475	\$ 5,870
Cash Overdraft	0	0	0	0	70,587	70,587
Due to Other Funds	4,850	0	0	0	9,839	14,689
Other Current Liabilities	0	0	0	0	7	7
Deferred Revenue - Current Property Taxes	2,273,166	137,767	367,380	321,458	0	3,099,771
Deferred Revenue - Delinquent Property Taxes	79,140	4,221	16,883	14,773	0	115,017
Other Deferred Revenues	50,369	127,282	0	36,006	0	213,657
Total Liabilities	\$ 2,412,920	\$ 269,270	\$ 384,263	\$ 372,237	\$ 80,908	\$ 3,519,598

Fund Balances

Reserved for Encumbrances	\$ 10,909	\$ 0	\$ 0	\$ 0	\$ 300	\$ 11,209
Reserved for Alcohol and Drug Treatment	20,815	0	0	0	0	20,815
Reserved for Litigation Tax - Jail, Workhouse, or Courthouse	0	0	0	0	100,132	100,132
Reserved for Computer System - Register	7,906	0	0	0	0	7,906
Reserved for Automation Purposes - Circuit Court	1,028	0	0	0	0	1,028
Reserved for Automation Purposes - General Sessions Court	1,251	0	0	0	0	1,251
Reserved for Automation Purposes - Chancery Court	1,940	0	0	0	0	1,940
Reserved for Automation Purposes - Sheriff	5,445	0	0	0	0	5,445

(Continued)

Exhibit A

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

	Major Funds				Nonmajor	Total
	General	Highway/ Public Works	General Debt Service	Education Debt Service	Funds Other Govern- mental Funds	
<u>LIABILITIES AND FUND BALANCES (Cont.)</u>						
<u>Fund Balances (Cont.)</u>						
Reserved for Capital Outlay	\$ 91,915	\$ 0	\$ 0	\$ 0	\$ 0	\$ 91,915
Unreserved, Reported In:						
General Fund	326,298	0	0	0	0	326,298
Special Revenue Funds	0	333,340	0	0	40,668	374,008
Debt Service Funds	0	0	672,095	1,432,203	0	2,104,298
Capital Projects Funds	0	0	0	0	30,008	30,008
Total Fund Balances	<u>\$ 467,507</u>	<u>\$ 333,340</u>	<u>\$ 672,095</u>	<u>\$ 1,432,203</u>	<u>\$ 171,108</u>	<u>\$ 3,076,253</u>
Total Liabilities and Fund Balances	<u>\$ 2,880,427</u>	<u>\$ 602,610</u>	<u>\$ 1,056,358</u>	<u>\$ 1,804,440</u>	<u>\$ 252,016</u>	<u>\$ 6,595,851</u>

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

Exhibit B

Smith 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 Debt Service	Other Govern- mental Funds	
Revenues						
Local Taxes	\$ 2,825,876	\$ 159,228	\$ 428,218	\$ 1,470,213	\$ 98,427	\$ 4,981,962
Licenses and Permits	47,680	0	0	0	0	47,680
Fines, Forfeitures, and Penalties	63,085	0	0	0	23,797	86,882
Charges for Current Services	21,540	0	0	0	595,924	617,464
Other Local Revenues	260,792	12,246	5,300	54,333	12,209	344,880
Fees Received from County Officials	811,149	0	0	0	0	811,149
State of Tennessee	542,194	1,477,329	0	0	26,568	2,046,091
Federal Government	136,146	0	0	0	1,500	137,646
Other Governments and Citizens Groups	5,911	0	0	296,000	3,650	305,561
Total Revenues	\$ 4,714,373	\$ 1,648,803	\$ 433,518	\$ 1,820,546	\$ 762,075	\$ 9,379,315
Expenditures						
Current:						
General Government	\$ 666,071	\$ 0	\$ 0	\$ 0	\$ 48,441	\$ 714,512
Finance	428,967	0	0	0	0	428,967
Administration of Justice	385,625	0	0	0	0	385,625
Public Safety	2,682,289	0	0	0	5,513	2,687,802
Public Health and Welfare	208,243	0	0	0	1,014,937	1,223,180
Social, Cultural, and Recreational Services	186,198	0	0	0	0	186,198
Agricultural and Natural Resources	59,193	0	0	0	0	59,193
Other Operations	350,322	0	0	0	68,486	418,808
Highways	0	1,692,103	0	0	0	1,692,103
Debt Service:						
Debt Service Principal	0	108,578	226,642	800,000	0	1,135,220
Debt Service Interest	0	12,852	16,316	1,071,207	0	1,100,375
Other Debt Service	0	0	8,404	243,953	0	252,357
Total Expenditures	\$ 4,966,908	\$ 1,813,533	\$ 251,362	\$ 2,115,160	\$ 1,137,377	\$ 10,284,340
Excess (Deficiency) of Revenues Over Expenditures	\$ (252,535)	\$ (164,730)	\$ 182,156	\$ (294,614)	\$ (375,302)	\$ (905,025)

(Continued)

Exhibit B

Smith 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 Debt Service	Other Govern- mental Funds	
<u>Other Financing Sources (Uses)</u>						
Notes Issued	\$ 135,000	\$ 200,000	\$ 0	\$ 0	\$ 61,788	\$ 396,788
Capital Leases Issued	0	18,000	0	0	0	18,000
Refunding Debt Issued	0	0	0	12,800,000	0	12,800,000
Premiums on Debt Issued	0	0	0	1,254,136	0	1,254,136
Other Loans Issued	0	0	0	0	58,768	58,768
Transfers In	0	0	4,495	0	255,064	259,559
Transfers Out	(24,495)	0	0	0	0	(24,495)
Payments to Refunded Debt Escrow Agent	0	0	0	(13,824,944)	0	(13,824,944)
Total Other Financing Sources (Uses)	\$ 110,505	\$ 218,000	\$ 4,495	\$ 229,192	\$ 375,620	\$ 937,812
Net Change in Fund Balances	\$ (142,030)	\$ 53,270	\$ 186,651	\$ (65,422)	\$ 318	\$ 32,787
Fund Balance, July 1, 2004	609,537	180,623	485,444	1,497,625	220,555	2,993,784
Prior Period Adjustment	0	99,447	0	0	(49,765)	49,682
Fund Balance, June 30, 2005	\$ 467,507	\$ 333,340	\$ 672,095	\$ 1,432,203	\$ 171,108	\$ 3,076,253

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

Smith County, Tennessee
Statement of Net Assets
Proprietary Fund
June 30, 2005

	Business-type Activities
	<u>Major Fund</u>
	<u>Solid Waste</u>
	<u>Disposal</u>
<u>ASSETS</u>	
Current Assets:	
Equity in Pooled Cash and Investments	\$ 607,872
Accounts Receivable	208,107
Due from Other Funds	375,000
Noncurrent Assets:	
Capital Assets (Net of Accumulated Depreciation):	
Land	2,033,084
Landfill Facilities and Development	286,869
Machinery and Equipment	738,287
Construction in Progress	44,205
Total Assets	<u>\$ 4,293,424</u>
<u>LIABILITIES</u>	
Noncurrent Liabilities:	
Due Within One Year	\$ 1,657,255
Due in More Than One Year	1,756,930
Total Liabilities	<u>\$ 3,414,185</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	\$ 1,080,450
Unrestricted	<u>(201,211)</u>
Total Net Assets	<u>\$ 879,239</u>

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

Exhibit C-2

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

	Business-type Activities
	<u>Major Fund</u>
	<u>Solid Waste Disposal</u>
<u>Operating Revenues</u>	
Charges for Current Services	\$ 1,064,891
Other Local Revenues	18,238
Total Operating Revenues	<u>\$ 1,083,129</u>
<u>Operating Expenses</u>	
Landfill Operation and Maintenance	\$ 808,270
Depreciation	361,894
Total Operating Expenses	<u>\$ 1,170,164</u>
Operating Income (Loss)	<u>\$ (87,035)</u>
<u>Nonoperating Revenues (Expenses)</u>	
Grants	\$ 9,234
Interest on Capital Lease	(4,452)
Interest on Notes	(44,786)
Total Nonoperating Expenses	<u>\$ (40,004)</u>
Income (Loss) Before Operating Transfers	\$ (127,039)
Transfers Out	<u>(235,064)</u>
Change in Net Assets	\$ (362,103)
Net Assets, July 1, 2004	1,299,530
Prior Period Adjustment	<u>(58,188)</u>
Net Assets, June 30, 2005	<u><u>\$ 879,239</u></u>

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

Exhibit C-3

Smith County, Tennessee
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2005

	Business-type Activities
	<u>Major Fund</u>
	<u>Solid Waste Disposal</u>
 <u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Receipts from Customers and Users	\$ 666,430
Payments for Landfill Operations	(769,435)
Net Cash Provided By (Used In) Operating Activities	<u>\$ (103,005)</u>
 <u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>	
Grants Received	\$ 9,234
Transfers Out	(235,064)
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>\$ (225,830)</u>
 <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Acquisition of Capital Assets	\$ (1,738,131)
Proceeds from Capital Outlay Notes	1,615,573
Principal Paid on Capital Outlay Note	(98,223)
Interest Paid on Capital Outlay Note	(44,786)
Principal Paid on Capital Lease	(77,609)
Interest Paid on Capital Lease	(4,452)
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>\$ (347,628)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (676,463)
Cash and Cash Equivalents, July 1, 2004	<u>1,284,335</u>
Cash and Cash Equivalents, June 30, 2005	<u><u>\$ 607,872</u></u>
 <u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES</u>	
Operating Income (Loss)	\$ (87,035)
Adjustment to Reconcile Net Operating Income To Net Cash Provided By (Used In) Operating Activities:	
Depreciation Costs	361,894
Change in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(100,791)
(Increase) Decrease in Due From Other Funds	(375,000)
(Increase) Decrease in Due From Other Governments	59,092
Increase (Decrease) in Payroll Deductions Payable	(816)
Increase (Decrease) in Landfill Closure/Postclosure Care Costs	<u>39,651</u>
Net Cash Provided By (Used In) Operating Activities	<u><u>\$ (103,005)</u></u>

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

Exhibit D

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

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash	\$ 853,002
Investments	38,923
Accounts Receivable	40
Due from Other Governments	<u>159,103</u>
Total Assets	<u><u>\$ 1,051,068</u></u>
<u>LIABILITIES</u>	
Due to Other Taxing Units	\$ 159,103
Due to Litigants, Heirs, and Others	<u>891,965</u>
Total Liabilities	<u><u>\$ 1,051,068</u></u>

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Smith 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.

Smith County has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities, business-type 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. Smith 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 Smith County's auditor to issue an adverse opinion on the county's financial statements.

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

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

A. Reporting Entity

Smith County is a public municipal corporation governed by an elected 24-member board. As required by GAAP, these financial statements present Smith County (the primary government). Although required by GAAP, the financial statements of the Smith County Public Library, a special revenue fund, were not audited and available for inclusion in this report.

Blended Component Units – There are no legally separate component units of Smith 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 Smith County is presenting fund financial statements only, the financial information of entities that meet the criteria for discretely presented component units is not included in the fund financial statements, as required by generally accepted accounting principles. These entities would have been presented as separate columns in those statements to emphasize that they are legally separate from the county.

The Smith County School Department operates the public school system in the county, and the voters of Smith 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 Smith County Emergency Communications District provides a simplified means of securing emergency services through a uniform emergency number for the residents of Smith County, and the Smith 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 Smith County School Department and the Smith County Emergency Communications District issue separate financial statements from those of the county. The School Department's financial statements are published as a separate report but under the same cover as the county's financial statements. The Smith County Emergency Communications District's financial statements are published as a separate report. Complete financial statements of the Smith County Emergency Communications District can be obtained from its administrative office at the following address:

Administrative Office:

Smith County Emergency Communications District
515 Jefferson Avenue East
Carthage, TN 37030

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

Fund financial statements of Smith 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/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the

governmental and proprietary categories. Smith County only reports one proprietary fund, an enterprise fund.

Separate financial statements are provided for governmental funds, the proprietary fund, and fiduciary funds. Major individual governmental funds and the major individual enterprise fund 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. Smith County considers grants 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 debt service 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 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.

Proprietary fund and 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Smith 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 Debt Service Fund – This fund accounts for the resources accumulated and payments made on behalf of the School Department for principal and interest on long-term general obligation debt.

Smith County reports the following major enterprise fund:

Solid Waste/Disposal Fund – This fund accounts for transactions of the county-owned landfill.

Additionally, Smith County reports the following fund types:

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. Smith County has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. The county has one proprietary fund used to account for the operations of the landfill. Operating revenues and expenses generally result from providing services in connection with the funds' principal ongoing operations. The principal operating revenues of the county's enterprise fund are property taxes and tipping fees.

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 cash on deposit with the county trustee.

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 Smith County and Smith 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 county's General Fund. Smith County and the Smith County School Department have adopted a policy of reporting U.S. Treasury obligations, U.S. agency obligations, and repurchase agreements with maturities of one year or less when purchased on the balance sheet at amortized cost. Certificates of deposit are reported at cost. The State Treasurer's Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows SEC-registered mutual funds to use amortized cost rather than fair value to report net assets to compute share prices if certain conditions are met. State statutes require the state treasurer to administer the pool under the same terms and conditions, including collateral requirements, as prescribed for other funds invested by the state treasurer. All other investments are reported at fair value.

2. **Receivables and Payables**

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

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

Property taxes receivable are shown with an allowance for uncollectibles. The allowance for uncollectible property taxes is equal to 1.93 percent of total taxes levied.

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

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

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

3. Prepaid Items

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items in 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. Smith 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, Smith County does not present government-wide statements.

Capital assets are reported in the statement of net assets of the proprietary fund. Smith County has not adopted a formal policy defining capital assets; however, in general, Smith County has presented capital assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of the enterprise fund is included as part of the capitalized value of the assets constructed.

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

<u>Assets</u>	<u>Years</u>
Landfill Facilities and Development	2 - 10
Machinery and Equipment	2 - 20

5. Compensated Absences

It is the county's policy not to allow for the accumulation of unused vacation and sick days beyond year-end.

Vested or accumulated vacation leave is accrued when incurred in proprietary funds using the accrual basis of accounting. Smith County's proprietary fund did not have a policy for accruing vested or accumulated vacation leave when it was incurred. However, these amounts would be immaterial to the financial statements of Smith County.

6. Long-term Obligations

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

Long-term debt and other long-term obligations are reported as liabilities in the proprietary fund financial statements. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method or straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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. Net Assets and Fund Equity

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

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

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.

8. Prior-period Adjustments

A prior-period adjustment was recognized in the Highway/Public Works Fund (\$99,447), to reduce accounts payable as of July 1, 2004. An expenditure was erroneously posted twice.

A prior-period adjustment was recognized in the Solid Waste Disposal Fund (\$58,188) to increase outstanding capital outlay notes as of

July 1, 2004. The county was disbursing the principal on a capital outlay note but was not making interest payments; therefore, a portion of the principal payments was being applied toward the accrued interest by the bank.

A prior-period adjustment was recognized in the Other Capital Projects Fund (\$49,765) to decrease the amount due from other governments as of July 1, 2004. These receivables were not received during the current year.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Fund Deficit

The Courthouse and Jail Maintenance Fund (a nonmajor special revenue fund) had a deficit fund balance of \$17,958 as of June 30, 2005. This fund deficit resulted from the expenditure of funds reserved for the construction and renovation of the courthouse and jail. Funding to liquidate this deficit is expected to be received through future litigation tax collections.

B. Cash Overdraft

The Ambulance Service Fund had a cash overdraft of \$70,587 at June 30, 2005. This cash overdraft resulted from issuing warrants exceeding cash on deposit with the county trustee. The cash overdraft was liquidated subsequent to June 30, 2005, by the issuance of a revenue anticipation note.

C. Expenditures and Encumbrances Exceeded Appropriations

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

<u>Fund</u>	<u>Major Appropriation Category</u>	<u>Amount</u>
General	County Attorney	\$ 1,796
"	Jail	7,042
"	Civil Defense	2,410
Drug Control	Other Charges	5,003

Such overexpenditures are a violation of state statutes. These overexpenditures were funded by available fund balance.

D. Theft and Misappropriation of County Funds

A bookkeeper in the County Mayor's Office admitted to improperly receiving reimbursements for postage that she did not purchase. The bookkeeper resigned from her employment on October 29, 2004, and was indicted by the

Smith County Grand Jury on December 6, 2004, on one count of theft over \$1,000.

On December 6, 2005, the former bookkeeper in the County Mayor's Office was also indicted by the Smith County Grand Jury on two counts of theft over \$1,000 and one count of theft over \$10,000 related to questionable expenditures. In addition, the bookkeeper's son (a former Sheriff's Department employee) was indicted on two counts of theft over \$1,000, related to these questionable expenditures.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

Deposits

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

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

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

Investments

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

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

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
College Bound Fund	On Demand	<u>\$ 38,923</u>

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

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statutes limit the ratings of certain investments as previously explained. Smith County has no investment policy that would further limit its investment choices. As of June 30, 2005, Smith County's investments in College Bound Mutual Funds were not rated.

Custodial Credit Risk. Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the county will not be able to recover the value of its investments or collateral securities

that are in the possession of an outside party. Smith County does not have a formal policy that limits custodial credit risk for investments. Of the \$38,923 in mutual funds, the underlying securities for \$38,923 were uninsured and held by the investment's counterparty, not in the name of the county. However, it should be noted that these amounts are invested on behalf of litigants at the order of the court and the county has no custodial credit risk for these investments.

B. Capital Assets

Capital assets activity of the proprietary fund for the year ended June 30, 2005, was as follows:

Business-type Activities:

	Balance 7-1-04	Increases	Balance 6-30-05
Capital Assets Not Depreciated:			
Land	\$ 604,370	\$ 1,428,714	\$ 2,033,084
Construction in Progress	0	44,205	44,205
Total Capital Assets Not Depreciated	\$ 604,370	\$ 1,472,919	\$ 2,077,289
Capital Assets Depreciated:			
Landfill Facilities and Development	\$ 1,173,111	\$ 48,300	\$ 1,221,411
Machinery and Equipment	1,469,682	216,912	1,686,594
Total Capital Assets Depreciated	\$ 2,642,793	\$ 265,212	\$ 2,908,005
Less Accumulated Depreciation For:			
Landfill Facilities and Development	\$ 721,307	\$ 213,235	\$ 934,542
Machinery and Equipment	799,648	148,659	948,307
Total Accumulated Depreciation	\$ 1,520,955	\$ 361,894	\$ 1,882,849
Total Capital Assets Depreciated, Net	\$ 1,121,838	\$ (96,682)	\$ 1,025,156
Business-type Activities Capital Assets, Net	\$ 1,726,208	\$ 1,376,237	\$ 3,102,445

C. Interfund Receivables, Payables, and Transfers

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

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental	\$ 9,839
Nonmajor governmental	General	4,850
Nonmajor governmental	General	1,400
Solid Waste Disposal	General	300,000
Solid Waste Disposal	Nonmajor governmental	75,000

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

The receivables in the nonmajor governmental funds (\$1,400) and the Solid Waste Disposal Fund (\$300,000 and \$75,000) were in transit from the General and Ambulance Service Funds at June 30, 2005.

Interfund Transfers:

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

Transfers Out	Transfers In	
	General Debt Service Fund	Nonmajor Governmental Funds
General Fund	\$ 4,495	\$ 20,000
Solid Waste Disposal Fund	0	235,064
Total	\$ 4,495	\$ 255,064

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The county made a one-time transfer of \$4,495 from the General Fund to the General Debt Service Fund to retire debt from note proceeds refunded when equipment purchased with the proceeds was returned.

D. Capital Leases

On December 14, 2000, Smith County entered into a five-year lease-purchase agreement for highway equipment. The terms of this agreement call for total lease payments of \$58,325 plus interest at 6.76 percent.

On May 15, 2001, Smith County entered into a five-year lease-purchase agreement for highway equipment. The terms of this agreement call for total lease payments of \$50,000 plus interest at 5.75 percent.

On December 23, 2002, Smith County entered into a five-year lease-purchase agreement for highway equipment. The terms of this agreement call for total lease payments of \$104,000 plus interest at 5.5 percent.

On June 1, 2005, Smith County entered into a nine-month lease-purchase agreement for a loader. The terms of this agreement call for total lease payments of \$18,000.

The lease payments for each of the above agreements are made from the Highway/Public Works Fund and title to the leased equipment transfers to Smith County at the end of each lease period.

On October 11, 2000, Smith County entered into a five-year lease-purchase agreement for a landfill compactor. The terms of this agreement call for total lease payments of \$355,000 plus interest at 5.85 percent. The title to the leased equipment transfers to the county at the end of the lease period and payments are made from the Solid Waste Disposal Fund.

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

<u>Year Ending June 30</u>	<u>Governmental Funds</u>	<u>Enterprise Fund</u>
2006	\$ 55,137	\$ 34,191
2007	23,719	0
2008	7,907	0
Total Minimum Lease Payments	\$ 86,763	\$ 34,191
Less: Amounts Representing Interest	(3,797)	(494)
Present Value of Minimum Lease Payments	<u>\$ 82,966</u>	<u>\$ 33,697</u>

E. Long-term Debt

Since Smith 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 Smith 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 outstanding were issued for original terms of up to 40 years for bonds, up to three years for notes, and up to 38 years for other loans. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All bonds, notes, and other loans included in long-term debt as of June 30, 2005, will be retired from either the General Debt Service Fund, the Education Debt Service Fund, or the Highway/Public Works Fund.

General obligation bonds, capital outlay notes, 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
General Obligation Bonds	3 to 5.5	% \$ 23,060,000	\$ 7,063,810
General Obligation Bonds - Refunding	5	12,800,000	12,800,000
Capital Outlay Notes	2.92 to 4.49	948,225	635,721
Other Loans	4.63	188,168	188,168
Capital Leases	5.5 to 6.76	212,325	82,966

During the 2002-03 year, Smith County entered into a loan agreement with the United States Department of Agriculture (USDA). This agreement provided for the USDA to make \$254,200 available to Smith County on an as-needed basis for construction and improvements to community facilities. At June 30, 2005, the county had borrowed \$188,168 of the available amount.

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

Year Ending June 30	Bonds		Notes	
	Principal	Interest	Principal	Interest
2006	\$ 850,931	\$ 986,261	\$ 316,076	\$ 17,719
2007	895,971	947,796	187,383	8,706
2008	941,012	906,367	132,262	3,948
2009	986,055	862,124	0	0
2010	1,031,100	814,992	0	0
2011-2015	5,836,240	3,281,547	0	0
2016-2020	7,532,684	1,665,478	0	0
2021-2025	1,729,461	103,816	0	0
2026-2030	11,650	11,940	0	0
2031-2035	14,345	9,245	0	0
2036-2040	17,665	5,925	0	0
2041-2044	16,696	1,841	0	0
Total	<u>\$ 19,863,810</u>	<u>\$ 9,597,332</u>	<u>\$ 635,721</u>	<u>\$ 30,373</u>

Year Ending June 30	Other Loan	
	Principal	Interest
2006	\$ 7,263	\$ 11,757
2007	7,263	11,421
2008	7,263	11,085
2009	7,263	10,749
2010	7,263	10,413
2011-2015	36,315	47,027
2016-2020	36,315	38,628
2021-2025	36,315	30,231
2026-2030	36,315	21,835
2031	6,593	3,359
Total	<u>\$ 188,168</u>	<u>\$ 196,505</u>

There is \$672,095 available in the General Debt Service Fund and \$1,432,203 in the Education Debt Service Fund to service long-term debt. Bonded debt per capita amounted to \$1,124, based on the 2000 federal census. Total debt per capita, including bonds, notes, other loans, and capital leases amounted to \$1,175, 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:

	<u>Bonds</u>	<u>Notes</u>
Balance, July 1, 2004	\$ 20,936,000	\$ 490,052
Additions	12,800,000	396,788
Deductions	(13,872,190)	(251,119)
	<hr/>	<hr/>
Balance, June 30, 2005	\$ 19,863,810	\$ 635,721
	<hr/>	<hr/>
Balance Due Within One Year	\$ 850,931	\$ 316,076
	<hr/>	<hr/>
	<u>Capital Leases</u>	<u>Other Loans</u>
Balance, July 1, 2004	\$ 106,877	\$ 129,400
Additions	18,000	58,768
Deductions	(41,911)	0
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Balance, June 30, 2005	\$ 82,966	\$ 188,168
	<hr/>	<hr/>
Balance Due Within One Year	\$ 34,539	\$ 7,263
	<hr/>	<hr/>

Advance or Current Refunding

On January 1, 2005, Smith County advance refunded two general obligation school bond issues with a separate general obligation bond issue. The county issued \$12,800,000 of general obligation refunding bonds that were placed in an irrevocable trust to generate resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered defeased, and the liability has been removed from the county's long-term debt. As a result of the advance refunding, total debt service payments over the next 16 years will be reduced by \$419,026, and an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$287,372 was obtained.

Solid Waste Disposal Fund (Enterprise Fund)

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

Year Ending June 30	Notes	
	Principal	Interest
2006	\$ 1,615,242	\$ 40,441
2007	186,528	15,690
2008	186,528	7,845
Total	<u>\$ 1,988,298</u>	<u>\$ 63,976</u>

Changes in Long-term Liabilities

Long-term liability activity for the Solid Waste Disposal Fund (enterprise fund) for the year ended June 30, 2005, was as follows:

	Notes	Capital Lease	Closure/ Postclosure Care Costs
Business-type Activities:			
Balance, July 1, 2004	\$ 412,760	\$ 111,306	\$ 1,352,539
Additions	1,673,761	0	47,967
Deductions	(98,223)	(77,609)	(8,316)
Balance, June 30, 2005	<u>\$ 1,988,298</u>	<u>\$ 33,697</u>	<u>\$ 1,392,190</u>
Balance Due Within One Year	<u>\$ 1,615,242</u>	<u>\$ 33,697</u>	<u>\$ 8,316</u>

Total debt per capita of the enterprise fund, including notes, capital leases and landfill closure/postclosure care costs, amounted to \$114, based on the 2000 federal census.

F. Short-term Debt

Smith County issued tax anticipation notes in advance of property tax collections and deposited the proceeds in the General Fund (\$300,000) and the Ambulance Service Fund (\$75,000). These notes were necessary because funds were not available to meet operating expenditures coming due before current tax collections. Short-term debt activity for the year ended June 30, 2005, was as follows:

	Balance 7-1-04	Issued	Redeemed	Balance 6-30-05
Tax Anticipation Notes	\$ 0	\$ 375,000	\$ (375,000)	\$ 0

IV. OTHER INFORMATION

A. Risk Management

Smith County is a member of the Local Government Workers' Compensation Fund, which is a public entity risk pool established by the Tennessee County Services Association. Annual premiums are paid to the pool for its workers' compensation coverage. The creation of the pool provides for it to be self-sustaining through member premiums.

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

The county carries commercial insurance for all other risks of loss, including general liability, property, and casualty. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

B. Accounting Change

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

C. Subsequent Events

On July 5, 2005, the county's Solid Waste Disposal Fund issued a \$75,000 tax anticipation note to the Ambulance Service Fund for temporary operating funds.

On July 8, 2005, the county entered into a \$225,441 lease-purchase agreement for seven patrol cars and a sport utility vehicle.

On August 18, 2005, and September 27, 2005, the county's Solid Waste Disposal Fund issued two tax anticipation notes totaling \$400,000 to the General Fund for temporary operating funds.

On September 12, 2005, the county issued capital outlay notes of \$90,000 to fund a stream bank stabilization project for the Highway Department.

On November 22, 2005, the Smith County Circuit Court ordered Smith County government to provide funding within the Sheriff's Department appropriations for sixteen new employees (\$396,885 plus benefits), training and equipment for the new employees (\$45,600), and an increase in the chief deputy's salary (\$10,162). As of the date of this report, county officials had not provided funding for these additional appropriations.

On November 29, 2005, the county received proceeds of \$2,500 from a \$1,250,000 loan agreement entered into on April 1, 2005, with the Public Building Authority of Montgomery County for the acquisition, construction, and equipping of a Senior/Career Center and an Agricultural Center.

On December 6, 2005, a former bookkeeper in the County Mayor's Office was indicted by the Smith County Grand Jury on two counts of theft over \$1,000 and one count of theft over \$10,000 related to questionable expenditures. In addition, the bookkeeper's son (a former Sheriff's Department employee) was indicted on two counts of theft over \$1,000, related to these questionable expenditures noted in the Single Audit Section of this report.

On December 6, 2005, and December 9, 2005, the county issued bond anticipation notes of \$1,435,200 and \$5,900, respectively, for the Solid Waste Disposal Fund. These notes were in anticipation of a \$2,000,000 bond issue approved by the County Commission on July 11, 2005, for landfill facilities.

D. Contingent Liabilities

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

E. Changes in Administration

Paula Lancaster left the Office of Circuit and General Sessions Courts Clerk on August 31, 2004, and was succeeded by Myra Hardcastle.

Harold Massey left the Office of Assessor of Property on August 31, 2004, and was succeeded by Terry Collins.

F. Landfill Closure/Postclosure Care Costs

State and federal laws and regulations require the county to place a final cover on its landfill sites when they stop accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfills stop accepting waste, the Solid Waste Disposal Fund reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,392,190 reported as landfill closure and postclosure care liability at June 30, 2005, represents the cumulative amount reported to date based on the use of 100 percent of the capacity of the old landfill (\$199,584), 87 percent of the capacity of the current Class I landfill cell (\$1,148,486), and 98 percent of the current Class III/IV landfill cell (\$44,120). The current landfill will recognize the remaining estimated cost of closure and postclosure care of \$171,096 as the remaining estimated capacity of the landfill is used. The county expects to close the current Class I landfill cell around the year 2007 and the Class III/IV landfill cell in 2006. These amounts are based on what it would cost to perform all closure and postclosure care in 2005. Actual costs may vary from these estimates due to inflation, changes in technology, or changes in regulations.

G. Joint Ventures

The Fifteenth Judicial District Drug Task Force (DTF) is a joint venture formed by an interlocal agreement between the district attorney general of the Fifteenth Judicial District and participating municipalities in the district. The Fifteenth Judicial District includes Smith, Jackson, Macon, Trousdale, and Wilson Counties. The DTF interlocal agreement was signed by the sheriffs of Smith County, Jackson County, Hartsville/Trousdale County Government, and the police chiefs of the cities of Carthage and Lafayette. The purpose of the DTF is to provide multi-jurisdictional law enforcement to promote the investigation and prosecution of drug-related activities. Funds for the operations of the DTF come primarily from federal grants, drug fines, and the forfeiture of drug-related assets to the DTF. The DTF is overseen by the district attorney general and is governed by a Board of Directors including the district attorney general, sheriffs, and police chiefs of the participating law enforcement agencies within the judicial district. Smith County made no contributions to the DTF for the year ended June 30, 2005, and does not have any equity interest in this joint venture. Complete

financial statements for the DTF can be obtained from its administrative office at the following address:

Administrative Office:

District Attorney General's Office
Fifteenth Judicial District
203 Greentop Street
Hartsville, TN 37074

H. Jointly Governed Organization

The Nashville and Eastern Railroad Authority was created according to state statutes in 1983 to purchase the property, track, and roadbed along approximately 130 miles in Davidson, Wilson, Smith, and Putnam Counties from Seaboard System Railroad, Inc. The business of the authority is conducted by a Board of Directors whose members are appointed by the governing bodies of the cities and counties of service; however, counties do not have any ongoing financial interest or responsibility for the entity. Smith County did not contribute to the operations of the Nashville and Eastern Railroad Authority during the 2004-05 year. Complete financial statements for the authority can be obtained at the following address:

Nashville and Eastern Railroad Authority
206 South Maple
Lebanon, TN 37087

I. Retirement Commitments

Plan Description

Employees of Smith 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 Smith 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

Smith 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 5.2 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Smith County is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2005, Smith County's annual pension cost of \$276,405 to TCRS was equal to the county's required and actual contributions. The required contribution was determined as part of the July 1, 2003, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post-retirement increases of three percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Smith County's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2003, was 12 years.

Trend Information

Fiscal Year Ended	Annual Pension Cost(APC)	Percentage of APC Contributed	Net Pension Obligation
6-30-05	\$276,405	100%	\$0
6-30-04	220,602	100	0
6-30-03	213,551	100	0

Required Supplementary Information
 Schedule of Funding Progress for Smith County

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/c)
6-30-03	\$8,065	\$8,332	\$267	96.80%	\$3,853	6.93%
6-30-01	7,126	7,447	321	95.69	3,496	9.18
6-30-99	6,014	6,052	38	99.37	2,864	1.33

J. Purchasing Laws

Office of County Mayor

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

Office of Highway Superintendent

Purchasing procedures for the Highway Department were governed by the Uniform Road Law, Section 54-7-113, TCA, which provides for purchases of \$10,000 or more to be made after public advertisement and solicitation of competitive bids.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit E-1

Smith 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)	Add: Encumbrances 6/30/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
Revenues						
Local Taxes	\$ 2,825,876	\$ 0	\$ 2,825,876	\$ 2,692,074	\$ 2,752,074	\$ 73,802
Licenses and Permits	47,680	0	47,680	36,350	36,350	11,330
Fines, Forfeitures, and Penalties	63,085	0	63,085	23,619	53,619	9,466
Charges for Current Services	21,540	0	21,540	15,850	15,850	5,690
Other Local Revenues	260,792	0	260,792	225,911	279,512	(18,720)
Fees Received from County Officials	811,149	0	811,149	757,650	797,650	13,499
State of Tennessee	542,194	0	542,194	474,202	490,952	51,242
Federal Government	136,146	0	136,146	60,000	147,808	(11,662)
Other Governments and Citizens Groups	5,911	0	5,911	0	1,925	3,986
Total Revenues	\$ 4,714,373	\$ 0	\$ 4,714,373	\$ 4,285,656	\$ 4,575,740	\$ 138,633
Expenditures						
General Government						
County Commission	\$ 30,289	\$ 0	\$ 30,289	\$ 32,959	\$ 32,959	\$ 2,670
Board of Equalization	1,300	0	1,300	1,300	1,300	0
County Mayor/County Executive	144,187	0	144,187	152,133	147,133	2,946
County Attorney	18,796	0	18,796	15,000	17,000	(1,796)
Election Commission	115,817	58	115,875	131,403	131,403	15,528
Register of Deeds	121,414	0	121,414	123,779	123,779	2,365
Planning	12,750	0	12,750	24,950	13,600	850
Codes Compliance	50,228	0	50,228	54,015	58,365	8,137
County Buildings	171,290	320	171,610	215,519	176,895	5,285
Finance						
Property Assessor's Office	130,332	0	130,332	129,778	133,578	3,246
Reappraisal Program	17,613	0	17,613	22,595	18,795	1,182
County Trustee's Office	112,329	130	112,459	116,360	116,360	3,901
County Clerk's Office	168,693	236	168,929	177,170	172,675	3,746

(Continued)

Exhibit E-1

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

	Actual (GAAP Basis)	Add: Encumbrances 6/30/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Expenditures (Cont.)</u>						
<u>Administration of Justice</u>						
Circuit Court	\$ 211,695	\$ 0	\$ 211,695	\$ 215,579	\$ 215,579	\$ 3,884
General Sessions Judge	68,596	0	68,596	69,007	69,007	411
Chancery Court	85,947	32	85,979	87,472	87,472	1,493
Juvenile Court	3,850	0	3,850	4,200	4,200	350
Judicial Commissioners	15,537	0	15,537	16,148	16,148	611
<u>Public Safety</u>						
Sheriff's Department	1,471,227	1,874	1,473,101	1,251,481	1,482,151	9,050
Special Patrols	0	0	0	600	600	600
Traffic Control	222	0	222	1,000	1,000	778
Jail	313,807	3,636	317,443	181,621	310,401	(7,042)
Correctional Incentive Program Improvements	457,474	0	457,474	386,680	459,380	1,906
Juvenile Services	29,589	0	29,589	31,105	31,105	1,516
Fire Prevention and Control	182,386	275	182,661	137,100	188,983	6,322
Civil Defense	41,104	1,260	42,364	22,000	39,954	(2,410)
Other Emergency Management	4,332	0	4,332	22,500	22,500	18,168
Inspection and Regulation	215	0	215	2,584	2,584	2,369
County Coroner/Medical Examiner	32,795	0	32,795	20,000	35,600	2,805
Other Public Safety	149,138	0	149,138	154,939	149,939	801
<u>Public Health and Welfare</u>						
Local Health Center	21,358	690	22,048	20,996	26,945	4,897
Crippled Children Services	1,272	0	1,272	1,272	1,272	0
Other Local Health Services	6,964	0	6,964	6,964	6,964	0
Appropriation to State	9,500	0	9,500	12,500	9,500	0
Aid to Dependent Children	0	1,498	1,498	1,500	1,500	2
Other Local Welfare Services	5,000	0	5,000	5,000	5,000	0
Waste Pickup	27,181	0	27,181	36,774	36,774	9,593

(Continued)

Exhibit E-1

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

	Actual (GAAP Basis)	Add: Encumbrances 6/30/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Expenditures (Cont.)</u>						
<u>Public Health and Welfare (Cont.)</u>						
Other Public Health and Welfare	\$ 136,968	\$ 0	\$ 136,968	\$ 0	\$ 138,800	\$ 1,832
<u>Social, Cultural and Recreational Services</u>						
Adult Activities	3,610	0	3,610	4,181	4,181	571
Senior Citizens Assistance	32,377	300	32,677	33,306	33,306	629
Libraries	80,600	0	80,600	55,600	80,600	0
Parks and Fair Boards	51,083	530	51,613	45,900	55,150	3,537
Other Social, Cultural and Recreational	18,528	0	18,528	21,363	20,013	1,485
<u>Agriculture & Natural Resources</u>						
Agriculture Extension Service	50,293	0	50,293	54,161	54,161	3,868
Soil Conservation	8,900	0	8,900	8,900	8,900	0
<u>Other Operations</u>						
Tourism	300	0	300	300	300	0
Industrial Development	1,440	0	1,440	6,850	6,850	5,410
Other Economic and Community Development	27,467	0	27,467	27,467	27,467	0
Veterans' Services	24,033	0	24,033	24,462	24,462	429
Employee Benefits	111,883	0	111,883	85,621	112,821	938
Miscellaneous	185,199	70	185,269	322,324	290,415	105,146
Total Expenditures	\$ 4,966,908	\$ 10,909	\$ 4,977,817	\$ 4,576,418	\$ 5,205,826	\$ 228,009
<u>Excess (Deficiency) of Revenues</u>						
Over Expenditures	\$ (252,535)	\$ (10,909)	\$ (263,444)	\$ (290,762)	\$ (630,086)	\$ 366,642
<u>Other Financing Sources (Uses)</u>						
Notes Issued	\$ 135,000	\$ 0	\$ 135,000	\$ 100,000	\$ 235,000	\$ (100,000)
Transfers Out	(24,495)	0	(24,495)	(20,502)	(24,997)	502
Total Other Financing Sources (Uses)	\$ 110,505	\$ 0	\$ 110,505	\$ 79,498	\$ 210,003	\$ (99,498)

(Continued)

Exhibit E-1

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

	Actual (GAAP Basis)	Add: Encumbrances 6/30/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
Net Change in Fund Balance	\$ (142,030)	\$ (10,909)	\$ (152,939)	\$ (211,264)	\$ (420,083)	\$ 267,144
Fund Balance, July 1, 2004	609,537	0	609,537	492,459	492,459	117,078
Fund Balance, June 30, 2005	\$ 467,507	\$ (10,909)	\$ 456,598	\$ 281,195	\$ 72,376	\$ 384,222

Exhibit E-2

Smith 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>				
Local Taxes	\$ 159,228	\$ 200,830	\$ 200,830	\$ (41,602)
Other Local Revenues	12,246	10,500	10,500	1,746
State of Tennessee	1,477,329	2,113,638	2,113,638	(636,309)
Total Revenues	<u>\$ 1,648,803</u>	<u>\$ 2,324,968</u>	<u>\$ 2,324,968</u>	<u>\$ (676,165)</u>
<u>Expenditures</u>				
<u>Highways</u>				
Administration	\$ 141,143	\$ 144,834	\$ 150,875	\$ 9,732
Highway and Bridge Maintenance	870,883	940,169	1,090,540	219,657
Operation and Maintenance of Equipment	224,856	193,785	289,109	64,253
Other Charges	97,185	106,772	106,772	9,587
Employee Benefits	317,680	296,516	320,692	3,012
Capital Outlay	40,356	871,000	694,163	653,807
<u>Debt Service Principal</u>				
Highways and Streets	108,578	120,506	108,578	0
<u>Debt Service Interest</u>				
Highways and Streets	12,852	0	12,853	1
Total Expenditures	<u>\$ 1,813,533</u>	<u>\$ 2,673,582</u>	<u>\$ 2,773,582</u>	<u>\$ 960,049</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (164,730)</u>	<u>\$ (348,614)</u>	<u>\$ (448,614)</u>	<u>\$ 283,884</u>
<u>Other Financing Sources (Uses)</u>				
Notes Issued	\$ 200,000	\$ 100,000	\$ 200,000	\$ 0
Capital Leases Issued	18,000	0	0	18,000
Total Other Financing Sources (Uses)	<u>\$ 218,000</u>	<u>\$ 100,000</u>	<u>\$ 200,000</u>	<u>\$ 18,000</u>
Net Change in Fund Balance	\$ 53,270	\$ (248,614)	\$ (248,614)	\$ 301,884
Fund Balance, July 1, 2004	180,623	248,614	248,614	(67,991)
Prior Period Adjustment	99,447	0	0	99,447
Fund Balance, June 30, 2005	<u>\$ 333,340</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 333,340</u>

SMITH 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 Smith County Commission and any authorized revisions. Unencumbered appropriations lapse at the end of each fiscal year.

The budgetary level of control is at the major category level established by the State Uniform Chart of Accounts, as prescribed by the Comptroller of the Treasury of the State of Tennessee. Major categories are at the department level (examples of General Fund major categories: County Commission, Board of Equalization, County Mayor, County Attorney, etc.). Management may make revisions within major categories, but only the Smith County Commission 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 County Attorney (\$1,796), Jail (\$7,042), and Civil Defense (\$2,410) major appropriation categories (the legal level of control) of the General Fund. Such overexpenditures are a violation of state statutes. These overexpenditures were funded by available fund balance.

C. QUESTIONABLE EXPENDITURES WERE NOTED IN THE COUNTY MAYOR'S OFFICE RESULTING IN INDICTMENTS

A bookkeeper in the County Mayor's Office admitted to improperly receiving reimbursements for postage that she did not purchase. The bookkeeper resigned from her employment on October 29, 2004, and was indicted by the Smith County Grand Jury on December 6, 2004, on one count of theft over \$1,000.

On December 6, 2005, the former bookkeeper in the County Mayor's Office was also indicted by the Smith County Grand Jury on two counts of theft over \$1,000 and one count of theft over \$10,000 related to questionable expenditures. In addition, the bookkeeper's son (a former Sheriff's Department employee) was indicted on two counts of theft over \$1,000, related to these questionable expenditures.

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

Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

Ambulance Service Fund – The Ambulance Service Fund is used to account for transactions of the Ambulance Service.

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

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 expenditures of the county.

HUD Grant Projects Fund – The HUD Grant Projects Fund is used to account for grants proceeds received for low-income home construction and renovation projects.

Other Capital Projects Fund – The Other Capital Projects Fund is used to account for capital expenditures for the construction of a welcome center in Smith County.

Exhibit F-1

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

	Special Revenue Funds					Capital Projects Funds			Total Nonmajor Governmental Funds
	Courthouse and Jail Maintenance	Solid Waste/ Sanitation	Ambulance Service	Drug Control	Total	General Capital Projects	Other Capital Projects	Total	
<u>ASSETS</u>									
Equity in Pooled Cash and Investments	\$ 92,013	\$ 1,394	\$ 0	\$ 33,141	\$ 126,548	\$ 6,644	\$ 23,364	\$ 30,008	\$ 156,556
Accounts Receivable	0	0	89,210	0	89,210	0	0	0	89,210
Due from Other Funds	0	0	1,400	4,850	6,250	0	0	0	6,250
Total Assets	<u>\$ 92,013</u>	<u>\$ 1,394</u>	<u>\$ 90,610</u>	<u>\$ 37,991</u>	<u>\$ 222,008</u>	<u>\$ 6,644</u>	<u>\$ 23,364</u>	<u>\$ 30,008</u>	<u>\$ 252,016</u>
<u>LIABILITIES AND FUND BALANCES</u>									
<u>Liabilities</u>									
Payroll Deductions Payable	\$ 0	\$ 469	\$ 6	\$ 0	\$ 475	\$ 0	\$ 0	\$ 0	\$ 475
Cash Overdraft	0	0	70,587	0	70,587	0	0	0	70,587
Due to Other Funds	9,839	0	0	0	9,839	0	0	0	9,839
Other Current Liabilities	0	0	7	0	7	0	0	0	7
Total Liabilities	<u>\$ 9,839</u>	<u>\$ 469</u>	<u>\$ 70,600</u>	<u>\$ 0</u>	<u>\$ 80,908</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 80,908</u>
<u>Fund Balances</u>									
Reserved for Encumbrances	\$ 0	\$ 0	\$ 300	\$ 0	\$ 300	\$ 0	\$ 0	\$ 0	\$ 300
Reserved for Litigation Tax - Jail, Workhouse, or Courthouse	100,132	0	0	0	100,132	0	0	0	100,132
Unreserved (Deficit)	(17,958)	925	19,710	37,991	40,668	6,644	23,364	30,008	70,676
Total Fund Balances	<u>\$ 82,174</u>	<u>\$ 925</u>	<u>\$ 20,010</u>	<u>\$ 37,991</u>	<u>\$ 141,100</u>	<u>\$ 6,644</u>	<u>\$ 23,364</u>	<u>\$ 30,008</u>	<u>\$ 171,108</u>
Total Liabilities and Fund Balances	<u>\$ 92,013</u>	<u>\$ 1,394</u>	<u>\$ 90,610</u>	<u>\$ 37,991</u>	<u>\$ 222,008</u>	<u>\$ 6,644</u>	<u>\$ 23,364</u>	<u>\$ 30,008</u>	<u>\$ 252,016</u>

Exhibit F-2

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

	Special Revenue Funds				
	Courthouse and Jail Maintenance	Solid Waste/ Sanitation	Ambulance Service	Drug Control	Total
<u>Revenues</u>					
Local Taxes	\$ 98,427	\$ 0	\$ 0	\$ 0	\$ 98,427
Fines, Forfeitures and Penalties	0	0	0	23,797	23,797
Charges for Current Services	0	0	595,924	0	595,924
Other Local Revenues	0	1,005	11,058	146	12,209
State of Tennessee	0	0	21,800	0	21,800
Federal Government	0	0	0	0	0
Other Governments and Citizens Groups	0	0	3,650	0	3,650
Total Revenues	\$ 98,427	\$ 1,005	\$ 632,432	\$ 23,943	\$ 755,807
<u>Expenditures</u>					
Current:					
General Government	\$ 48,441	\$ 0	\$ 0	\$ 0	\$ 48,441
Public Safety	0	0	0	5,513	5,513
Public Health and Welfare	0	241,657	773,280	0	1,014,937
Other Operations	1,077	300	0	0	1,377
Total Expenditures	\$ 49,518	\$ 241,957	\$ 773,280	\$ 5,513	\$ 1,070,268
Excess (Deficiency) of Revenues Over Expenditures	\$ 48,909	\$ (240,952)	\$ (140,848)	\$ 18,430	\$ (314,461)
<u>Other Financing Sources (Uses)</u>					
Notes Issued	\$ 0	\$ 0	\$ 61,788	\$ 0	\$ 61,788
Other Loans Issued	0	0	0	0	0
Transfers In	0	235,064	20,000	0	255,064
Total Other Financing Sources (Uses)	\$ 0	\$ 235,064	\$ 81,788	\$ 0	\$ 316,852
Net Change in Fund Balances	\$ 48,909	\$ (5,888)	\$ (59,060)	\$ 18,430	\$ 2,391
Fund Balance, July 1, 2004	33,265	6,813	79,070	19,561	138,709
Prior Period Adjustment	0	0	0	0	0
Fund Balance, June 30, 2005	\$ 82,174	\$ 925	\$ 20,010	\$ 37,991	\$ 141,100

(Continued)

Exhibit F-2

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

	Capital Projects Funds				Total Nonmajor Governmental Funds
	General Capital Projects	HUD Grant Projects	Other Capital Projects	Total	
<u>Revenues</u>					
Local Taxes	\$ 0	\$ 0	\$ 0	\$ 0	98,427
Fines, Forfeitures and Penalties	0	0	0	0	23,797
Charges for Current Services	0	0	0	0	595,924
Other Local Revenues	0	0	0	0	12,209
State of Tennessee	0	0	4,768	4,768	26,568
Federal Government	0	1,500	0	1,500	1,500
Other Governments and Citizens Groups	0	0	0	0	3,650
Total Revenues	\$ 0	\$ 1,500	\$ 4,768	\$ 6,268	\$ 762,075
<u>Expenditures</u>					
Current:					
General Government	\$ 0	\$ 0	\$ 0	\$ 0	48,441
Public Safety	0	0	0	0	5,513
Public Health and Welfare	0	0	0	0	1,014,937
Other Operations	61,340	1,500	4,269	67,109	68,486
Total Expenditures	\$ 61,340	\$ 1,500	\$ 4,269	\$ 67,109	\$ 1,137,377
Excess (Deficiency) of Revenues Over Expenditures	\$ (61,340)	\$ 0	\$ 499	\$ (60,841)	\$ (375,302)
<u>Other Financing Sources (Uses)</u>					
Notes Issued	\$ 0	\$ 0	\$ 0	\$ 0	61,788
Other Loans Issued	58,768	0	0	58,768	58,768
Transfers In	0	0	0	0	255,064
Total Other Financing Sources (Uses)	\$ 58,768	\$ 0	\$ 0	\$ 58,768	\$ 375,620
Net Change in Fund Balances	\$ (2,572)	\$ 0	\$ 499	\$ (2,073)	318
Fund Balance, July 1, 2004	9,216	0	72,630	81,846	220,555
Prior Period Adjustment	0	0	(49,765)	(49,765)	(49,765)
Fund Balance, June 30, 2005	\$ 6,644	\$ 0	\$ 23,364	\$ 30,008	\$ 171,108

Exhibit F-3

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 98,427	\$ 53,000	\$ 53,000	\$ 45,427
Total Revenues	\$ 98,427	\$ 53,000	\$ 53,000	\$ 45,427
<u>Expenditures</u>				
<u>General Government</u>				
County Buildings	\$ 48,441	\$ 52,500	\$ 51,929	\$ 3,488
<u>Other Operations</u>				
Miscellaneous	1,077	529	1,100	23
Total Expenditures	\$ 49,518	\$ 53,029	\$ 53,029	\$ 3,511
Excess (Deficiency) of Revenues Over Expenditures	\$ 48,909	\$ (29)	\$ (29)	\$ 48,938
Net Change in Fund Balance	\$ 48,909	\$ (29)	\$ (29)	\$ 48,938
Fund Balance, July 1, 2004	33,265	47,134	47,134	(13,869)
Fund Balance, June 30, 2005	\$ 82,174	\$ 47,105	\$ 47,105	\$ 35,069

Exhibit F-4

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Other Local Revenues	\$ 1,005	\$ 1,200	\$ 1,605	\$ (600)
Total Revenues	\$ 1,005	\$ 1,200	\$ 1,605	\$ (600)
<u>Expenditures</u>				
<u>Public Health and Welfare</u>				
Waste Pickup	\$ 101,422	\$ 119,286	\$ 119,691	\$ 18,269
Convenience Centers	140,229	151,508	151,202	10,973
Other Waste Disposal	6	0	6	0
<u>Other Operations</u>				
Employee Benefits	300	0	300	0
Total Expenditures	\$ 241,957	\$ 270,794	\$ 271,199	\$ 29,242
Excess (Deficiency) of Revenues Over Expenditures	\$ (240,952)	\$ (269,594)	\$ (269,594)	\$ 28,642
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 235,064	\$ 262,580	\$ 262,580	\$ (27,516)
Total Other Financing Sources (Uses)	\$ 235,064	\$ 262,580	\$ 262,580	\$ (27,516)
Net Change in Fund Balance	\$ (5,888)	\$ (7,014)	\$ (7,014)	\$ 1,126
Fund Balance, July 1, 2004	6,813	7,014	7,014	(201)
Fund Balance, June 30, 2005	\$ 925	\$ 0	\$ 0	\$ 925

Exhibit F-5

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

	Actual (GAAP Basis)	Add: Encumbrances 6/30/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Revenues</u>						
Charges for Current Services	\$ 595,924	\$ 0	\$ 595,924	\$ 590,130	\$ 590,130	\$ 5,794
Other Local Revenues	11,058	0	11,058	3,062	8,912	2,146
State of Tennessee	21,800	0	21,800	0	21,800	0
Other Governments and Citizens Groups	3,650	0	3,650	0	3,650	0
Total Revenues	<u>\$ 632,432</u>	<u>\$ 0</u>	<u>\$ 632,432</u>	<u>\$ 593,192</u>	<u>\$ 624,492</u>	<u>\$ 7,940</u>
<u>Expenditures</u>						
<u>Public Health and Welfare</u>						
Ambulance/Emergency Medical Services	\$ 773,280	\$ 300	\$ 773,580	\$ 765,187	\$ 792,837	\$ 19,257
Total Expenditures	<u>\$ 773,280</u>	<u>\$ 300</u>	<u>\$ 773,580</u>	<u>\$ 765,187</u>	<u>\$ 792,837</u>	<u>\$ 19,257</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (140,848)</u>	<u>\$ (300)</u>	<u>\$ (141,148)</u>	<u>\$ (171,995)</u>	<u>\$ (168,345)</u>	<u>\$ 27,197</u>
<u>Other Financing Sources (Uses)</u>						
Notes Issued	\$ 61,788	\$ 0	\$ 61,788	\$ 59,000	\$ 59,000	\$ 2,788
Transfers In	20,000	0	20,000	20,502	20,502	(502)
Total Other Financing Sources (Uses)	<u>\$ 81,788</u>	<u>\$ 0</u>	<u>\$ 81,788</u>	<u>\$ 79,502</u>	<u>\$ 79,502</u>	<u>\$ 2,286</u>
Net Change in Fund Balance	\$ (59,060)	\$ (300)	\$ (59,360)	\$ (92,493)	\$ (88,843)	\$ 29,483
Fund Balance, July 1, 2004	<u>79,070</u>	<u>0</u>	<u>79,070</u>	<u>92,493</u>	<u>92,493</u>	<u>(13,423)</u>
Fund Balance, June 30, 2005	<u>\$ 20,010</u>	<u>\$ (300)</u>	<u>\$ 19,710</u>	<u>\$ 0</u>	<u>\$ 3,650</u>	<u>\$ 16,060</u>

Exhibit F-6

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Fines, Forfeitures and Penalties	\$ 23,797	\$ 5,175	\$ 5,175	\$ 18,622
Other Local Revenues	146	0	0	146
Total Revenues	<u>\$ 23,943</u>	<u>\$ 5,175</u>	<u>\$ 5,175</u>	<u>\$ 18,768</u>
<u>Expenditures</u>				
<u>Public Safety</u>				
Sheriff's Department	\$ 0	\$ 4,665	\$ 10,165	\$ 10,165
Drug Enforcement	5,513	510	510	(5,003)
Total Expenditures	<u>\$ 5,513</u>	<u>\$ 5,175</u>	<u>\$ 10,675</u>	<u>\$ 5,162</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 18,430</u>	<u>\$ 0</u>	<u>\$ (5,500)</u>	<u>\$ 23,930</u>
Net Change in Fund Balance	\$ 18,430	\$ 0	\$ (5,500)	\$ 23,930
Fund Balance, July 1, 2004	<u>19,561</u>	<u>19,223</u>	<u>19,223</u>	<u>338</u>
Fund Balance, June 30, 2005	<u>\$ 37,991</u>	<u>\$ 19,223</u>	<u>\$ 13,723</u>	<u>\$ 24,268</u>

Major Governmental Funds

Debt Service Funds

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

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

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

Exhibit G-1

Smith 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	\$ 428,218	\$ 415,768	\$ 415,768	\$ 12,450
Other Local Revenues	5,300	4,800	4,800	500
Total Revenues	<u>\$ 433,518</u>	<u>\$ 420,568</u>	<u>\$ 420,568</u>	<u>\$ 12,950</u>
<u>Expenditures</u>				
<u>Debt Service Principal</u>				
General Government	\$ 226,642	\$ 0	\$ 239,142	\$ 12,500
<u>Debt Service Interest</u>				
General Government	16,316	281,023	41,881	25,565
<u>Other Debt Service</u>				
General Government	8,404	9,300	9,300	896
Total Expenditures	<u>\$ 251,362</u>	<u>\$ 290,323</u>	<u>\$ 290,323</u>	<u>\$ 38,961</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 182,156</u>	<u>\$ 130,245</u>	<u>\$ 130,245</u>	<u>\$ 51,911</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 4,495	\$ 0	\$ 0	\$ 4,495
Total Other Financing Sources (Uses)	<u>\$ 4,495</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,495</u>
Net Change in Fund Balance	\$ 186,651	\$ 130,245	\$ 130,245	\$ 56,406
Fund Balance, July 1, 2004	<u>485,444</u>	<u>484,539</u>	<u>484,539</u>	<u>905</u>
Fund Balance, June 30, 2005	<u><u>\$ 672,095</u></u>	<u><u>\$ 614,784</u></u>	<u><u>\$ 614,784</u></u>	<u><u>\$ 57,311</u></u>

Exhibit G-2

Smith County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Education 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	\$ 1,470,213	\$ 1,498,060	\$ 1,498,060	\$ (27,847)
Other Local Revenues	54,333	0	53,333	1,000
Other Governments and Citizens Groups	296,000	0	296,000	0
Total Revenues	<u>\$ 1,820,546</u>	<u>\$ 1,498,060</u>	<u>\$ 1,847,393</u>	<u>\$ (26,847)</u>
<u>Expenditures</u>				
<u>Debt Service Principal</u>				
Education	\$ 800,000	\$ 802,000	\$ 802,000	\$ 2,000
<u>Debt Service Interest</u>				
Education	1,071,207	1,019,924	1,071,207	0
<u>Other Debt Service</u>				
Education	243,953	21,000	245,867	1,914
Total Expenditures	<u>\$ 2,115,160</u>	<u>\$ 1,842,924</u>	<u>\$ 2,119,074</u>	<u>\$ 3,914</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (294,614)</u>	<u>\$ (344,864)</u>	<u>\$ (271,681)</u>	<u>\$ (22,933)</u>
<u>Other Financing Sources (Uses)</u>				
Refunding Debt Issued	\$ 12,800,000	\$ 0	\$ 12,800,000	\$ 0
Premiums on Debt Issued	1,254,136	0	1,254,136	0
Transfers In	0	296,000	0	0
Payments to Refunded Debt Escrow Agent	(13,824,944)	0	(13,824,944)	0
Total Other Financing Sources (Uses)	<u>\$ 229,192</u>	<u>\$ 296,000</u>	<u>\$ 229,192</u>	<u>\$ 0</u>
Net Change in Fund Balance	\$ (65,422)	\$ (48,864)	\$ (42,489)	\$ (22,933)
Fund Balance, July 1, 2004	<u>1,497,625</u>	<u>1,498,456</u>	<u>1,498,456</u>	<u>(831)</u>
Fund Balance, June 30, 2005	<u>\$ 1,432,203</u>	<u>\$ 1,449,592</u>	<u>\$ 1,455,967</u>	<u>\$ (23,764)</u>

Fiduciary Funds

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

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

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

Exhibit H-1

Smith 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	\$ 853,002	\$ 853,002
Investments	0	38,923	38,923
Accounts Receivable	0	40	40
Due from Other Governments	159,103	0	159,103
Total Assets	<u>\$ 159,103</u>	<u>\$ 891,965</u>	<u>\$ 1,051,068</u>
<u>LIABILITIES</u>			
Due to Other Taxing Units	\$ 159,103	\$ 0	\$ 159,103
Due to Litigants, Heirs, and Others	0	891,965	891,965
Total Liabilities	<u>\$ 159,103</u>	<u>\$ 891,965</u>	<u>\$ 1,051,068</u>

Exhibit H-2

Smith 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	\$ 891,205	\$ 891,205	\$ 0
Due From Other Governments	155,968	159,103	155,968	159,103
Total Assets	\$ 155,968	\$ 1,050,308	\$ 1,047,173	\$ 159,103
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 155,968	\$ 1,050,308	\$ 1,047,173	\$ 159,103
Total Liabilities	\$ 155,968	\$ 1,050,308	\$ 1,047,173	\$ 159,103
<u>Constitutional Officers - Agency Fund</u>				
<u>Assets</u>				
Cash	\$ 1,001,912	\$ 4,037,209	\$ 4,186,119	\$ 853,002
Investments	36,470	38,923	36,470	38,923
Accounts Receivable	2,163	40	2,163	40
Total Assets	\$ 1,040,545	\$ 4,076,172	\$ 4,224,752	\$ 891,965
<u>Liabilities</u>				
Due to Litigants, Heirs, and Others	\$ 1,040,545	\$ 4,076,172	\$ 4,224,752	\$ 891,965
Total Liabilities	\$ 1,040,545	\$ 4,076,172	\$ 4,224,752	\$ 891,965
<u>Totals - All Agency Funds</u>				
<u>Assets</u>				
Equity in Pooled Cash and Investments	\$ 0	\$ 891,205	\$ 891,205	\$ 0
Cash	1,001,912	4,037,209	4,186,119	853,002
Investments	36,470	38,923	36,470	38,923
Accounts Receivable	2,163	40	2,163	40
Due From Other Governments	155,968	159,103	155,968	159,103
Total Assets	\$ 1,196,513	\$ 5,126,480	\$ 5,271,925	\$ 1,051,068
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 155,968	\$ 1,050,308	\$ 1,047,173	\$ 159,103
Due to Litigants, Heirs, and Others	1,040,545	4,076,172	4,224,752	891,965
Total Liabilities	\$ 1,196,513	\$ 5,126,480	\$ 5,271,925	\$ 1,051,068

MISCELLANEOUS SCHEDULES

Exhibit I-1

Smith 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	Matured During Period	Debt Refunded	Outstanding 6-30-05
NOTES PAYABLE									
<u>Payable through General Debt Service Fund</u>									
Fire Truck, Rescue Squad Equipment, and Turnout Gear Chamber of Commerce and Community/Welcome Center Voting Machines	\$ 76,920	3.84	% 4-1-02	4-1-05	\$ 25,640	\$ 0	\$ 25,640	\$ 0	\$ 0
Ambulance	145,000	4.49	7-13-01	7-13-04	41,666	0	41,666	0	0
County Clerk Computer, Ambulance, and Fire Trucks	118,150	3.79	7-16-02	7-16-05	78,767	0	39,384	0	39,383
Ambulance	67,927	3.77	12-12-02	12-12-05	45,285	0	22,642	0	22,643
Ambulance	165,360	2.95	12-15-03	11-15-06	165,360	0	55,120	0	110,240
Land Purchase (Senior Center and Agriculture Center)	61,788	2.96	11-23-04	11-23-07	0	61,788	0	0	61,788
Total Payable through General Debt Service Fund	135,000	3.09	1-14-05	2-14-08	0	135,000	0	0	135,000
					\$ 356,718	\$ 196,788	\$ 184,452	\$ 0	\$ 369,054
<u>Payable through Highway/Public Works Fund</u>									
Highway Projects	200,000	3.49	1-27-03	1-27-06	\$ 133,334	\$ 0	\$ 66,667	\$ 0	\$ 66,667
Highway Projects	200,000	2.92	11-29-04	11-29-07	0	200,000	0	0	200,000
Total Payable through Highway/Public Works Fund					\$ 133,334	\$ 200,000	\$ 66,667	\$ 0	\$ 266,667
Total Notes Payable					\$ 490,052	\$ 396,788	\$ 251,119	\$ 0	\$ 635,721
CAPITAL LEASES PAYABLE									
<u>Payable through Highway/Public Works Fund</u>									
Tractor and Boom-Mower	50,000	5.75	5-15-01	4-15-06	\$ 19,983	\$ 0	\$ 10,650	\$ 0	\$ 9,333
Tractor and Boom-Mower	58,325	6.76	12-14-00	12-14-05	14,804	0	11,001	0	3,803
Tractor and Boom-Mower	104,000	5.5	12-23-02	12-23-07	72,090	0	20,260	0	51,830
Caterpillar Loader	18,000	0	6-1-05	3-1-06	0	18,000	0	0	18,000
Total Capital Leases Payable					\$ 106,877	\$ 18,000	\$ 41,911	\$ 0	\$ 82,966
OTHER LOANS PAYABLE									
<u>Payable through General Debt Service Fund</u>									
USDA - Community Facility Loan	(1)	4.625	12-27-02	12-27-43	\$ 129,400	\$ 58,768	\$ 0	\$ 0	\$ 188,168
BONDS PAYABLE									
<u>Payable through Education Debt Service Fund</u>									
School Bonds, Series 2000	8,500,000	4.7 to 5.5	12-14-00	4-1-11	\$ 7,850,000	\$ 0	\$ 200,000	\$ 6,300,000	\$ 1,350,000
School Bonds, Series 2001	9,000,000	4.7 to 5.5	12-14-00	4-1-11	8,280,000	0	200,000	6,730,000	1,350,000
School Bonds, Series 2002	5,400,000	3 to 4.75	4-11-02	4-11-13	4,675,000	0	400,000	0	4,275,000
School Refunding Bonds, Series 2005	12,800,000	5	1-1-05	4-1-21	0	12,800,000	0	0	12,800,000
Total Payable through Education Debt Service Fund					\$ 20,805,000	\$ 12,800,000	\$ 800,000	\$ 13,030,000	\$ 19,775,000

(Continued)

Exhibit I-1

Smith County, Tennessee
Schedule of Changes in Long-term Notes,
Capital Leases, Other Loans, and Bonds (Cont.)

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-04	Issued During Period	Matured During Period	Debt Refunded	Outstanding 6-30-04
<u>BONDS PAYABLE (Cont.)</u>									
<u>Payable through General Debt Service Fund</u>									
Public Buildings	\$ 70,000	5	% 1-1-1980	6-20-05	\$ 41,000	\$ 0	\$ 41,000	\$ 0	\$ 0
Welcome Center	90,000	4.25	10-16-03	10-16-43	90,000	0	1,190	0	88,810
Total Payable through General Debt Service Fund					<u>\$ 131,000</u>	<u>\$ 0</u>	<u>\$ 42,190</u>	<u>\$ 0</u>	<u>\$ 88,810</u>
Total Bonds Payable					<u>\$ 20,936,000</u>	<u>\$ 12,800,000</u>	<u>\$ 842,190</u>	<u>\$ 13,030,000</u>	<u>\$ 19,863,810</u>

(1) Amount available under a loan agreement with the USDA is \$254,200 of which \$188,168 has been received at June 30, 2005

Exhibit I-2

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

Year Ending June 30	Bond Requirements	Interest Requirements	Total Requirements
2006	\$ 850,931	\$ 986,261	\$ 1,837,192
2007	895,971	947,796	1,843,767
2008	941,012	906,367	1,847,379
2009	986,055	862,124	1,848,179
2010	1,031,100	814,992	1,846,092
2011	1,076,146	763,021	1,839,167
2012	1,101,195	709,535	1,810,730
2013	1,121,246	658,643	1,779,889
2014	1,231,299	605,670	1,836,969
2015	1,306,354	544,678	1,851,032
2016	1,371,412	479,695	1,851,107
2017	1,441,472	410,134	1,851,606
2018	1,501,534	337,072	1,838,606
2019	1,571,599	259,995	1,831,594
2020	1,646,667	178,582	1,825,249
2021	1,721,738	92,667	1,814,405
2022	1,812	2,906	4,718
2023	1,889	2,829	4,718
2024	1,969	2,749	4,718
2025	2,053	2,665	4,718
2026	2,140	2,578	4,718
2027	2,231	2,487	4,718
2028	2,326	2,392	4,718
2029	2,425	2,293	4,718
2030	2,528	2,190	4,718
2031	2,635	2,083	4,718
2032	2,747	1,971	4,718
2033	2,864	1,854	4,718
2034	2,986	1,732	4,718
2035	3,113	1,605	4,718
2036	3,245	1,473	4,718
2037	3,383	1,335	4,718
2038	3,527	1,191	4,718
2039	3,677	1,041	4,718
2040	3,833	885	4,718
2041	3,996	722	4,718
2042	4,165	553	4,718
2043	4,343	375	4,718
2044	4,192	191	4,383
Total	\$ 19,863,810	\$ 9,597,332	\$ 29,461,142

Exhibit I-3

Smith 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	Ambulance Service	Operations	\$ 20,000
Solid Waste Disposal	Solid Waste/Sanitation	Operations	235,064
General	General Debt Service	To retire debt	<u>4,495</u>
Total Transfers			<u><u>\$ 259,559</u></u>

Exhibit I-4

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

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
County Mayor	Section 8-24-102, <u>TCA</u>	\$ 55,403	\$ 50,000	The Cincinnati Insurance Company
Highway Superintendent	Section 8-24-102, <u>TCA</u> , and Smith County Commission	53,784 (1)	100,000	"
Trustee	Section 8-24-102, <u>TCA</u>	47,969	560,800	"
Assessor of Property:				
Harold Massey (7-1-04 through 8-31-04)	Section 8-24-102, <u>TCA</u>	9,225	12,500	"
Terry Collins (9-1-04 through 6-30-05)	Section 8-24-102, <u>TCA</u>	38,744	12,500	"
County Clerk	Section 8-24-102, <u>TCA</u>	47,969	50,000	Western Surety Company
Circuit Court Clerk:				
Paula Lancaster (7-1-04 through 8-31-04)	Section 8-24-102, <u>TCA</u>	9,225	50,000	The Cincinnati Insurance Company
Myra Hardcastle (9-1-04 through 6-30-05)	Section 8-24-102, <u>TCA</u>	38,744	50,000	"
Clerk and Master	Section 8-24-102, <u>TCA</u> , and Chancery Court Judge	51,189 (2)	25,000	"
Register	Section 8-24-102, <u>TCA</u>	47,969	25,000	"
Sheriff	Section 8-24-102, <u>TCA</u>	53,365 (3)	25,000	"

(1) Includes additional appropriation by the County Commission of \$1,019.

(2) Includes special commissioner fees of \$3,220.

(3) Includes law enforcement training supplement of \$600.

Exhibit I-5

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

	Special Revenue Funds					Highway/ Public Works
	General	Courthouse and Jail Maintenance	Solid Waste/ Sanitation	Ambulance Service	Drug Control	
<u>Local Taxes</u>						
<u>County Property Taxes</u>						
Current Property Tax	\$ 1,789,799	\$ 0	\$ 0	\$ 0	\$ 0	95,456
Trustee's Collections - Prior Year	84,934	0	0	0	0	4,529
Circuit/Clerk & Master Collections - Prior Years	45,205	0	0	0	0	2,411
Interest and Penalty	12,635	0	0	0	0	673
Payments in Lieu of Taxes - T.V.A.	943	0	0	0	0	50
Payments in Lieu of Taxes - Other	12,439	0	0	0	0	0
<u>County Local Option Taxes</u>						
Local Option Sales Tax	538,668	0	0	0	0	0
Wheel Tax	0	0	0	0	0	0
Litigation Tax - General	102,319	35,682	0	0	0	0
Litigation Tax - Jail, Workhouse, or Courthouse	0	62,745	0	0	0	0
Business Tax	90,054	0	0	0	0	0
Mineral Severance Tax	0	0	0	0	0	52,613
<u>Statutory Local Taxes</u>						
Bank Excise Tax	71,664	0	0	0	0	3,496
Wholesale Beer Tax	75,030	0	0	0	0	0
Interstate Telecommunications Tax	2,186	0	0	0	0	0
Total Local Taxes	\$ 2,825,876	\$ 98,427	\$ 0	\$ 0	\$ 0	159,228
<u>Licenses and Permits</u>						
<u>Licenses</u>						
Cable TV Franchise	\$ 8,880	\$ 0	\$ 0	\$ 0	\$ 0	0
<u>Permits</u>						
Beer Permits	1,000	0	0	0	0	0
Building Permits	37,800	0	0	0	0	0
Total Licenses and Permits	\$ 47,680	\$ 0	\$ 0	\$ 0	\$ 0	0
<u>Fines, Forfeitures and Penalties</u>						
<u>Circuit Court</u>						
Jail Fees	\$ 304	\$ 0	\$ 0	\$ 0	\$ 0	0
Data Entry Fee - Circuit Court	484	0	0	0	0	0

(Continued)

Exhibit I-5

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

	Special Revenue Funds					
	General	Courthouse and Jail Maintenance	Solid Waste/ Sanitation	Ambulance Service	Drug Control	Highway/ Public Works
<u>Fines, Forfeitures and Penalties (Cont.)</u>						
<u>Criminal Court</u>						
Drug Court Fees	\$ 0	\$ 0	\$ 0	\$ 0	12,308	\$ 0
<u>General Sessions Court</u>						
Fines	6,960	0	0	0	0	0
Game and Fish Fines	467	0	0	0	0	0
Drug Control Fines	2,056	0	0	0	285	0
Drug Court Fees	0	0	0	0	11,204	0
Jail Fees	32,455	0	0	0	0	0
DUI Treatment Fines	5,958	0	0	0	0	0
Data Entry Fee - General Sessions Court	9,615	0	0	0	0	0
<u>Juvenile Court</u>						
Data Entry Fee - Juvenile Court	72	0	0	0	0	0
<u>Chancery Court</u>						
Officers Costs	3,614	0	0	0	0	0
Data Entry Fee - Chancery Court	1,100	0	0	0	0	0
Total Fines, Forfeitures and Penalties	\$ 63,085	\$ 0	\$ 0	\$ 0	23,797	\$ 0
<u>Charges for Current Services</u>						
<u>General Service Charges</u>						
Patient Charges	\$ 0	\$ 0	\$ 0	595,904	\$ 0	\$ 0
<u>Fees</u>						
Copy Fees	5,297	0	0	20	0	0
Telephone Commissions	3,757	0	0	0	0	0
Data Processing Fee - Register	8,896	0	0	0	0	0
Data Processing Fee - Sheriff	3,590	0	0	0	0	0
Total Charges for Current Services	\$ 21,540	\$ 0	\$ 0	595,924	\$ 0	\$ 0
<u>Other Local Revenues</u>						
<u>Recurring Items</u>						
Investment Income	\$ 160,228	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Lease/Rentals	150	0	600	2,350	0	0
Sale of Gasoline	0	0	0	2,446	0	0
Miscellaneous Refunds	22,574	0	0	412	146	979

(Continued)

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

	Special Revenue Funds					
	General	Courthouse and Jail Maintenance	Solid Waste/ Sanitation	Ambulance Service	Drug Control	Highway/ Public Works
<u>Other Local Revenues (Cont.)</u>						
<u>Nonrecurring Items</u>						
Accrued Interest on Debt Issues	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	0
Insurance Recovery	9,851	0	405	5,850	0	0
Sale of Property	36,598	0	0	0	0	0
<u>Other Local Revenues</u>						
Other Local Revenues	31,391	0	0	0	0	11,267
Total Other Local Revenues	\$ 260,792	\$ 0	\$ 1,005	\$ 11,058	\$ 146	\$ 12,246
<u>Fees Received from County Officials</u>						
<u>Fees In Lieu of Salary</u>						
County Clerk	\$ 156,951	\$ 0	\$ 0	\$ 0	\$ 0	0
Circuit Court Clerk	90,780	0	0	0	0	0
General Sessions Court Clerk	161,250	0	0	0	0	0
Clerk and Master	42,871	0	0	0	0	0
Register	94,381	0	0	0	0	0
Sheriff	59,332	0	0	0	0	0
Trustee	205,584	0	0	0	0	0
Total Fees Received from County Officials	\$ 811,149	\$ 0	\$ 0	\$ 0	\$ 0	0
<u>State of Tennessee</u>						
<u>General Government Grants</u>						
Juvenile Services Program	\$ 9,135	\$ 0	\$ 0	\$ 0	\$ 0	0
Aging Programs	7,558	0	0	0	0	0
State Reappraisal Grant	6,149	0	0	0	0	0
<u>Public Safety Grants</u>						
Law Enforcement Training Programs	2,400	0	0	0	0	0
Other Public Safety Grants	0	0	0	21,800	0	0
<u>Public Works Grants</u>						
Litter Program	25,993	0	0	0	0	0
<u>Other State Revenues</u>						
Flood Control	2,386	0	0	0	0	0
Income Tax	11,603	0	0	0	0	0
Beer Tax	16,778	0	0	0	0	0

(Continued)

Exhibit I-5

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

	Special Revenue Funds					
	General	Courthouse and Jail Maintenance	Solid Waste/ Sanitation	Ambulance Service	Drug Control	Highway/ Public Works
<u>State of Tennessee (Cont.)</u>						
<u>Other State Revenues (Cont.)</u>						
Alcoholic Beverage Tax	\$ 23,361	\$ 0	\$ 0	\$ 0	\$ 0	0
State Revenue Sharing - T.V.A.	282,281	0	0	0	0	0
Contracted Prisoner Boarding	126,420	0	0	0	0	0
Gasoline and Motor Fuel Tax	0	0	0	0	0	1,462,994
Petroleum Special Tax	0	0	0	0	0	14,335
Registrar's Salary Supplement	16,380	0	0	0	0	0
Other State Grants	11,750	0	0	0	0	0
Total State of Tennessee	<u>\$ 542,194</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 21,800</u>	<u>\$ 0</u>	<u>\$ 1,477,329</u>
<u>Federal Government</u>						
<u>Federal Through State</u>						
Other Federal through State	\$ 49,350	\$ 0	\$ 0	\$ 0	\$ 0	0
<u>Direct Federal Revenue</u>						
Police Service (Lake Area)	9,996	0	0	0	0	0
Public Safety Partnership and Community Policing - COPS	60,010	0	0	0	0	0
Other Direct Federal Revenue	16,790	0	0	0	0	0
Total Federal Government	<u>\$ 136,146</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>0</u>
<u>Other Governments and Citizens Groups</u>						
<u>Other Governments</u>						
Contributions	\$ 300	\$ 0	\$ 0	\$ 3,650	\$ 0	0
<u>Citizens Groups</u>						
Donations	4,936	0	0	0	0	0
<u>Other</u>						
Other	675	0	0	0	0	0
Total Other Governments and Citizens Groups	<u>\$ 5,911</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,650</u>	<u>\$ 0</u>	<u>0</u>
Total	<u>\$ 4,714,373</u>	<u>\$ 98,427</u>	<u>\$ 1,005</u>	<u>\$ 632,432</u>	<u>\$ 23,943</u>	<u>\$ 1,648,803</u>

(Continued)

Exhibit I-5

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

	Debt Service Funds		Capital Projects Funds		Total
	General Debt Service	Education Debt Service	HUD Grant Projects	Other Capital Projects	
<u>Local Taxes</u>					
<u>County Property Taxes</u>					
Current Property Tax	\$ 381,821	\$ 334,094	\$ 0	\$ 0	\$ 2,601,170
Trustee's Collections - Prior Year	18,124	15,858	0	0	123,445
Circuit/Clerk & Master Collections - Prior Years	9,644	8,438	0	0	65,698
Interest and Penalty	2,697	2,360	0	0	18,365
Payments in Lieu of Taxes - T.V.A.	201	176	0	0	1,370
Payments in Lieu of Taxes - Other	0	0	0	0	12,439
<u>County Local Option Taxes</u>					
Local Option Sales Tax	0	389,733	0	0	928,401
Wheel Tax	0	718,748	0	0	718,748
Litigation Tax - General	0	0	0	0	138,001
Litigation Tax - Jail, Workhouse, or Courthouse	0	0	0	0	62,745
Business Tax	0	0	0	0	90,054
Mineral Severance Tax	0	0	0	0	52,613
<u>Statutory Local Taxes</u>					
Bank Excise Tax	15,731	0	0	0	90,891
Wholesale Beer Tax	0	0	0	0	75,030
Interstate Telecommunications Tax	0	806	0	0	2,992
Total Local Taxes	\$ 428,218	\$ 1,470,213	\$ 0	\$ 0	\$ 4,981,962
<u>Licenses and Permits</u>					
<u>Licenses</u>					
Cable TV Franchise	\$ 0	\$ 0	\$ 0	\$ 0	\$ 8,880
<u>Permits</u>					
Beer Permits	0	0	0	0	1,000
Building Permits	0	0	0	0	37,800
Total Licenses and Permits	\$ 0	\$ 0	\$ 0	\$ 0	\$ 47,680
<u>Fines, Forfeitures and Penalties</u>					
<u>Circuit Court</u>					
Jail Fees	\$ 0	\$ 0	\$ 0	\$ 0	\$ 304
Data Entry Fee - Circuit Court	0	0	0	0	484

(Continued)

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

	Debt Service Funds		Capital Projects Funds		Total
	General Debt Service	Education Debt Service	HUD Grant Projects	Other Capital Projects	
<u>Fines, Forfeitures and Penalties (Cont.)</u>					
<u>Criminal Court</u>					
Drug Court Fees	\$ 0	\$ 0	\$ 0	\$ 0	12,308
<u>General Sessions Court</u>					
Fines	0	0	0	0	6,960
Game and Fish Fines	0	0	0	0	467
Drug Control Fines	0	0	0	0	2,341
Drug Court Fees	0	0	0	0	11,204
Jail Fees	0	0	0	0	32,455
DUI Treatment Fines	0	0	0	0	5,958
Data Entry Fee - General Sessions Court	0	0	0	0	9,615
<u>Juvenile Court</u>					
Data Entry Fee - Juvenile Court	0	0	0	0	72
<u>Chancery Court</u>					
Officers Costs	0	0	0	0	3,614
Data Entry Fee - Chancery Court	0	0	0	0	1,100
Total Fines, Forfeitures and Penalties	\$ 0	\$ 0	\$ 0	\$ 0	86,882
<u>Charges for Current Services</u>					
<u>General Service Charges</u>					
Patient Charges	\$ 0	\$ 0	\$ 0	\$ 0	595,904
<u>Fees</u>					
Copy Fees	0	0	0	0	5,317
Telephone Commissions	0	0	0	0	3,757
Data Processing Fee - Register	0	0	0	0	8,896
Data Processing Fee - Sheriff	0	0	0	0	3,590
Total Charges for Current Services	\$ 0	\$ 0	\$ 0	\$ 0	617,464
<u>Other Local Revenues</u>					
<u>Recurring Items</u>					
Investment Income	\$ 0	\$ 0	\$ 0	\$ 0	160,228
Lease/Rentals	4,800	0	0	0	7,900
Sale of Gasoline	0	0	0	0	2,446
Miscellaneous Refunds	500	1,000	0	0	25,611

(Continued)

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

	<u>Debt Service Funds</u>		<u>Capital Projects Funds</u>		<u>Total</u>
	<u>General Debt Service</u>	<u>Education Debt Service</u>	<u>HUD Grant Projects</u>	<u>Other Capital Projects</u>	
<u>Other Local Revenues (Cont.)</u>					
<u>Nonrecurring Items</u>					
Accrued Interest on Debt Issues	\$ 0	\$ 53,333	\$ 0	\$ 0	\$ 53,333
Insurance Recovery	0	0	0	0	16,106
Sale of Property	0	0	0	0	36,598
<u>Other Local Revenues</u>					
Other Local Revenues	0	0	0	0	42,658
Total Other Local Revenues	\$ 5,300	\$ 54,333	\$ 0	\$ 0	\$ 344,880
<u>Fees Received from County Officials</u>					
<u>Fees In Lieu of Salary</u>					
County Clerk	\$ 0	\$ 0	\$ 0	\$ 0	\$ 156,951
Circuit Court Clerk	0	0	0	0	90,780
General Sessions Court Clerk	0	0	0	0	161,250
Clerk and Master	0	0	0	0	42,871
Register	0	0	0	0	94,381
Sheriff	0	0	0	0	59,332
Trustee	0	0	0	0	205,584
Total Fees Received from County Officials	\$ 0	\$ 0	\$ 0	\$ 0	\$ 811,149
<u>State of Tennessee</u>					
<u>General Government Grants</u>					
Juvenile Services Program	\$ 0	\$ 0	\$ 0	\$ 0	\$ 9,135
Aging Programs	0	0	0	0	7,558
State Reappraisal Grant	0	0	0	0	6,149
<u>Public Safety Grants</u>					
Law Enforcement Training Programs	0	0	0	0	2,400
Other Public Safety Grants	0	0	0	0	21,800
<u>Public Works Grants</u>					
Litter Program	0	0	0	0	25,993
<u>Other State Revenues</u>					
Flood Control	0	0	0	0	2,386
Income Tax	0	0	0	0	11,603
Beer Tax	0	0	0	0	16,778

(Continued)

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

	Debt Service Funds		Capital Projects Funds		Total
	General Debt Service	Education Debt Service	HUD Grant Projects	Other Capital Projects	
<u>State of Tennessee (Cont.)</u>					
<u>Other State Revenues (Cont.)</u>					
Alcoholic Beverage Tax	\$ 0	\$ 0	\$ 0	\$ 0	23,361
State Revenue Sharing - T.V.A.	0	0	0	0	282,281
Contracted Prisoner Boarding	0	0	0	0	126,420
Gasoline and Motor Fuel Tax	0	0	0	0	1,462,994
Petroleum Special Tax	0	0	0	0	14,335
Registrar's Salary Supplement	0	0	0	0	16,380
Other State Grants	0	0	0	4,768	16,518
Total State of Tennessee	\$ 0	\$ 0	\$ 0	4,768	\$ 2,046,091
<u>Federal Government</u>					
<u>Federal Through State</u>					
Other Federal through State	\$ 0	\$ 0	\$ 0	\$ 0	49,350
<u>Direct Federal Revenue</u>					
Police Service (Lake Area)	0	0	0	0	9,996
Public Safety Partnership and Community Policing - COPS	0	0	0	0	60,010
Other Direct Federal Revenue	0	0	1,500	0	18,290
Total Federal Government	\$ 0	\$ 0	1,500	\$ 0	\$ 137,646
<u>Other Governments and Citizens Groups</u>					
<u>Other Governments</u>					
Contributions	\$ 0	\$ 296,000	\$ 0	\$ 0	299,950
<u>Citizens Groups</u>					
Donations	0	0	0	0	4,936
<u>Other</u>					
Other	0	0	0	0	675
Total Other Governments and Citizens Groups	\$ 0	\$ 296,000	\$ 0	\$ 0	\$ 305,561
Total	\$ 433,518	\$ 1,820,546	\$ 1,500	\$ 4,768	\$ 9,379,315

Exhibit I-6

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

General Fund

General Government

County Commission

Other Salaries & Wages	\$	358	
Board and Committee Members Fees		16,800	
Other Per Diem & Fees		3,097	
Social Security		1,098	
Advertising		44	
Audit Services		5,877	
Dues and Memberships		2,162	
Travel		853	
Total County Commission			\$ 30,289

Board of Equalization

Board and Committee Members Fees	\$	1,300	
Total Board of Equalization			1,300

County Mayor/County Executive

County Official/Administrative Officer	\$	55,403	
Salary Supplements		700	
Secretary(s)		47,166	
Overtime Pay		1,658	
Social Security		7,996	
State Retirement		4,903	
Communication		5,498	
Dues and Memberships		1,200	
Maintenance & Repair Services- Office Equipment		90	
Travel		2,200	
Office Supplies		7,693	
Data Processing Equipment		9,680	
Total County Mayor/County Executive			144,187

County Attorney

County Official/Administrative Officer	\$	18,796	
Total County Attorney			18,796

Election Commission

County Official/Administrative Officer	\$	38,375	
Clerical Personnel		20,983	
Custodial Personnel		4,285	
Part-time Personnel		3,042	
Overtime Pay		4,574	
Election Commission		3,000	

(Continued)

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

General Fund (Cont.)

General Government (Cont.)

Election Commission (Cont.)

Election Workers	\$	19,808	
Social Security		5,762	
State Retirement		3,319	
Advertising		1,603	
Communication		1,207	
Postal Charges		1,210	
Printing, Stationery and Forms		2,455	
Rentals		275	
Travel		731	
Office Supplies		658	
Vehicle and Equipment Insurance		1,150	
Other Charges		3,380	
Total Election Commission			\$ 115,817

Register of Deeds

County Official/Administrative Officer	\$	47,969	
Deputy(ies)		40,816	
Data Processing Personnel		11,215	
Social Security		6,234	
State Retirement		4,660	
Medical Insurance		2,640	
Communication		804	
Dues and Memberships		327	
Maintenance & Repair Services- Office Equipment		45	
Office Supplies		6,429	
Premiums on Corporate Surety Bonds		275	
Total Register of Deeds			121,414

Planning

Other Per Diem & Fees	\$	4,250	
Dues and Memberships		8,500	
Total Planning			12,750

Codes Compliance

County Official/Administrative Officer	\$	30,534	
Deputy(ies)		9,544	
Social Security		3,066	
State Retirement		1,708	
Advertising		287	
Communication		1,219	

(Continued)

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

General Fund (Cont.)

General Government (Cont.)

Codes Compliance (Cont.)

Gasoline	\$	242	
Office Supplies		2,210	
Office Equipment		1,418	
Total Codes Compliance			\$ 50,228

County Buildings

Deputy(ies)	\$	40,574	
Social Security		3,477	
State Retirement		1,410	
Communication		2,456	
Contracts with Private Agencies		4,873	
Maintenance & Repair Services- Buildings		5,538	
Maintenance & Repair Services- Equipment		2,253	
Rentals		3,372	
Custodial Supplies		4,567	
Gasoline		5,691	
Utilities		81,204	
Other Supplies and Materials		10,338	
Building and Contents Insurance		3,500	
Building Improvements		2,037	
Total County Buildings			171,290

Finance

Property Assessor's Office

County Official/Administrative Officer	\$	47,969	
Deputy(ies)		40,964	
Social Security		6,803	
State Retirement		4,803	
Medical Insurance		660	
Advertising		127	
Communication		1,954	
Contracts with Government Agencies		6,067	
Dues and Memberships		1,080	
Postal Charges		700	
Travel		1,631	
Other Contracted Services		15,100	
Office Supplies		1,500	
Premiums on Corporate Surety Bonds		50	
Office Equipment		924	
Total Property Assessor's Office			130,332

(Continued)

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

General Fund (Cont.)

Finance (Cont.)

Reappraisal Program

Deputy(ies)	\$	13,812	
Social Security		1,057	
Contracts with Government Agencies		2,744	
Total Reappraisal Program			\$ 17,613

County Trustee's Office

County Official/Administrative Officer	\$	47,969	
Deputy(ies)		40,816	
Social Security		6,764	
State Retirement		4,583	
Bank Charges		185	
Communication		988	
Dues and Memberships		327	
Legal Notices, Recording and Court Costs		84	
Postal Charges		3,485	
Office Supplies		2,633	
Data Processing Equipment		4,495	
Total County Trustee's Office			112,329

County Clerk's Office

County Official/Administrative Officer	\$	47,969	
Deputy(ies)		80,518	
Overtime Pay		1,539	
Social Security		9,062	
State Retirement		6,793	
Medical Insurance		3,080	
Advertising		59	
Communication		777	
Dues and Memberships		377	
Postal Charges		2,035	
Printing, Stationery and Forms		185	
Office Supplies		1,535	
Premiums on Corporate Surety Bonds		400	
Office Equipment		14,364	
Total County Clerk's Office			168,693

Administration of Justice

Circuit Court

County Official/Administrative Officer	\$	47,969	
Deputy(ies)		100,945	

(Continued)

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

General Fund (Cont.)

Administration of Justice (Cont.)

Circuit Court (Cont.)

Board and Committee Members Fees	\$	1,250	
Jury and Witness Fees		5,389	
Social Security		11,022	
State Retirement		6,782	
Medical Insurance		7,920	
Communication		3,104	
Dues and Memberships		327	
Office Supplies		16,910	
Premiums on Corporate Surety Bonds		775	
Data Processing Equipment		9,302	
Total Circuit Court	\$		211,695

General Sessions Judge

Judge(s)	\$	60,009	
Social Security		4,591	
State Retirement		3,111	
Communication		652	
Travel		230	
Office Supplies		3	
Total General Sessions Judge			68,596

Chancery Court

County Official/Administrative Officer	\$	47,969	
Deputy(ies)		20,966	
Social Security		5,239	
State Retirement		3,298	
Medical Insurance		2,640	
Communication		1,047	
Dues and Memberships		327	
Office Supplies		4,186	
Premiums on Corporate Surety Bonds		275	
Total Chancery Court			85,947

Juvenile Court

Assistant(s)	\$	3,850	
Total Juvenile Court			3,850

Judicial Commissioners

County Official/Administrative Officer	\$	14,423	
Social Security		1,099	

(Continued)

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

General Fund (Cont.)

Administration of Justice (Cont.)

Judicial Commissioners (Cont.)

State Retirement	\$ 15	
Total Judicial Commissioners		\$ 15,537

Public Safety

Sheriff's Department

County Official/Administrative Officer	\$ 52,765
Deputy(ies)	220,854
Detective(s)	58,520
Captain(s)	30,609
Sergeant(s)	116,945
Paraprofessionals	27,211
Salary Supplements	2,400
Dispatchers/Radio Operators	97,235
Guards	24,653
Clerical Personnel	163
Attendants	58,492
Cafeteria Personnel	29,296
School Resource Officer	75,903
Overtime Pay	150,709
Other Salaries & Wages	36,451
In-Service Training	7,185
Social Security	83,226
State Retirement	42,708
Medical Insurance	28,600
Communication	20,687
Confidential Drug Enforcement Payments	27,663
Dues and Memberships	1,200
Operating Lease Payments	7
Maintenance & Repair Services- Office Equipment	2,437
Maintenance & Repair Services- Vehicles	139,629
Medical and Dental Services	340
Travel	352
Custodial Supplies	209
Gasoline	58,839
Office Supplies	7,042
Uniforms	17,630
Other Supplies and Materials	3,086
Liability Insurance	17,865
Premiums on Corporate Surety Bonds	2,875

(Continued)

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

General Fund (Cont.)

Public Safety (Cont.)

Sheriff's Department (Cont.)

Vehicle and Equipment Insurance	\$	11,629	
Law Enforcement Equipment		6,412	
Other Equipment		9,400	
Total Sheriff's Department	\$		1,471,227

Traffic Control

Traffic Control Equipment	\$	222	
Total Traffic Control			222

Jail

Cafeteria Personnel	\$	26,692	
Overtime Pay		4,334	
Social Security		2,374	
State Retirement		1,629	
Medical Insurance		1,320	
Medical and Dental Services		186,593	
Custodial Supplies		8,902	
Food Supplies		73,900	
Utilities		1,995	
Other Supplies and Materials		6,068	
Total Jail			313,807

Correctional Incentive Program Improvements

Deputy(ies)	\$	342,285	
Overtime Pay		57,624	
Social Security		30,593	
State Retirement		13,930	
Medical Insurance		13,042	
Total Correctional Incentive Program Improvements			457,474

Juvenile Services

Youth Service Officer(s)	\$	23,800	
In-Service Training		227	
Social Security		1,846	
State Retirement		1,234	
Communication		982	
Contracts with Private Agencies		61	
Travel		108	

(Continued)

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

General Fund (Cont.)

Public Safety (Cont.)

Juvenile Services (Cont.)

Drugs and Medical Supplies	\$	296	
Office Supplies		503	
Other Charges		532	
Total Juvenile Services			\$ 29,589

Fire Prevention and Control

Other Salaries & Wages	\$	51,920	
In-Service Training		1,235	
Dues and Memberships		450	
Maintenance & Repair Services- Equipment		2,563	
Maintenance & Repair Services- Vehicles		5,818	
Rentals		1,500	
Gasoline		6,618	
Office Supplies		105	
Utilities		5,476	
Other Supplies and Materials		21,489	
Vehicle and Equipment Insurance		12,827	
Other Charges		624	
Motor Vehicles		61,464	
Office Equipment		1,155	
Other Equipment		9,142	
Total Fire Prevention and Control			182,386

Civil Defense

Contracts with Private Agencies	\$	196	
Contributions		17,000	
Other Contracted Services		461	
Other Equipment		23,447	
Total Civil Defense			41,104

Other Emergency Management

Supervisor/Director	\$	1,731	
Social Security		132	
Communication		361	
Maintenance & Repair Services- Vehicles		43	
Gasoline		145	
Office Supplies		500	
Office Equipment		1,420	
Total Other Emergency Management			4,332

(Continued)

Exhibit I-6

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

General Fund (Cont.)

Public Safety (Cont.)

Inspection and Regulation

Supervisor/Director	\$	200	
Social Security		15	
Total Inspection and Regulation			\$ 215

County Coroner/Medical Examiner

Other Contracted Services	\$	32,795	
Total County Coroner/Medical Examiner			32,795

Other Public Safety

Deputy(ies)	\$	6,000	
Dispatchers/Radio Operators		106,035	
Longevity Pay		2,300	
Overtime Pay		12,861	
Social Security		9,731	
State Retirement		7,417	
Medical Insurance		4,794	
Total Other Public Safety			149,138

Public Health and Welfare

Local Health Center

Communication	\$	1,972	
Dues and Memberships		100	
Maintenance & Repair Services- Buildings		9,056	
Postal Charges		179	
Custodial Supplies		244	
Drugs and Medical Supplies		193	
Office Supplies		1,459	
Utilities		7,215	
Other Supplies and Materials		165	
Other Charges		775	
Total Local Health Center			21,358

Crippled Children Services

Contributions	\$	1,272	
Total Crippled Children Services			1,272

Other Local Health Services

Contributions	\$	6,964	
Total Other Local Health Services			6,964

(Continued)

Exhibit I-6

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

General Fund (Cont.)

Public Health and Welfare (Cont.)

Appropriation to State

Contracts with Government Agencies	\$ 9,500	
Total Appropriation to State		\$ 9,500

Other Local Welfare Services

Contributions	\$ 5,000	
Total Other Local Welfare Services		5,000

Waste Pickup

Supervisor/Director	\$ 21,219	
Social Security	1,623	
Gasoline	2,381	
Other Charges	1,958	
Total Waste Pickup		27,181

Other Public Health and Welfare

Other Salaries & Wages	\$ 1,478	
Social Security	113	
Legal Services	270	
Travel	377	
Other Contracted Services	8,100	
Land	126,630	
Total Other Public Health and Welfare		136,968

Social, Cultural and Recreational Services

Adult Activities

Other Salaries & Wages	\$ 3,214	
Social Security	246	
Other Supplies and Materials	120	
Other Charges	30	
Total Adult Activities		3,610

Senior Citizens Assistance

Supervisor/Director	\$ 19,747	
Social Security	1,511	
State Retirement	951	
Medical Insurance	2,640	
Travel	642	
Office Supplies	679	
Utilities	5,768	
Other Supplies and Materials	439	
Total Senior Citizens Assistance		32,377

(Continued)

Exhibit I-6

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

General Fund (Cont.)

Social, Cultural and Recreational Services (Cont.)

Libraries

Contributions	\$ 80,600	
Total Libraries		\$ 80,600

Parks and Fair Boards

Communication	\$ 490	
Other Supplies and Materials	13,573	
Other Charges	14,690	
Building Improvements	22,330	
Total Parks and Fair Boards		51,083

Other Social, Cultural and Recreational

Other Contracted Services	\$ 10,125	
Sand	5,346	
Other Supplies and Materials	3,057	
Total Other Social, Cultural and Recreational		18,528

Agriculture & Natural Resources

Agriculture Extension Service

Salary Supplements	\$ 25,663	
Secretary(s)	5,275	
Social Security	1,979	
State Retirement	3,764	
Communication	2,729	
Rentals	7,100	
Other Charges	3,100	
Office Equipment	683	
Total Agriculture Extension Service		50,293

Soil Conservation

Other Contracted Services	\$ 8,900	
Total Soil Conservation		8,900

Other Operations

Tourism

Contributions	\$ 300	
Total Tourism		300

Industrial Development

Advertising	\$ 730	
Office Supplies	710	
Total Industrial Development		1,440

(Continued)

Exhibit I-6

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

General Fund (Cont.)

Other Operations (Cont.)

Other Economic and Community Development

Contributions	\$ 27,467	
Total Other Economic and Community Development		\$ 27,467

Veterans' Services

Supervisor/Director	\$ 20,966	
Social Security	1,604	
State Retirement	1,095	
Communication	254	
Travel	22	
Office Supplies	92	
Total Veterans' Services		24,033

Employee Benefits

Longevity Pay	\$ 16,200	
Social Security	1,239	
State Retirement	429	
Unemployment Compensation	9,846	
Workers' Compensation Insurance	84,169	
Total Employee Benefits		111,883

Miscellaneous

Other Salaries & Wages	\$ 1,200	
Social Security	92	
State Retirement	783	
Contributions	15,591	
Dues and Memberships	2,095	
Operating Lease Payments	10,100	
Printing, Stationery and Forms	4,849	
Other Contracted Services	2,546	
Road Signs	200	
Other Supplies and Materials	4,092	
Liability Insurance	35,967	
Premiums on Corporate Surety Bonds	5,576	
Refunds	140	
Trustee's Commission	53,947	
Vehicle and Equipment Insurance	6,000	
Other Charges	38,224	
Bridge Construction	3,797	
Total Miscellaneous		185,199

Total General Fund		\$ 4,966,908
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(Continued)

Exhibit I-6

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

Courthouse & Jail Maintenance Fund

General Government

County Buildings

Maintenance & Repair Services- Buildings	\$ 37,881	
Building Improvements	2,200	
Site Development	8,360	
Total County Buildings		\$ 48,441

Other Operations

Miscellaneous

Trustee's Commission	\$ 1,077	
Total Miscellaneous		1,077

Total Courthouse & Jail Maintenance Fund \$ 49,518

Solid Waste/Sanitation Fund

Public Health and Welfare

Waste Pickup

Overtime Pay	\$ 847	
Other Salaries & Wages	39,396	
Social Security	2,976	
State Retirement	1,880	
Medical Insurance	4,620	
Maintenance & Repair Services- Equipment	25,904	
Gasoline	25,543	
Other Supplies and Materials	256	
Total Waste Pickup		\$ 101,422

Convenience Centers

Other Salaries & Wages	\$ 94,617	
Social Security	7,238	
Communication	3,250	
Rentals	6,817	
Utilities	4,510	
Other Supplies and Materials	3,639	
Site Development	12,340	
Other Equipment	7,818	
Total Convenience Centers		140,229

Other Waste Disposal

Trustee's Commission	\$ 6	
Total Other Waste Disposal		6

(Continued)

Exhibit I-6

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

Solid Waste/Sanitation Fund (Cont.)

Other Operations

Employee Benefits

Longevity Pay	\$ 300	
Total Employee Benefits		\$ 300

Total Solid Waste/Sanitation Fund \$ 241,957

Ambulance Service Fund

Public Health and Welfare

Ambulance/Emergency Medical Services

Medical Personnel	\$ 359,381	
Longevity Pay	3,300	
Overtime Pay	52,113	
In-Service Training	3,965	
Social Security	31,293	
State Retirement	15,638	
Medical Insurance	15,540	
Communication	11,955	
Engineering Services	19,902	
Laundry Service	3,772	
Licenses	80	
Maintenance & Repair Services- Equipment	5,097	
Maintenance & Repair Services- Vehicles	27,822	
Printing, Stationery and Forms	228	
Custodial Supplies	1,806	
Drugs and Medical Supplies	26,695	
Gasoline	24,554	
Office Supplies	3,215	
Uniforms	6,589	
Utilities	12,069	
Other Supplies and Materials	26,181	
Liability Insurance	3,317	
Premiums on Corporate Surety Bonds	500	
Refunds	879	
Trustee's Commission	5,543	
Vehicle and Equipment Insurance	5,001	
Workers' Compensation Insurance	35,032	
Building Improvements	2,708	
Motor Vehicles	69,105	
Total Ambulance/Emergency Medical Services		\$ 773,280

Total Ambulance Service Fund 773,280

(Continued)

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

Drug Control Fund

Public Safety

Drug Enforcement

Confidential Drug Enforcement Payments	\$	5,500	
Trustee's Commission		13	
Total Drug Enforcement			\$ 5,513

Total Drug Control Fund \$ 5,513

Highway/Public Works Fund

Highways

Administration

County Official/Administrative Officer	\$	53,784	
Accountants/Bookkeepers		30,350	
Overtime Pay		1,125	
Other Salaries & Wages		20,714	
Other Per Diem & Fees		650	
Advertising		203	
Communication		4,387	
Data Processing Services		4,250	
Dues and Memberships		2,235	
Medical and Dental Services		1,749	
Postal Charges		444	
Printing, Stationery and Forms		336	
Drugs and Medical Supplies		196	
Electricity		4,022	
Natural Gas		4,053	
Office Supplies		3,599	
Water and Sewer		239	
Other Charges		5,643	
Communication Equipment		63	
Data Processing Equipment		2,821	
Office Equipment		280	
Total Administration			\$ 141,143

Highway and Bridge Maintenance

Foremen	\$	52,560	
Equipment Operators		142,683	
Truck Drivers		56,551	
Laborers		151,518	
Overtime Pay		2,347	
Other Contracted Services		95,985	
Asphalt - Cold Mix		38,793	

(Continued)

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

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Highway and Bridge Maintenance (Cont.)

Asphalt - Liquid	\$	176,195	
Concrete		492	
Crushed Stone		135,734	
Pipe		11,017	
Road Signs		770	
Salt		1,128	
Structural Steel		248	
Wood Products		4,014	
Other Charges		848	
Total Highway and Bridge Maintenance			\$ 870,883

Operation and Maintenance of Equipment

Mechanic(s)	\$	53,244	
Overtime Pay		832	
Freight Expenses		454	
Maintenance & Repair Services- Equipment		3,618	
Custodial Supplies		1,971	
Diesel Fuel		49,155	
Equipment and Machinery Parts		37,159	
Garage Supplies		3,461	
Gasoline		28,709	
Lubricants		6,334	
Small Tools		1,330	
Tires and Tubes		8,167	
Vehicle Parts		29,210	
Other Charges		1,212	
Total Operation and Maintenance of Equipment			224,856

Other Charges

Contributions	\$	2,100	
Building and Contents Insurance		238	
Liability Insurance		534	
Trustee's Commission		17,423	
Vehicle and Equipment Insurance		21,188	
Workers' Compensation Insurance		55,702	
Total Other Charges			97,185

Employee Benefits

Social Security	\$	42,453	
State Retirement		24,488	

(Continued)

Exhibit I-6

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

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Employee Benefits (Cont.)

Employee and Dependent Insurance	\$ 243,954	
Unemployment Compensation	6,785	
Total Employee Benefits		\$ 317,680

Capital Outlay

Building Improvements	\$ 9,156	
Highway Equipment	21,500	
Motor Vehicles	9,700	
Total Capital Outlay		40,356

Debt Service Principal

Highways and Streets

Principal on Notes	\$ 66,667	
Principal on Capital Leases	41,911	
Total Highways and Streets		108,578

Debt Service Interest

Highways and Streets

Interest on Notes	\$ 7,904	
Interest on Capital Leases	4,948	
Total Highways and Streets		12,852

Total Highway/Public Works Fund \$ 1,813,533

General Debt Service Fund

Debt Service Principal

General Government

Principal on Bonds	\$ 42,190	
Principal on Notes	184,452	
Total General Government		\$ 226,642

Debt Service Interest

General Government

Interest on Bonds	\$ 6,779	
Interest on Notes	9,537	
Total General Government		16,316

Other Debt Service

General Government

Trustee's Commission	\$ 8,404	
Total General Government		8,404

Total General Debt Service Fund 251,362

(Continued)

Exhibit I-6

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

<u>Education Debt Service Fund</u>		
<u>Debt Service Principal</u>		
<u>Education</u>		
Principal on Bonds	\$ 800,000	
Total Education		\$ 800,000
 <u>Debt Service Interest</u>		
<u>Education</u>		
Interest on Bonds	\$ 1,071,207	
Total Education		1,071,207
 <u>Other Debt Service</u>		
<u>Education</u>		
Bank Charges	\$ 795	
Trustee's Commission	18,291	
Underwriter's Discount	76,800	
Other Debt Issuance Charges	148,067	
Total Education		<u>243,953</u>
Total Education Debt Service Fund		\$ 2,115,160
 <u>General Capital Projects Fund</u>		
<u>Other Operations</u>		
<u>Miscellaneous</u>		
Crushed Stone	\$ 13,267	
Other Supplies and Materials	26,618	
Other Charges	21,455	
Total Miscellaneous		<u>\$ 61,340</u>
Total General Capital Projects Fund		61,340
 <u>HUD Grant Projects Fund</u>		
<u>Other Operations</u>		
<u>Housing and Urban Development</u>		
Financial Advisory Services	\$ 1,500	
Total Housing and Urban Development		<u>\$ 1,500</u>
Total HUD Grant Projects Fund		1,500
 <u>Other Capital Projects Fund</u>		
<u>Other Operations</u>		
<u>Miscellaneous</u>		
Building Construction	\$ 4,269	
Total Miscellaneous		<u>\$ 4,269</u>
Total Other Capital Projects Fund		<u>4,269</u>
Total Governmental Funds - Primary Government		<u><u>\$ 10,284,340</u></u>

Exhibit I-7

Smith County, Tennessee
Schedule of Detailed Revenues and Expenses
Proprietary Fund
For the Year Ended June 30, 2005

	Primary Government Enterprise Fund Solid Waste Disposal
<hr/>	
<u>Revenues</u>	
<u>Operating Revenues</u>	
<u>Charges for Current Services</u>	
Tipping Fees	\$ 1,064,891
<u>Other Local Revenues</u>	
Sale of Recycled Materials	17,737
Miscellaneous Refunds	501
Total Operating Revenue	<u>\$ 1,083,129</u>
<u>Nonoperating Revenues</u>	
Grants	<u>\$ 9,234</u>
Total Revenues	<u>\$ 1,092,363</u>
<u>Expenses</u>	
<u>Operating Expenses</u>	
<u>Landfill Operation and Maintenance</u>	
Supervisor/Director	\$ 34,500
Salary Supplements	500
Longevity Pay	1,900
Overtime Pay	4,446
Other Salaries and Wages	182,416
In-Service Training	590
Social Security	17,118
State Retirement	10,020
Medical Insurance	8,813
Advertising	480
Communication	1,685
Contracts with Private Agencies	33,474
Engineering Services	121,592
Maintenance and Repair Services - Equipment	99,446
Rentals	15,631
Travel	132
Other Contracted Services	60,835
Gasoline	82,091
Office Supplies	496
Utilities	4,750
Other Supplies and Materials	40,589
Liability Insurance	16,000

(Continued)

Exhibit I-7

Smith County, Tennessee
Schedule of Detailed Revenues and Expenses
Proprietary Fund (Cont.)

	<u>Primary</u> <u>Government</u> <u>Enterprise</u> <u>Fund</u> <u>Solid Waste</u> <u>Disposal</u>
<hr/>	
<u>Expenses (Cont.)</u>	
<u>Operating Expenses (Cont.)</u>	
<u>Landfill Operation and Maintenance (Cont.)</u>	
Refunds	\$ 30
Trustee Commission	9,948
Vehicle and Equipment Insurance	21,219
Depreciation	361,894
Landfill Closure/Postclosure Care Costs	39,551
Other Charges	18
Total Operating Expenses	<u>\$ 1,170,164</u>
<u>Nonoperating Expenses</u>	
Interest on Capital Lease	\$ 4,452
Interest on Notes	44,786
Total Nonoperating Expenses	<u>\$ 49,238</u>
Total Expenses	<u>\$ 1,219,402</u>

Exhibit I-8

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

	Cities - Sales Tax Fund
<hr/>	
<u>Cash Receipts</u>	
Local Option Sales Tax	\$ 891,205
	<hr/>
<u>Cash Disbursements</u>	
Remittance of Revenues Collected	\$ 882,293
Trustee's Commission	8,912
Total Cash Disbursements	\$ 891,205
	<hr/>
Excess of Cash Receipts Over (Under) Cash Disbursements	\$ 0
Cash Balance, July 1, 2004	<hr/> 0
Cash Balance, June 30, 2005	<hr/> <hr/> \$ 0

STATISTICAL SECTION

Table 1

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

Year	Amount
1997	\$ 58
1998	316
1999	438
2000	3,993
2001	4,049
2002	16,638
2003	<u>58,539</u>
Total	<u><u>\$ 84,031</u></u>

Table 2

Smith County, Tennessee
Tax Rates and Assessments
Last Ten Years

Fund	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
General	\$ 0.56	\$ 0.46	\$ 0.37	\$ 0.47	\$ 0.49	\$ 0.56	\$ 0.56	\$ 0.56	\$ 0.75	\$ 0.75
Highway/Public Works	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.04	0.04
General Purpose School	1.30	1.30	1.02	0.99	0.99	0.90	0.98	0.98	0.90	0.90
General Debt Service	0.14	0.24	0.23	0.26	0.24	0.18	0.18	0.18	0.16	0.16
Education Debt Service	0.00	0.00	0.00	0.00	0.00	0.23	0.15	0.15	0.14	0.14
Total Tax Rate	\$ 2.02	\$ 2.02	\$ 1.64	\$ 1.74	\$ 1.74	\$ 1.89	\$ 1.89	\$ 1.89	\$ 1.99	\$ 1.99
<u>Assessed Valuations</u>										
Real and Personal	\$ 121,064,424	\$ 123,651,773	\$ 159,084,766	\$ 169,470,197	\$ 171,528,454	\$ 197,917,545	\$ 207,555,222	\$ 210,281,713	\$ 234,323,859	\$ 231,832,514
Public Utilities	14,252,194	11,642,106	12,992,549	15,199,031	13,702,411	17,558,895	19,241,310	16,993,973	19,174,872	20,380,820
Total Assessed Valuation	\$ 135,316,618	\$ 135,293,879	\$ 172,077,315	\$ 184,669,228	\$ 185,230,865	\$ 215,476,440	\$ 226,796,532	\$ 227,275,686	\$ 253,498,731	\$ 252,213,334

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

DEPARTMENT OF AUDIT
JOHN G. MORGAN
Comptroller of the Treasury

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

ARTHUR L. ALEXANDER
Director

CARL LOWE, CGFM
Audit Manager

ANITA SCARLETT, CPA
Auditor 4

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

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

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

	Exhibit	Page(s)
Audit Highlights		1
<u>INTRODUCTORY SECTION</u>		3
Smith County School Officials		5
<u>FINANCIAL SECTION</u>		7
Independent Auditor's Report		9-11
BASIC FINANCIAL STATEMENTS:		13
Fund Financial Statements:		
Governmental Funds:		
Balance Sheet	A	15
Statement of Revenues, Expenditures, and Changes in Fund Balances	B	16
Notes to the Financial Statements		17-27
REQUIRED SUPPLEMENTARY INFORMATION:		29
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Actual (Budgetary Basis) and Budget:		
General Purpose School Fund	C	31-33
Notes to the Required Supplementary Information		35
COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES:		37
Nonmajor Governmental Funds:		39
Combining Balance Sheet	D-1	41
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	D-2	42
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Actual (Budgetary Basis) and Budget:		
School Federal Projects Fund	D-3	43-44
Central Cafeteria Fund	D-4	45

	Exhibit	Page(s)
Miscellaneous Schedules:		47
Schedule of Transfers – All Funds	E-1	49
Schedule of Salaries and Official Bonds of Principal Officials	E-2	50
Schedule of Detailed Revenues – All Governmental Fund Types	E-3	51-52
Schedule of Detailed Expenditures – All Governmental Fund Types	E-4	53-65

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

Results

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

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

Findings

The following are summaries of the audit findings:

SMITH 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's estimated fund balance and reserves reflected in the county's budget at July 1, 2004, exceeded the actual fund balance and reserves by a material amount.
- ◆ School Department officials did not verify the accuracy of their inventory records, did not have policies to ensure that new assets were added to the inventory, and did not adequately identify the assets by serial number or detailed descriptions.
- ◆ The department did not maintain adequate controls over consumable assets such as fuel and repair parts.
- ◆ County officials had not adopted a central system of accounting, budgeting, and purchasing.
- ◆ Duties were not segregated adequately among the official and employees at the School Department.

INTRODUCTORY SECTION

Smith County School Officials
June 30, 2005

Official:

Roger Lewis, Director of Schools

Board of Education:

Pat Massey, Chairman
Hal Givens
Jason Hall
Terry Hunt
Tommy Manning
Rick Shoulders
Larry Taylor Wilkerson
Scotty Yeaman

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

January 26, 2006

Smith County Director of Schools and
Board of Education
Smith 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 Smith County School Department, a component unit of Smith County, Tennessee, as of and for the year ended June 30, 2005, as shown on pages 15 through 27, which collectively comprise a portion of the Smith 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 Smith 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 Smith 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 Smith County School Department as of June 30, 2005, or the changes in its financial position for the year then ended.

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

In accordance with Government Auditing Standards, we have also issued our report dated January 26, 2006, on our consideration of the Smith County School Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

As described in Note IV.B., the Smith 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 31 through 35 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 Smith County School Department's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental fund, 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

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

	<u>Major Fund</u>	<u>Nonmajor Funds</u>	<u>Total Govern- mental Funds</u>
	General Purpose School	Other Govern- mental Funds	
<u>ASSETS</u>			
Equity in Pooled Cash and Investments	\$ 3,013,442	\$ 501,565	\$ 3,515,007
Accounts Receivable	100,058	62	100,120
Due from Other Governments	228,858	142,913	371,771
Due from Other Funds	17,065	0	17,065
Property Taxes Receivable	2,480,645	0	2,480,645
Allowance for Uncollectible Property Taxes	(89,550)	0	(89,550)
Total Assets	<u>\$ 5,750,518</u>	<u>\$ 644,540</u>	<u>\$ 6,395,058</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 229,840	\$ 4,304	\$ 234,144
Accrued Payroll	1,110	16,547	17,657
Payroll Deductions Payable	442,988	27,606	470,594
Retainage Payable	40,388	0	40,388
Due to Other Funds	0	17,065	17,065
Due to State of Tennessee	0	11	11
Deferred Revenue - Current Property Taxes	2,296,127	0	2,296,127
Deferred Revenue - Delinquent Property Taxes	94,968	0	94,968
Other Deferred Revenues	119,029	0	119,029
Total Liabilities	<u>\$ 3,224,450</u>	<u>\$ 65,533</u>	<u>\$ 3,289,983</u>
<u>Fund Balances</u>			
Reserved for Encumbrances	\$ 408,483	\$ 14,637	\$ 423,120
Reserved for Vocational Projects	191,906	0	191,906
Reserved for Career Ladder - Extended Contract	73,512	0	73,512
Reserved for Career Ladder Program	2,578	0	2,578
Reserved for Basic Education Program	1,399,000	0	1,399,000
Reserved for Title I Grants to Local Education Agencies	0	139,983	139,983
Reserved for Innovative Education Program Strategies	0	38,947	38,947
Reserved for Special Education - Grants to States	0	46,084	46,084
Other Federal Reserves	0	5,532	5,532
Unreserved, Reported In:			
General Fund	450,589	0	450,589
Special Revenue Funds	0	288,749	288,749
Capital Projects Funds	0	45,075	45,075
Total Fund Balances	<u>\$ 2,526,068</u>	<u>\$ 579,007</u>	<u>\$ 3,105,075</u>
Total Liabilities and Fund Balances	<u>\$ 5,750,518</u>	<u>\$ 644,540</u>	<u>\$ 6,395,058</u>

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

Exhibit B

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

	<u>Major Fund</u>	<u>Nonmajor Funds</u>	
	General Purpose School	Other Govern- mental Funds	Total Governmental Funds
<u>Revenues</u>			
Local Taxes	\$ 3,448,897	\$ 0	\$ 3,448,897
Licenses and Permits	1,606	0	1,606
Charges for Current Services	30,810	682,363	713,173
Other Local Revenues	186,272	103,287	289,559
State of Tennessee	11,728,971	39,946	11,768,917
Federal Government	17,000	2,167,970	2,184,970
Total Revenues	<u>\$ 15,413,556</u>	<u>\$ 2,993,566</u>	<u>\$ 18,407,122</u>
<u>Expenditures</u>			
Current:			
Instruction	\$ 10,329,072	\$ 1,099,795	\$ 11,428,867
Support Services	4,932,267	335,687	5,267,954
Operation of Non-Instructional Services	38,717	1,327,284	1,366,001
Capital Outlay	625,431	1,750	627,181
Debt Service:			
Other Debt Service	296,000	0	296,000
Capital Projects	0	629,861	629,861
Total Expenditures	<u>\$ 16,221,487</u>	<u>\$ 3,394,377</u>	<u>\$ 19,615,864</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (807,931)</u>	<u>\$ (400,811)</u>	<u>\$ (1,208,742)</u>
<u>Other Financing Sources (Uses)</u>			
Transfers In	\$ 31,730	\$ 435,250	\$ 466,980
Transfers Out	(435,250)	(31,730)	(466,980)
Total Other Financing Sources (Uses)	<u>\$ (403,520)</u>	<u>\$ 403,520</u>	<u>\$ 0</u>
Net Change in Fund Balances	\$ (1,211,451)	\$ 2,709	\$ (1,208,742)
Fund Balance, July 1, 2004	<u>3,737,519</u>	<u>576,298</u>	<u>4,313,817</u>
Fund Balance, June 30, 2005	<u>\$ 2,526,068</u>	<u>\$ 579,007</u>	<u>\$ 3,105,075</u>

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

A. Reporting Entity

The Smith County School Department operates the public school system in the county, and the voters of Smith County elect its eight-member board. The School Department is a component unit of Smith County, the primary government. The School Department is fiscally dependent on the Smith County because it may not issue debt without county approval, and its budget and property tax levy are subject to the Smith County Commission's

approval. The School Department's taxes are levied under the taxing authority of the county and are included as part of the county's total tax levy.

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

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

Separate financial statements are provided for governmental funds. The major individual governmental fund is reported as a separate column in the fund financial statements. All other governmental funds are aggregated into a single column on the fund financial statements.

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

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 immaterial for reporting purposes. Applicable business taxes, litigation taxes, state-shared excise taxes, fines, forfeitures, and penalties are not susceptible to accrual since they are not measurable (reasonably estimable). All other revenue items are considered to be measurable and available only when the School Department receives cash.

The School Department reports the following major governmental fund:

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

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 for specific purposes.

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

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

1. **Deposits and Investments**

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

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

2. Receivables and Payables

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

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

Property taxes receivable are shown with an allowance for uncollectibles. The allowance for uncollectible property taxes is equal to 1.93 percent of total taxes levied.

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

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

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

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

3. Capital Assets

Governmental funds do not capitalize the cost of capital outlays; these funds report capital outlays as expenditures upon acquisition. 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 School Department's general policy does not allow employees to accumulate earned but unused vacation leave benefits beyond year-end. The School Department does allow employees to accumulate an unlimited amount of unused sick leave; however, the granting of sick leave has no guaranteed payment attached, and therefore, is not required to be accrued or recorded.

5. 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. Expenditures, Encumbrances, and Other Uses Exceeded Appropriations

Expenditures, encumbrances, and other uses exceeded appropriations approved by the Smith County Commission in the following major appropriation categories (the legal level of control):

<u>Fund</u>	<u>Major Appropriation Category</u>	<u>Amount</u>
General Purpose School	Regular Capital Outlay	\$ 8,198
General Purpose School	Transfers Out	16,250
School Federal Projects	Instruction - Vocational Education	2,801
School Federal Projects	Regular Capital Outlay	1,750

Such overexpenditures are a violation of state statutes. These overexpenditures were funded by greater than anticipated revenues in the General Purpose School Fund and by available fund balance in the School Federal Projects Fund.

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

The General Purpose School Fund's estimated fund balance and reserves reflected in the School Department's budget at July 1, 2004, was \$5,717,301; however, the actual fund balance and reserves was \$3,501,371. Therefore, the estimated fund balance and reserves presented to the Smith County Commission exceeded the actual fund balance and reserves by \$2,215,930.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits

Smith County and the School Department participate in an internal cash and investment pool through the primary government's Office of Trustee. The county trustee is the treasurer of the county and in this capacity is responsible for receiving, disbursing, depositing, and investing most county funds. Each fund's portion of this pool is displayed on the balance sheets as Equity in Pooled Cash and Investments.

Deposits

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

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

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 investments as of June 30, 2005, and the School Department had no interest in the nonpooled investments held by the Clerk and Master's Office.

B. Construction Commitments

At June 30, 2005, the General Purpose School Fund had uncompleted construction contracts of approximately \$267,920 for the renovation of the Board of Education administrative offices. Funding for these future expenditures is expected to be from fund balance.

C. Interfund Receivables, Payables, and Transfers

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

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Purpose School	Nonmajor governmental	<u>\$ 17,065</u>

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

Interfund Transfers:

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

Transfers Out	Transfers In	
	General Purpose School Fund	Nonmajor governmental funds
General Purpose School Fund	\$ 0	\$ 435,250
Nonmajor governmental funds	31,730	0
Total	<u>\$ 31,730</u>	<u>\$ 435,250</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.

IV. OTHER INFORMATION

A. Risk Management

The School Department is a member of the Local Government Workers' Compensation Fund, which is a public entity risk pool established by the Tennessee County Services Association. Annual premiums are paid to the pool for its workers' compensation coverage. The creation of the pool provides for it to be self-sustaining through member premiums.

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

The School Department carries commercial insurance for all other risks of loss, including general liability, property, and casualty. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

B. Accounting Change

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

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

C. Contingent Liabilities

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

D. Retirement Commitments

Plan Description

Employees of Smith 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 Smith 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 Smith County School Department participates in Smith County's plan, retirement information for the Smith 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.I. of the Annual Financial Report of Smith County, Tennessee.

SCHOOL TEACHERS

Plan Description

The Smith 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 Smith 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

Smith 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 \$511,897, \$294,566, and \$272,646, respectively, equal to the required contributions for each year.

E. Purchasing Law

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

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit C

Smith County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Smith 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	\$ 3,448,897	\$ 0	\$ 0	\$ 3,448,897	\$ 3,435,300	\$ 3,436,720	\$ 12,177
Licenses and Permits	1,606	0	0	1,606	2,000	2,000	(394)
Charges for Current Services	30,810	0	0	30,810	22,500	32,500	(1,690)
Other Local Revenues	186,272	0	0	186,272	68,500	88,500	97,772
State of Tennessee	11,728,971	0	0	11,728,971	11,606,400	11,731,400	(2,429)
Federal Government	17,000	0	0	17,000	7,000	42,000	(25,000)
Total Revenues	\$ 15,413,556	\$ 0	\$ 0	\$ 15,413,556	\$ 15,141,700	\$ 15,333,120	\$ 80,436
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 8,818,767	\$ (52,434)	\$ 36,934	\$ 8,803,267	\$ 9,198,200	\$ 9,198,200	\$ 394,933
Alternative Instruction Program	49,467	0	0	49,467	48,160	52,810	3,343
Special Education Program	945,919	(97)	0	945,822	1,016,830	1,026,830	81,008
Vocational Education Program	514,391	0	0	514,391	559,850	539,850	25,459
Adult Education Program	528	0	0	528	0	550	22
<u>Support Services</u>							
Attendance	67,972	0	0	67,972	78,150	78,150	10,178
Health Services	104,167	0	0	104,167	99,640	107,640	3,473
Other Student Support	284,109	0	0	284,109	309,370	286,370	2,261
Regular Instruction Program	454,518	(15)	150	454,653	486,150	474,150	19,497
Special Education Program	150,737	0	0	150,737	159,410	159,410	8,673
Vocational Education Program	40,445	0	0	40,445	89,090	64,090	23,645
Adult Programs	529	0	0	529	1,200	1,700	1,171
Board of Education	264,813	0	0	264,813	403,600	313,600	48,787
Director of Schools	115,383	0	0	115,383	128,470	128,470	13,087
Office of the Principal	913,093	0	0	913,093	1,003,250	968,250	55,157

(Continued)

Exhibit C

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2004	Add: Encumbrances 6/30/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Expenditures (Cont.)</u>							
<u>Support Services (Cont.)</u>							
Fiscal Services	\$ 128,396	\$ 0	\$ 0	\$ 128,396	\$ 190,270	\$ 170,270	\$ 41,874
Operation of Plant	1,214,924	0	0	1,214,924	1,220,700	1,245,700	30,776
Maintenance of Plant	301,888	(1,800)	230	300,318	375,890	360,890	60,572
Transportation	891,293	(45,400)	0	845,893	898,050	888,050	42,157
<u>Operation of Non-Instructional Services</u>							
Food Service	1,131	0	0	1,131	1,160	1,160	29
Community Services	37,586	0	0	37,586	36,860	38,860	1,274
<u>Capital Outlay</u>							
Regular Capital Outlay	625,431	(136,402)	371,169	860,198	852,000	852,000	(8,198)
<u>Other Debt Service</u>							
Education	296,000	0	0	296,000	296,000	296,000	0
Total Expenditures	\$ 16,221,487	\$ (236,148)	\$ 408,483	\$ 16,393,822	\$ 17,452,300	\$ 17,253,000	\$ 859,178
<u>Excess (Deficiency) of Revenues</u>							
Over Expenditures	\$ (807,931)	\$ 236,148	\$ (408,483)	\$ (980,266)	\$ (2,310,600)	\$ (1,919,880)	\$ 939,614
<u>Other Financing Sources (Uses)</u>							
Transfers In	\$ 31,730	\$ 0	\$ 0	\$ 31,730	\$ 22,000	\$ 22,000	\$ 9,730
Transfers Out	(435,250)	0	0	(435,250)	0	(419,000)	(16,250)
Total Other Financing Sources (Uses)	\$ (403,520)	\$ 0	\$ 0	\$ (403,520)	\$ 22,000	\$ (397,000)	\$ (6,520)

(Continued)

Exhibit C

Smith County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Smith 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	\$ (1,211,451)	\$ 236,148	\$ (408,483)	\$ (1,383,786)	\$ (2,288,600)	\$ (2,316,880)	\$ 933,094
Fund Balance, July 1, 2004	3,737,519	(236,148)	0	3,501,371	5,717,301	5,717,301	(2,215,930)
Fund Balance, June 30, 2005	\$ 2,526,068	\$ 0	\$ (408,483)	\$ 2,117,585	\$ 3,428,701	\$ 3,400,421	\$ (1,282,836)

**SMITH COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF SMITH 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 Smith 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 Smith 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, ENCUMBRANCES, AND OTHER USES EXCEEDED APPROPRIATIONS

Expenditures, encumbrances, and other uses exceeded appropriations approved by the Smith County Commission in the Regular Capital Outlay (\$8,198) and the Transfers Out (\$16,250) major appropriation categories (the legal level of control) of the General Purpose School Fund. Such overexpenditures are a violation of state statutes. These overexpenditures were funded by greater than anticipated revenues.

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

The General Purpose School Fund's estimated fund balance and reserves reflected in the School Department's budget at July 1, 2004, were \$5,717,301; however, the actual fund balance and reserves were \$3,501,371. Therefore, the estimated fund balance and reserves presented to the County Commission exceeded the actual fund balance and reserves by \$2,215,930.

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

Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

Capital Projects Fund

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

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

Exhibit D-1

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

	<u>Special Revenue Funds</u>			<u>Capital</u>	<u>Total</u>
	<u>School</u>	<u>Central</u>		<u>Projects</u>	
	<u>Federal</u>	<u>Cafeteria</u>	<u>Total</u>	<u>Capital</u>	<u>Nonmajor</u>
	<u>Projects</u>			<u>Projects</u>	<u>Governmental</u>
					<u>Funds</u>
<u>ASSETS</u>					
Equity in Pooled Cash and Investments	\$ 165,708	\$ 289,157	\$ 454,865	\$ 46,700	\$ 501,565
Accounts Receivable	0	62	62	0	62
Due from Other Governments	142,913	0	142,913	0	142,913
Total Assets	\$ 308,621	\$ 289,219	\$ 597,840	\$ 46,700	\$ 644,540
<u>LIABILITIES AND FUND BALANCES</u>					
<u>Liabilities</u>					
Accounts Payable	\$ 2,209	\$ 470	\$ 2,679	\$ 1,625	\$ 4,304
Accrued Payroll	16,547	0	16,547	0	16,547
Payroll Deductions Payable	27,606	0	27,606	0	27,606
Due to Other Funds	17,065	0	17,065	0	17,065
Due to State of Tennessee	11	0	11	0	11
Total Liabilities	\$ 63,438	\$ 470	\$ 63,908	\$ 1,625	\$ 65,533
<u>Fund Balances</u>					
Reserved for Encumbrances	\$ 14,637	\$ 0	\$ 14,637	\$ 0	\$ 14,637
Reserved for Title I Grants to Local Education Agencies	139,983	0	139,983	0	139,983
Reserved for Innovative Education Program Strategies	38,947	0	38,947	0	38,947
Reserved for Special Education - Grants to States	46,084	0	46,084	0	46,084
Other Federal Reserves	5,532	0	5,532	0	5,532
Unreserved	0	288,749	288,749	45,075	333,824
Total Fund Balances	\$ 245,183	\$ 288,749	\$ 533,932	\$ 45,075	\$ 579,007
Total Liabilities and Fund Balances	\$ 308,621	\$ 289,219	\$ 597,840	\$ 46,700	\$ 644,540

Exhibit D-2

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

	Special Revenue Funds			Capital Projects Fund	Total Nonmajor Governmental Funds
	School Federal Projects	Central Cafeteria	Total	Education Capital Projects	
<u>Revenues</u>					
Charges for Current Services	\$ 0	\$ 682,363	\$ 682,363	\$ 0	\$ 682,363
Other Local Revenues	2,001	3,729	5,730	97,557	103,287
State of Tennessee	19,993	19,953	39,946	0	39,946
Federal Government	1,533,959	634,011	2,167,970	0	2,167,970
Total Revenues	\$ 1,555,953	\$ 1,340,056	\$ 2,896,009	\$ 97,557	\$ 2,993,566
<u>Expenditures</u>					
Current:					
Instruction	\$ 1,099,795	\$ 0	\$ 1,099,795	\$ 0	\$ 1,099,795
Support Services	335,687	0	335,687	0	335,687
Operation of Non-Instructional Services	0	1,327,284	1,327,284	0	1,327,284
Capital Outlay	1,750	0	1,750	0	1,750
Capital Projects	0	0	0	629,861	629,861
Total Expenditures	\$ 1,437,232	\$ 1,327,284	\$ 2,764,516	\$ 629,861	\$ 3,394,377
Excess (Deficiency) of Revenues					
Over Expenditures	\$ 118,721	\$ 12,772	\$ 131,493	\$ (532,304)	\$ (400,811)
<u>Other Financing Sources (Uses)</u>					
Transfers In	\$ 13,250	\$ 0	\$ 13,250	\$ 422,000	\$ 435,250
Transfers Out	(31,730)	0	(31,730)	0	(31,730)
Total Other Financing Sources (Uses)	\$ (18,480)	\$ 0	\$ (18,480)	\$ 422,000	\$ 403,520
Net Change in Fund Balances					
Fund Balance, July 1, 2004	\$ 144,942	\$ 275,977	\$ 420,919	\$ 155,379	\$ 576,298
Fund Balance, June 30, 2005	\$ 245,183	\$ 288,749	\$ 533,932	\$ 45,075	\$ 579,007

Exhibit D-3

Smith County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Smith 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>							
Other Local Revenues	\$ 2,001	\$ 0	\$ 0	\$ 2,001	\$ 0	\$ 0	\$ 2,001
State of Tennessee	19,993	0	0	19,993	25,180	25,180	(5,187)
Federal Government	1,533,959	0	0	1,533,959	1,933,350	1,859,598	(325,639)
Total Revenues	\$ 1,555,953	\$ 0	\$ 0	\$ 1,555,953	\$ 1,958,530	\$ 1,884,778	\$ (328,825)
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 552,327	\$ (393)	\$ 228	\$ 552,162	\$ 940,458	\$ 931,287	\$ 379,125
Special Education Program	414,434	(2,128)	2,656	414,962	716,259	606,819	191,857
Vocational Education Program	69,128	(16,373)	5,037	57,792	54,991	54,991	(2,801)
Adult Education Program	63,906	(2,234)	2,231	63,903	66,006	67,506	3,603
<u>Support Services</u>							
Attendance	0	0	0	0	20,000	0	0
Other Student Support	28,378	0	0	28,378	35,188	35,188	6,810
Regular Instruction Program	114,424	(1,184)	4,375	117,615	244,323	205,223	87,608
Special Education Program	68,506	0	110	68,616	108,063	95,294	26,678
Adult Programs	74,413	0	0	74,413	77,057	75,557	1,144
Transportation	49,966	0	0	49,966	110,528	92,840	42,874
<u>Capital Outlay</u>							
Regular Capital Outlay	1,750	0	0	1,750	0	0	(1,750)
Total Expenditures	\$ 1,437,232	\$ (22,312)	\$ 14,637	\$ 1,429,557	\$ 2,372,873	\$ 2,164,705	\$ 735,148
Excess (Deficiency) of Revenues Over Expenditures	\$ 118,721	\$ 22,312	\$ (14,637)	\$ 126,396	\$ (414,343)	\$ (279,927)	\$ 406,323

(Continued)

Exhibit D-3

Smith County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Smith 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	
<u>Other Financing Sources (Uses)</u>							
Transfers In	\$ 13,250	\$ 0	\$ 0	\$ 13,250	\$ 60,502	\$ 110,852	\$ (97,602)
Transfers Out	(31,730)	0	0	(31,730)	(21,679)	(117,280)	85,550
Total Other Financing Sources (Uses)	\$ (18,480)	\$ 0	\$ 0	\$ (18,480)	\$ 38,823	\$ (6,428)	\$ (12,052)
Net Change in Fund Balance	\$ 100,241	\$ 22,312	\$ (14,637)	\$ 107,916	\$ (375,520)	\$ (286,355)	\$ 394,271
Fund Balance, July 1, 2004	144,942	(22,312)	0	122,630	375,520	286,355	(163,725)
Fund Balance, June 30, 2005	\$ 245,183	\$ 0	\$ (14,637)	\$ 230,546	\$ 0	\$ 0	\$ 230,546

Exhibit D-4

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2004	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Revenues</u>						
Charges for Current Services	\$ 682,363	\$ 0	\$ 682,363	\$ 734,000	\$ 734,000	\$ (51,637)
Other Local Revenues	3,729	0	3,729	7,000	7,000	(3,271)
State of Tennessee	19,953	0	19,953	22,500	22,500	(2,547)
Federal Government	634,011	0	634,011	588,000	588,000	46,011
Total Revenues	<u>\$ 1,340,056</u>	<u>\$ 0</u>	<u>\$ 1,340,056</u>	<u>\$ 1,351,500</u>	<u>\$ 1,351,500</u>	<u>\$ (11,444)</u>
<u>Expenditures</u>						
<u>Operation of Non-Instructional Services</u>						
Food Service	\$ 1,327,284	\$ (9,279)	\$ 1,318,005	\$ 1,396,715	\$ 1,396,715	\$ 78,710
Total Expenditures	<u>\$ 1,327,284</u>	<u>\$ (9,279)</u>	<u>\$ 1,318,005</u>	<u>\$ 1,396,715</u>	<u>\$ 1,396,715</u>	<u>\$ 78,710</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 12,772</u>	<u>\$ 9,279</u>	<u>\$ 22,051</u>	<u>\$ (45,215)</u>	<u>\$ (45,215)</u>	<u>\$ 67,266</u>
Net Change in Fund Balance	\$ 12,772	\$ 9,279	\$ 22,051	\$ (45,215)	\$ (45,215)	\$ 67,266
Fund Balance, July 1, 2004	275,977	(9,279)	266,698	264,066	264,066	2,632
Fund Balance, June 30, 2005	<u>\$ 288,749</u>	<u>\$ 0</u>	<u>\$ 288,749</u>	<u>\$ 218,851</u>	<u>\$ 218,851</u>	<u>\$ 69,898</u>

MISCELLANEOUS SCHEDULES

Exhibit E-1

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

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
School Federal Projects	General Purpose School	Indirect costs	\$ 31,730
General Purpose School	Education Capital Projects	Operations	422,000
General Purpose School	School Federal Projects	Salary reimbursement - supervisor	<u>13,250</u>
Total Transfers			<u>\$ 466,980</u>

Exhibit E-2

Smith County, Tennessee
Schedule of Salaries and Official Bonds of Principal Officials
Smith 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 Smith County Board of Education	\$ 77,118 (1) \$	100,000	The Cincinnati Insurance Company
Employee Blanket Bond Coverage: School Department Employees			25,000	"

(1) Includes career ladder supplement of \$1,000.

Exhibit E-3

Smith County, Tennessee
Schedule of Detailed Revenues -
All Governmental Fund Types
Smith 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	\$ 2,147,744	\$ 0	\$ 0	\$ 0	\$ 2,147,744
Trustee's Collections - Prior Year	101,944	0	0	0	101,944
Circuit/Clerk & Master Collections - Prior Years	58,558	0	0	0	58,558
Interest and Penalty	15,170	0	0	0	15,170
Payments in Lieu of Taxes - T.V.A.	1,132	0	0	0	1,132
<u>County Local Option Taxes</u>					
Local Option Sales Tax	1,038,337	0	0	0	1,038,337
<u>Statutory Local Taxes</u>					
Bank Excise Tax	83,899	0	0	0	83,899
Interstate Telecommunications Tax	2,113	0	0	0	2,113
Total Local Taxes	\$ 3,448,897	\$ 0	\$ 0	\$ 0	\$ 3,448,897
<u>Licenses and Permits</u>					
<u>Licenses</u>					
Marriage Licenses	\$ 1,606	\$ 0	\$ 0	\$ 0	\$ 1,606
Total Licenses and Permits	\$ 1,606	\$ 0	\$ 0	\$ 0	\$ 1,606
<u>Charges for Current Services</u>					
<u>Education Charges</u>					
Tuition - Summer School	\$ 1,420	\$ 0	\$ 0	\$ 0	\$ 1,420
Lunch Payments - Children	0	0	447,757	0	447,757
Lunch Payments - Adults	0	0	66,751	0	66,751
Income from Breakfast	0	0	53,305	0	53,305
Special Milk Sales	0	0	14,035	0	14,035
A la carte Sales	0	0	97,510	0	97,510
Receipts from Individual Schools	28,690	0	3,005	0	31,695
Community Service Fees - Adults	700	0	0	0	700
Total Charges for Current Services	\$ 30,810	\$ 0	\$ 682,363	\$ 0	\$ 713,173
<u>Other Local Revenues</u>					
<u>Recurring Items</u>					
Investment Income	\$ 1,755	\$ 0	\$ 755	\$ 0	\$ 2,510
Lease/Rentals	1,800	0	0	0	1,800
Sale of Materials and Supplies	11,344	0	0	0	11,344
Miscellaneous Refunds	58,963	2,001	2,974	77,557	141,495
<u>Nonrecurring Items</u>					
Insurance Recovery	100,000	0	0	20,000	120,000
Sale of Equipment	120	0	0	0	120
Damages Recovered from Individuals	170	0	0	0	170
Contributions & Gifts	11,650	0	0	0	11,650
<u>Other Local Revenues</u>					
Other Local Revenues	470	0	0	0	470
Total Other Local Revenues	\$ 186,272	\$ 2,001	\$ 3,729	\$ 97,557	\$ 289,559
<u>State of Tennessee</u>					
<u>State Education Funds</u>					
Basic Education Program	\$ 11,298,162	\$ 0	\$ 0	\$ 0	\$ 11,298,162
School Food Service	0	0	19,953	0	19,953

(Continued)

Exhibit E-3

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

	General Purpose School	School Federal Projects	Central Cafeteria	Education Capital Projects	Total
<u>State of Tennessee (Cont.)</u>					
<u>State Education Funds (Cont.)</u>					
Driver Education	\$ 7,920	\$ 0	\$ 0	\$ 0	\$ 7,920
Other State Education Funds	182,660	19,993	0	0	202,653
Career Ladder Program	181,519	0	0	0	181,519
Career Ladder - Extended Contract	58,710	0	0	0	58,710
Total State of Tennessee	<u>\$ 11,728,971</u>	<u>\$ 19,993</u>	<u>\$ 19,953</u>	<u>\$ 0</u>	<u>\$ 11,768,917</u>
<u>Federal Government</u>					
<u>Federal Through State</u>					
USDA School Lunch Program	\$ 0	\$ 0	\$ 473,259	\$ 0	\$ 473,259
Breakfast	0	0	160,752	0	160,752
Adult Education State Grant Program	0	112,684	0	0	112,684
Vocational Education - Basic Grants to States	0	59,891	0	0	59,891
Title I Grants to Local Education Agencies	0	584,167	0	0	584,167
Innovative Education Program Strategies	0	15,490	0	0	15,490
Special Education - Grants to States	0	573,035	0	0	573,035
Special Education Preschool Grants	0	22,713	0	0	22,713
Eisenhower Professional Development State Grants	0	147,341	0	0	147,341
Other Federal through State	17,000	18,638	0	0	35,638
Total Federal Government	<u>\$ 17,000</u>	<u>\$ 1,533,959</u>	<u>\$ 634,011</u>	<u>\$ 0</u>	<u>\$ 2,184,970</u>
Total	<u>\$ 15,413,556</u>	<u>\$ 1,555,953</u>	<u>\$ 1,340,056</u>	<u>\$ 97,557</u>	<u>\$ 18,407,122</u>

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

General Purpose School Fund

Instruction

Regular Instruction Program

Teachers	\$ 6,094,036	
Career Ladder Program	122,156	
Career Ladder Extended Contracts	47,000	
Educational Assistants	153,250	
Other Salaries & Wages	400	
Certified Substitute Teachers	70,452	
Social Security	386,004	
State Retirement	348,711	
Medical Insurance	929,318	
Unemployment Compensation	2,427	
Employer Medicare	90,273	
Maintenance & Repair Services- Equipment	13,227	
Instructional Supplies and Materials	125,017	
Textbooks	192,921	
Other Supplies and Materials	3,118	
Fee Waivers	9,355	
Other Charges	4,439	
Regular Instruction Equipment	226,663	
Total Regular Instruction Program		\$ 8,818,767

Alternative Instruction Program

Teachers	\$ 38,539	
Career Ladder Program	1,000	
Social Security	2,431	
State Retirement	2,175	
Medical Insurance	4,670	
Unemployment Compensation	11	
Employer Medicare	568	
Other Supplies and Materials	73	
Total Alternative Instruction Program		49,467

Special Education Program

Teachers	\$ 684,326
Career Ladder Program	9,330
Career Ladder Extended Contracts	1,000
Educational Assistants	24,117
Certified Substitute Teachers	5,688
Social Security	41,484
State Retirement	39,362

(Continued)

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

General Purpose School Fund (Cont.)

Instruction (Cont.)

Special Education Program (Cont.)

Medical Insurance	\$	130,552	
Unemployment Compensation		261	
Employer Medicare		9,702	
Maintenance & Repair Services- Equipment		97	
Total Special Education Program			\$ 945,919

Vocational Education Program

Teachers	\$	380,171	
Career Ladder Program		4,000	
Career Ladder Extended Contracts		500	
Certified Substitute Teachers		5,005	
Social Security		22,629	
State Retirement		21,095	
Medical Insurance		65,498	
Unemployment Compensation		169	
Employer Medicare		5,292	
Instructional Supplies and Materials		9,397	
Vocational Instruction Equipment		635	
Total Vocational Education Program			514,391

Adult Education Program

Teachers	\$	528	
Total Adult Education Program			528

Support Services

Attendance

Supervisor/Director	\$	40,840	
Social Security		2,532	
State Retirement		2,246	
Medical Insurance		4,670	
Unemployment Compensation		11	
Employer Medicare		592	
Travel		475	
Other Contracted Services		10,927	
Other Supplies and Materials		387	
Attendance Equipment		5,292	
Total Attendance			67,972

(Continued)

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Health Services

Medical Personnel	\$	73,926	
Social Security		4,027	
State Retirement		4,066	
Medical Insurance		17,287	
Unemployment Compensation		25	
Employer Medicare		942	
Travel		2,791	
Drugs and Medical Supplies		522	
Other Supplies and Materials		581	
Total Health Services			\$ 104,167

Other Student Support

Career Ladder Program	\$	5,000	
Guidance Personnel		184,812	
Social Security		10,670	
State Retirement		10,442	
Medical Insurance		35,882	
Unemployment Compensation		56	
Employer Medicare		2,495	
Evaluation and Testing		29,577	
Other Supplies and Materials		4,917	
Other Charges		258	
Total Other Student Support			284,109

Regular Instruction Program

Supervisor/Director	\$	53,921	
Career Ladder Program		5,000	
Librarians		198,687	
Instructional Computer Personnel		56,033	
Social Security		18,398	
State Retirement		17,082	
Medical Insurance		40,969	
Unemployment Compensation		90	
Employer Medicare		4,274	
Travel		10,728	
Library Books/Media		35,181	
Other Supplies and Materials		823	
In Service/Staff Development		10,899	
Other Charges		98	

(Continued)

Exhibit E-4

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Regular Instruction Program (Cont.)

Other Equipment	\$ 2,335	
Total Regular Instruction Program		\$ 454,518

Special Education Program

Supervisor/Director	\$ 52,315	
Career Ladder Program	1,000	
Psychological Personnel	40,967	
Clerical Personnel	14,674	
Social Security	6,443	
State Retirement	5,949	
Medical Insurance	13,278	
Unemployment Compensation	34	
Employer Medicare	1,535	
Travel	12,056	
Other Supplies and Materials	2,486	
Total Special Education Program		150,737

Vocational Education Program

Supervisor/Director	\$ 25,409	
Clerical Personnel	4,824	
Social Security	1,874	
State Retirement	1,648	
Medical Insurance	2,243	
Unemployment Compensation	11	
Employer Medicare	438	
Travel	3,306	
Other Supplies and Materials	692	
Total Vocational Education Program		40,445

Adult Programs

Supervisor/Director	\$ 466	
Social Security	29	
State Retirement	26	
Unemployment Compensation	1	
Employer Medicare	7	
Total Adult Programs		529

Board of Education

Secretary to Board	\$ 1,081	
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(Continued)

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Board of Education (Cont.)

Board and Committee Members Fees	\$	10,560	
Social Security		721	
State Retirement		59	
Medical Insurance		601	
Unemployment Compensation		17	
Employer Medicare		169	
Audit Services		8,250	
Dues and Memberships		7,572	
Legal Services		21,677	
Other Contracted Services		5,326	
Liability Insurance		16,893	
Premiums on Corporate Surety Bonds		250	
Trustee's Commission		82,020	
Workers' Compensation Insurance		103,030	
Criminal Investigation of Applicants - TBI		240	
Refund to Applicant for Criminal Investigation		3,360	
Other Charges		2,987	
Total Board of Education			\$ 264,813

Director of Schools

County Official/Administrative Officer	\$	76,118	
Career Ladder Program		1,000	
Social Security		4,781	
State Retirement		4,241	
Medical Insurance		4,585	
Unemployment Compensation		11	
Employer Medicare		1,118	
Communication		19,132	
Dues and Memberships		1,192	
Travel		2,975	
Other Charges		230	
Total Director of Schools			115,383

Office of the Principal

Principals	\$	463,685	
Career Ladder Program		9,400	
Accountants/Bookkeepers		84,935	
Career Ladder Extended Contracts		10,000	
Assistant Principals		90,586	

(Continued)

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Office of the Principal (Cont.)

Clerical Personnel	\$	74,505	
Social Security		43,205	
State Retirement		39,817	
Medical Insurance		75,141	
Unemployment Compensation		238	
Employer Medicare		10,105	
Communication		4,077	
Dues and Memberships		2,100	
Other Contracted Services		1,699	
Administration Equipment		3,600	
Total Office of the Principal			\$ 913,093

Fiscal Services

Accountants/Bookkeepers	\$	60,840	
Clerical Personnel		25,655	
Social Security		5,313	
State Retirement		4,498	
Medical Insurance		13,078	
Unemployment Compensation		39	
Employer Medicare		1,243	
Travel		238	
Other Contracted Services		10,204	
Office Supplies		7,164	
Other Charges		124	
Total Fiscal Services			128,396

Operation of Plant

Custodial Personnel	\$	269,269	
Social Security		16,236	
State Retirement		11,890	
Medical Insurance		966	
Unemployment Compensation		122	
Employer Medicare		3,797	
Other Contracted Services		50,117	
Coal		1,412	
Electricity		598,279	
Natural Gas		133,900	
Water and Sewer		40,803	
Other Supplies and Materials		28,557	

(Continued)

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Operation of Plant (Cont.)

Boiler Insurance	\$	494	
Building and Contents Insurance		33,018	
Other Charges		450	
Plant Operation Equipment		25,614	
Total Operation of Plant			\$ 1,214,924

Maintenance of Plant

Maintenance Personnel	\$	97,438	
Other Salaries & Wages		24,570	
Social Security		7,530	
State Retirement		4,836	
Medical Insurance		23,290	
Unemployment Compensation		92	
Employer Medicare		1,761	
Laundry Service		1,311	
Maintenance & Repair Services- Buildings		15,381	
Maintenance & Repair Services- Equipment		29,266	
Other Contracted Services		24,500	
Other Supplies and Materials		48,413	
Maintenance Equipment		23,500	
Total Maintenance of Plant			301,888

Transportation

Supervisor/Director	\$	38,021	
Mechanic(s)		44,720	
Bus Drivers		344,732	
Clerical Personnel		18,512	
Other Salaries & Wages		17,313	
Social Security		28,019	
State Retirement		21,526	
Medical Insurance		20,930	
Unemployment Compensation		383	
Employer Medicare		6,553	
Contracts with Parents		668	
Laundry Service		1,457	
Medical and Dental Services		1,350	
Travel		238	
Other Contracted Services		1,871	
Diesel Fuel		74,832	

(Continued)

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Transportation (Cont.)

Gasoline	\$	10,412	
Tires and Tubes		10,443	
Vehicle Parts		45,786	
Other Supplies and Materials		7,933	
Vehicle and Equipment Insurance		26,283	
Other Charges		1,016	
Transportation Equipment		168,295	
Total Transportation			\$ 891,293

Operation of Non-Instructional Services

Food Service

Career Ladder Program	\$	1,000	
Social Security		62	
State Retirement		55	
Employer Medicare		14	
Total Food Service			1,131

Community Services

Supervisor/Director	\$	24,030	
Other Salaries & Wages		408	
Social Security		1,277	
State Retirement		1,250	
Medical Insurance		7,814	
Unemployment Compensation		12	
Employer Medicare		299	
Travel		773	
Other Supplies and Materials		147	
Other Charges		683	
Other Equipment		893	
Total Community Services			37,586

Capital Outlay

Regular Capital Outlay

Architects	\$	21,544	
Consultants		4,000	
Other Contracted Services		11,030	
Building Improvements		365,107	
Site Development		92,236	
Vocational Instruction Equipment		10,502	

(Continued)

Exhibit E-4

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

General Purpose School Fund (Cont.)

Capital Outlay (Cont.)

Regular Capital Outlay (Cont.)

Other Capital Outlay	\$ 121,012	
Total Regular Capital Outlay		\$ 625,431

Other Debt Service

Education

Debt Service Contribution to Primary Government	\$ 296,000	
Total Education		<u>296,000</u>

Total General Purpose School Fund		\$ 16,221,487
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School Federal Projects Fund

Instruction

Regular Instruction Program

Teachers	\$ 366,659	
Educational Assistants	37,334	
Certified Substitute Teachers	7,186	
Social Security	24,899	
State Retirement	21,907	
Medical Insurance	58,242	
Unemployment Compensation	296	
Employer Medicare	5,823	
Maintenance & Repair Services- Equipment	478	
Instructional Supplies and Materials	12,346	
Other Supplies and Materials	3,538	
Other Charges	4,889	
Regular Instruction Equipment	<u>8,730</u>	
Total Regular Instruction Program		\$ 552,327

Special Education Program

Educational Assistants	\$ 127,865
Other Salaries & Wages	7,286
Certified Substitute Teachers	10,118
Social Security	8,462
State Retirement	7,168
Medical Insurance	650
Unemployment Compensation	228
Employer Medicare	1,979
Contracts with Private Agencies	215,316
Maintenance & Repair Services- Equipment	1,083

(Continued)

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

School Federal Projects Fund (Cont.)

Instruction (Cont.)

Special Education Program (Cont.)

Other Contracted Services	\$	2,894	
Instructional Supplies and Materials		3,912	
Other Supplies and Materials		7,320	
Special Education Equipment		20,153	
Total Special Education Program			\$ 414,434

Vocational Education Program

Instructional Supplies and Materials	\$	49,502	
Vocational Instruction Equipment		19,626	
Total Vocational Education Program			69,128

Adult Education Program

Teachers	\$	48,417	
Social Security		2,730	
State Retirement		2,028	
Medical Insurance		4,614	
Unemployment Compensation		42	
Employer Medicare		648	
Instructional Supplies and Materials		5,427	
Total Adult Education Program			63,906

Support Services

Other Student Support

Guidance Personnel	\$	18,033	
Social Security		733	
State Retirement		1,377	
Unemployment Compensation		16	
Employer Medicare		261	
Travel		2,792	
Other Supplies and Materials		1,791	
Other Charges		3,375	
Total Other Student Support			28,378

Regular Instruction Program

Supervisor/Director	\$	45,232	
Social Security		2,784	
State Retirement		2,488	
Medical Insurance		4,670	
Unemployment Compensation		18	

(Continued)

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

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Regular Instruction Program (Cont.)

Employer Medicare	\$	649	
Travel		1,904	
Other Supplies and Materials		873	
In Service/Staff Development		46,769	
Regular Instruction Equipment		1,358	
Other Equipment		7,679	
Total Regular Instruction Program			\$ 114,424

Special Education Program

Psychological Personnel	\$	48,328	
Social Security		2,728	
State Retirement		2,658	
Medical Insurance		7,814	
Unemployment Compensation		16	
Employer Medicare		638	
Maintenance & Repair Services- Equipment		219	
Travel		63	
Other Supplies and Materials		5,853	
In Service/Staff Development		189	
Total Special Education Program			68,506

Adult Programs

Supervisor/Director	\$	42,566	
Clerical Personnel		1,000	
Other Salaries & Wages		14,917	
Social Security		3,779	
State Retirement		3,350	
Medical Insurance		4,670	
Unemployment Compensation		35	
Employer Medicare		884	
Communication		812	
Travel		903	
In Service/Staff Development		1,497	
Total Adult Programs			74,413

Transportation

Bus Drivers	\$	17,844	
Other Salaries & Wages		75	
Social Security		1,111	

(Continued)

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

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Transportation (Cont.)

State Retirement	\$	932	
Unemployment Compensation		32	
Employer Medicare		260	
Contracts with Parents		8,948	
Contracts with Vehicle Owners		3,764	
Transportation Equipment		17,000	
Total Transportation			\$ 49,966

Capital Outlay

Regular Capital Outlay

Building Improvements	\$	1,750	
Total Regular Capital Outlay			1,750

Total School Federal Projects Fund \$ 1,437,232

Central Cafeteria Fund

Operation of Non-Instructional Services

Food Service

Supervisor/Director	\$	43,398
Accountants/Bookkeepers		26,260
Cafeteria Personnel		457,854
Other Salaries & Wages		2,658
Social Security		32,692
State Retirement		25,257
Medical Insurance		9,212
Unemployment Compensation		561
Employer Medicare		7,646
Communication		1,542
Legal Notices, Recording and Court Costs		18
Maintenance & Repair Services- Equipment		17,257
Pest Control		2,574
Printing, Stationery and Forms		1,380
Travel		2,186
Other Contracted Services		10,597
Data Processing Supplies		1,648
Equipment and Machinery Parts		10,980
Food Supplies		592,295
Office Supplies		545
Uniforms		733

(Continued)

Exhibit E-4

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

Central Cafeteria Fund (Cont.)

Operation of Non-Instructional Services (Cont.)

Food Service (Cont.)

Other Supplies and Materials	\$ 59,760	
In Service/Staff Development	620	
Refund to Applicant for Criminal Investigation	240	
Other Charges	96	
Food Service Equipment	19,275	
Total Food Service	<u>19,275</u>	\$ <u>1,327,284</u>

Total Central Cafeteria Fund \$ 1,327,284

Education Capital Projects Fund

Capital Projects

Education Capital Projects

Architects	\$ 20,130	
Other Contracted Services	9,210	
Building Construction	600,521	
Total Education Capital Projects	<u>629,861</u>	\$ <u>629,861</u>

Total Education Capital Projects Fund 629,861

Total Governmental Funds - Smith County School Department \$ 19,615,864

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

DEPARTMENT OF AUDIT
JOHN G. MORGAN
Comptroller of the Treasury

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

ARTHUR L. ALEXANDER
Director

CARL LOWE, CGFM
Audit Manager

ANITA SCARLETT, CPA
Auditor 4

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

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

SINGLE AUDIT REPORT TABLE OF CONTENTS

	Page(s)
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>	1-2
Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With <u>OMB Circular A-133</u>	3-5
Schedule of Expenditures of Federal Awards and State Grants	7-8
Schedule of Audit Findings Not Corrected	9-10
Schedule of Findings and Questioned Costs	11-33
Auditee Reporting Responsibilities	35



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
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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

January 26, 2006

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

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

We have audited the financial statements of each major fund and the aggregate remaining fund information of Smith County, Tennessee, and the Smith County School Department as of and for the year ended June 30, 2005, which collectively comprise a portion of Smith County's and the Smith County School Department's basic financial statements and have issued our reports thereon dated January 26, 2006. Our reports on the financial statements of Smith County, Tennessee, and the Smith 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 Smith County's and the Smith 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 Smith County's and the Smith 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(A,B,C,D,E,F,G), 05.05, 05.06, 05.07(A,B), 05.09, 05.10, 05.11, 05.14, 05.15(A,B), 05.16(A), 05.18, 05.19, 05.20, 05.21, 05.22(A,B), 05.23, 05.25, and 05.26.

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 05.02, 05.19, and 05.23 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Smith County's and the Smith County School Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and are described in the accompanying Schedule of Findings and Questioned Costs as items 05.01, 05.03, 05.04(H), 05.07(C,D), 05.08, 05.12, 05.13, 05.15(C), 05.16(B), 05.17, 05.22(C,D), and 05.24.

We also noted certain other matters that we reported to the management of Smith County and the Smith 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
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

January 26, 2006

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

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

Compliance

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

In our opinion, Smith County and the Smith 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 Smith County and the Smith 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 Smith County's and the Smith 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 Smith County, Tennessee, and the Smith County School Department as of and for the year ended June 30, 2005, and have issued our reports thereon dated January 26, 2006. Our reports on the financial statements of Smith County and the Smith 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

Smith County, Tennessee, and the Smith 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	\$ 100,224
Passed-through State Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	160,752
National School Lunch Program	10.555	N/A	473,259
Total U.S. Department of Agriculture			<u>\$ 734,235</u>
U.S. Department of Housing and Urban Development:			
Passed-through State Housing Development Agency:			
HOME Investment Partnerships Program	14.239	(2)	<u>\$ 1,500</u>
U.S. Department of Justice:			
Direct Program:			
Public Safety Partnership and Community Policing Grants	16.710	N/A	<u>\$ 60,010</u>
U.S. Department of Labor:			
Passed-through Upper Cumberland Human Resource Agency:			
WIA Youth Activities	17.259	(2)	\$ 17,000
WIA Incentive Grants - Section 503 Grants to States	17.267	(2)	5,734
Total U.S. Deptment of Labor			<u>\$ 22,734</u>
U.S. Department of Transportation:			
Passed-through State Department of Transportation:			
Highway Planning and Construction	20.205	STP-EN-8000	<u>\$ 4,768</u>
U.S. Department of Education:			
Passed-through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	N/A	\$ 412,322
Special Education Cluster:			
Special Education - Grants to States	84.027	N/A	528,574
Special Education - Preschool Grants	84.173	N/A	22,040
Vocational Education - Basic Grants to States	84.048	N/A	59,991
Safe and Drug-Free Schools and Communities - State Grants	84.186	(2)	8,284
State Grants for Innovative Programs	84.298	N/A	67,337
Education Technology State Grants	84.318	(2)	20,052
Improving Teacher Quality State Grants	84.367	N/A	146,625
Passed-through State Department of Labor and Workforce Development:			
Adult Education - State Grant Program	84.002	(2)	112,589
Total U.S. Department of Education			<u>\$ 1,377,814</u>
U.S. Department of Health and Human Services:			
Passed-through Upper Cumberland Development District:			
Special Programs for the Aging - Title III, Part B Grants for Supportive Services and Senior Centers	93.044	(2)	\$ 8,365
Passed-through State Department of Labor and Workforce Development:			
Temporary Assistance for Needy Families	93.558	(2)	19,993
Passed-through State Department of Health:			
Grants to States for Operation of Offices of Rural Health	93.913	Z-05-020583	1,200
Total U.S. Department of Health and Human Services			<u>\$ 29,558</u>

(Continued)

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

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Passed-through Entity Identifying Number	Expenditures
U.S. Department of Homeland Security:			
Direct Program:			
Assistance to Firefighters Grant	97.044	N/A	\$ 16,790
Passed through State Department of Military:			
State Domestic Preparedness Equipment Support Program	97.004	Z-03-014477-00	2,442 (3)
State Domestic Preparedness Equipment Support Program	97.004	Z-04-020146-00	34,840 (3)
State Domestic Preparedness Equipment Support Program	97.004	Z-04-022494-00	2,091 (3)
State Domestic Preparedness Equipment Support Program	97.004	Z-05-025398-00	412 (3)
Total U.S. Department of Homeland Security			\$ 56,575
Total Expenditures of Federal Awards			\$ 2,287,194
<u>State Grants</u>			
Safe Schools Act of 2003 - State Department of Education	N/A	(2)	\$ 17,222
State Reappraisal Program - Comptroller of the Treasury	N/A	(2)	6,149
Aging Program - Upper Cumberland Development District	N/A	(2)	7,558
Family Preservation and Support Services - State Department of Education	N/A	(2)	32,934
Juvenile Services Program - State Commission on Children and Youth	N/A	(2)	9,135
Litter Program - State Department of Transportation	N/A	(2)	25,993
Law Enforcement Training - State Department of Safety	N/A	(2)	2,400
Local Parks and Recreation Fund Grant - State Department of Environment and Conservation	N/A	(2)	11,750
Radio Grant - State Department of Health	N/A	(2)	21,800
Touching the Lives of Children - State Department of Education	N/A	(2)	6,990
Waste Tire Storage and Disposal - State Department of Environment and Conservation	N/A	(2)	9,234
Total State Grants			\$ 151,165

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 from the U.S. Department of Homeland Security was \$39,785.

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

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

SMITH COUNTY AND SMITH COUNTY SCHOOL DEPARTMENT

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

OFFICE OF COUNTY MAYOR

Finding Number	Page Number	Subject
04.02	13	The office did not maintain the Solid Waste Disposal Fund on the accrual basis of accounting
04.03	14	The office had deficiencies in its purchasing procedures
04.04	14	The Courthouse and Jail Maintenance Fund had a fund deficit
04.06	15	Deficiencies were noted in Ambulance Service operations
04.07(B, C, D)	16	Sheriff's Department time sheets were not properly maintained, signed, or approved
04.09	18	Inventory records were not maintained adequately

OFFICE OF HIGHWAY SUPERINTENDENT

Finding Number	Page Number	Subject
04.11	18	The office had bidding deficiencies
04.12	19	The office had deficiencies in purchasing procedures
04.13	20	Some assets were not labeled as Highway Department property

OFFICE OF DIRECTOR OF SCHOOLS

Finding Number	Page Number	Subject
04.15	20	Inventory records were not maintained adequately

OTHER FINDINGS AND RECOMMENDATIONS

Finding Number	Page Number	Subject
04.18	22	A central system of accounting, budgeting, and purchasing had not been adopted
04.19	22	Duties were not segregated adequately in the Offices of County Mayor, Highway Superintendent, Director of Schools, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff

**SMITH COUNTY, TENNESSEE, AND THE
SMITH 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 Smith County and the Smith County School Department.
2. The audit of the financial statements of Smith County and the Smith County School Department disclosed reportable conditions in internal control. Two of these conditions were considered to be material weaknesses for Smith County. One of these conditions was considered to be a material weakness of the Smith County School Department.
3. The audit disclosed three instances of noncompliance that were material to the financial statements of Smith County and one instance of noncompliance that was material to the financial statements of the Smith 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), the Title I Grants to Local Educational Agencies (CFDA No. 84.010), and the Special Education Cluster: Special Education - Grants to States and Special Education – Preschool Grants (CFDA Nos. 84.027 and 84.173) were determined to be major programs.
8. A threshold of \$300,000 was used to distinguish between Type A and Type B federal programs.
9. Smith County and the Smith County School Department did not qualify as low-risk auditees.

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

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

SMITH COUNTY AND SMITH 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)

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

RECOMMENDATION

Smith County and the Smith 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.

MANAGEMENT’S RESPONSE – DIRECTOR OF SCHOOLS

The School Department will comply with the Governmental Accounting Standards Board Statement No. 34 by June 30, 2006.

OFFICE OF COUNTY MAYOR

FINDING 05.02 **QUESTIONABLE EXPENDITURES WERE NOTED IN THE COUNTY MAYOR'S OFFICE RESULTING IN INDICTMENTS** (Internal Control – Material Weakness Under Government Auditing Standards)

In October 2004, the county mayor discovered a questionable reimbursement for postage submitted by the bookkeeper. Upon further review, the county mayor determined that the documentation to support the reimbursement to the bookkeeper had previously been used to support a purchase of postage paid by a county warrant directly to the post office. The county mayor then contacted our office, the county attorney, and the district attorney general, resulting in the district attorney general requesting an investigation by the Tennessee Bureau of Investigation (TBI). As a result of the TBI investigation, the bookkeeper admitted to improperly receiving reimbursements for postage that she did not purchase. The bookkeeper resigned from her employment on October 29, 2004, and was indicted by the Smith County Grand Jury on December 6, 2004, on one count of theft over \$1,000. Our office was requested to perform an additional review of purchases in the County Mayor's Office following the indictment. Purchases from July 1, 1997, through June 30, 2005, were reviewed and other questionable expenditures were noted. Because of additional investigative work by our office and the TBI, the Smith County Grand Jury indicted the bookkeeper on December 6, 2005, on two counts of theft over \$1,000 and one count of theft over \$10,000. In addition, the bookkeeper's son was indicted on two counts of theft over \$1,000. Our review of records noted the following questionable expenditures; however, due to the ongoing investigation by the TBI, a grand total of questionable expenditures has yet to be determined:

- A. We identified several instances where the bookkeeper reimbursed herself for postage; however, postage was purchased directly from the post office by county warrant. Therefore, the bookkeeper received reimbursements for postage that she did not purchase. For example on March 15, 2002, a warrant was issued for \$170 payable to the bookkeeper for postage reimbursement, and the expenditure was charged to the Chancery Court budgetary account.
- B. Smith County general government employees had access to several county credit cards. In many instances, we were unable to identify who used the credit cards. Many of the signature lines were torn off the credit card invoices, and in one instance the signature on an invoice appeared to be forged. We noted numerous purchases made with these credit cards that appeared to be for personal purposes. There were purchases for grocery items, magazines, movies, health and beauty products, clothing, home furnishings, pet supplies, tools, and electronics. The credit cards were also used to purchase equipment. We could not locate many of these equipment items in the county. In addition, employees of the departments that these equipment items were purchased for were not aware that their departments had ever received this equipment. These equipment purchases are listed in the following table:

Date	Items Purchased	Item Cost	Budgetary Account Charged
11-17-98	Digital camera	\$ 473.81	Industrial Development
9-24-01	Computer	998.00	Industrial Development
9-24-01	Computer	898.00	Industrial Development
10-23-01	Computer	848.00	Circuit Court
8-30-02	Graphing calculator	94.88	County Buildings
10-25-02	Computer monitor	448.84	Industrial Development
10-26-02	Digital camera & bag	378.65	Industrial Development
11-28-03	Digital camera	197.73	County Buildings
1-5-04	TV/VCR combo	96.64	Circuit Court
1-5-04	DVD player	59.63	Circuit Court
1-7-04	Computer	898.00	Landfill
2-20-04	DVD player	348.00	Local Health Department
3-24-04	Computer	698.00	Miscellaneous

- C. On March 30, 2004, computer-mapping software was purchased for \$299 with a county warrant. The warrant was originally issued to the postmaster; however, the payee was altered to the name of the software company. The invoice for the software indicated that the software was purchased by and shipped to the bookkeeper's son. The expenditure for this purchase was charged to the Sheriff's Department budget but had not been approved by personnel of the Sheriff's Department. The county mayor advised us that his signature on the purchase order authorizing the purchase had been forged.
- D. On March 16, 2004, a warrant was issued to the bookkeeper's daughter in the amount of \$240 purportedly for transcription services for the Sheriff's Department. The invoice was typed on a plain piece of paper and contained the sheriff's stamped signature as evidence of approval. The sheriff could not recall if the transcription services had been performed. However, the sheriff did advise us that he had several signature stamps, and he did not know who had access to them.
- E. On June 29, 2001, a warrant was issued for payment of two invoices from a local flower shop totaling \$169 that were originally invoiced to the bookkeeper's daughter. However, the purchaser's name was whited-out on both invoices. One invoice was altered to list the purchaser as the Smith County Executive while the other invoice purchaser was left blank.
- F. On August 16, 2004, a warrant for \$125 was issued to the bookkeeper's daughter for work performed during the August 2004 election. Election Office personnel advised auditors that the invoice submitted to pay the election workers was altered to include the daughter's name, and that the daughter did not work during the election.

G. On January 8, 2004, warrants were issued to the bookkeeper's son (\$225) and to the bookkeeper's daughter (\$285) as payment for responding to fire calls for the volunteer fire department. The invoices from the volunteer fire department were altered to include these two individuals. We reviewed the list of volunteer firefighters maintained by the County Clerk's Office and found that these two individuals were not listed as volunteer firefighters for the county.

H. Several warrants totaling \$1,593.78 were issued to the bookkeeper's son, who is an employee at the Sheriff's Department, for travel reimbursements. In several instances, travel reimbursement forms appeared to have been altered, and several of the reimbursement forms were approved with the sheriff's signature stamp. Also, based upon visual examination of other county documents, several signatures on both the warrants and the altered travel reimbursement forms do not appear to be that of the bookkeeper's son.

Date	Warrant Number	Amount
4-25-01	28659	\$ 168.27
6-18-02	32909	108.53
10-18-02 (1) (2)	34847	196.80
10-25-02 (1) (2)	34867	118.08
11-6-02 (1) (2)	34988	196.80
11-22-02 (1) (2)	35091	196.80
3-6-03 (1) (2)	36027	272.00
8-28-03 (2)	37508	294.90
11-12-03 (1) (2)	37898	<u>41.60</u>
Total		<u>\$ 1,593.78</u>

(1) - Travel reimbursement forms appear to have been altered.

(2) - Signatures appear to have been altered.

I. On July 25, 2002, a warrant was issued for \$6,369 for a computer training course that was charged to the Election Commission budgetary account; however, Election Commission employees advised us that the training was not for their office. Upon further examination, we located a certificate of completion for the training course issued to the bookkeeper's son. On August 31, 2003, a warrant for \$99.37 was issued to reimburse the bookkeeper's son for the purchase of shirts and a jacket with a certified software specialist logo. The bookkeeper endorsed this warrant. The county mayor advised us that his signature authorizing the \$99.37 purchase order had been forged.

J. On March 22, 2002, a warrant was issued for \$1,714.82 to a credit card company to pay the outstanding balance on a personal account. The warrant for this disbursement was originally issued to the postmaster; however, the payee was altered to the name of the credit card company.

K. Listed in the table below are several questionable disbursements totaling \$981.06 paid to the bookkeeper's son as reimbursements for various purchases. The sheriff's signature stamp was used to approve the June 30, 2000, purchase of the computer components, and the warrant for this disbursement was originally issued to the vendor; however, the payee was altered to the name of the bookkeeper's son. The \$141 invoice on December 29, 2000, for supplies was issued to a comic book and trading card company owned and operated by the bookkeeper's son. The computer components charged to the Fire Prevention and Control budgetary account could not be traced to assets owned by the county.

<u>Date</u>	<u>Warrant Number</u>	<u>Items Purchased</u>	<u>Portion of Warrant Questioned</u>	<u>Budgetary Account Charged</u>
6-30-00	25995	Computer equip.	\$ 208.98	Sheriff's Dept.
12-29-00	27674	Supplies	141.00	Sheriff's Dept.
6-22-01	29038	Computer equip.	132.51	Sheriff's Dept.
5-15-03	36623	Computer equip.	435.98	Fire Prevention
5-13-04	5066	Supplies	<u>62.59</u>	Sheriff's Dept.
Total			<u>\$ 981.06</u>	

L. Several questionable disbursements totaling \$1,243.23 were made to a cabinet shop owned and operated by the bookkeeper's husband and son. In several instances, the warrants for these disbursements were originally issued to the postmaster; however, the payee was altered to the name of the cabinet shop. The expenditure on November 29, 2000, was for computer software charged to the Industrial Development Board; however, board members advised that the Industrial Board did not own a computer. The warrants paid to the cabinet shop are listed in the following table. As the table indicates, the items purchased have nothing to do with a cabinet shop.

Date	Warrant Number	Items Purchased	Portion of Warrant Questioned	Budgetary Account Charged
7-20-98	14715	Answering machine	\$ 71.99	Circuit Court
7-20-98	14715	Joystick	159.99	Circuit Court
11-29-00	27388	Computer software	205.63	Industrial Develop.
12-29-00	27673	(1) Sander & supplies	188.20	Chancery Court
2-5-01	27940	(1) Office furnishings	288.95	Industrial Develop.
11-5-01	30073	(1) Computer components	109.98	Circuit Court
11-30-02	34695	(1) Computer software	218.49	Sheriff's Dept.
Total			<u>\$ 1,243.23</u>	

(1) - Payee was altered from the post office to the cabinet shop

M. Listed in the table below are several other questionable computer related expenditures. The purchases for a computer (\$1,132) and computer components (\$581.18) were charged to the Industrial Development Board; however, the Industrial Development Board advised that they did not own a computer. A \$210 invoice for computer components was altered; the "ordered by" was originally the former bookkeeper's son; however, it was whited-out and replaced with the circuit court clerk's name. An invoice for \$154.95 to upgrade bookkeeping software was purchased for the Circuit Court Clerk's Office by the former bookkeeper's son; however, the Circuit Court Clerk's Office did not use this bookkeeping software. A \$297.95 invoice and purchase order for computer components was altered by using white-out to change "DVD Kit" to "D Kit," the sheriff's signature stamp was used to approve the purchase, and the payee was altered from the postmaster to the name of a computer vendor. We also noted a warrant for \$998 that was originally issued to the postmaster, but the payee on this warrant was altered to a vendor's name to purchase computer components.

Date	Warrant Number	Items Purchased	Portion of Warrant Questioned	Budgetary Account Charged
6-30-98	14559	Computer Components	\$ 581.18	Industrial Development
12-8-98	20054	Computer Components	210.00	Circuit Court
2-22-00	24135	Software Upgrade	154.95	Circuit Court
2-28-00	24172	Computer Components	297.95	Sheriff's Department
8-23-00	26439	Computer	1,132.00	Industrial Development
3-27-01	28346	Computer Components	998.00	Sheriff's Department
Total			<u>\$ 3,374.08</u>	

- N. On February 15, 2000, the county made a disbursement for \$4,349.98 for computers invoiced to the former bookkeeper's son and addressed to the Sheriff's Department. This purchase is questionable because the Sheriff's Department purchased an all-inclusive booking and record-keeping hardware and software computer package on February 22, 2000.

RECOMMENDATION

Internal controls over the purchasing process and the disbursement of county funds should be strengthened for the protection of county assets. Furthermore, county officials should take steps to obtain reimbursement for improper disbursements.

FINDING 05.03 THE OFFICE DID NOT MAINTAIN THE SOLID WASTE DISPOSAL FUND ON THE ACCRUAL BASIS OF ACCOUNTING
(Material Noncompliance Under Governmental Auditing Standards)

The Solid Waste Disposal Fund was presented on the accounting records of the County Mayor's Office as an enterprise fund. Enterprise funds are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned, and expenses are recorded when a liability is incurred; however, our audit noted the following accounting deficiencies in the maintenance of the enterprise fund:

- A. County officials did not accrue estimated landfill closure and postclosure care costs of \$39,551 on the accounting records of the Solid Waste Disposal Fund for the year. We determined this amount from information obtained from records on file from the county's landfill engineer and prior-year audit working papers. State and federal laws and regulations require the county to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although these closure and postclosure care costs will be paid near or after the date that the landfill stops accepting waste, generally accepted accounting principles require county officials to accrue and report a portion of these closure and postclosure care costs as a liability and as an operating expense in each year of operation based on the estimated landfill capacity used.
- B. County officials did not properly post the general ledger for debt principal payments made during the year. Principal payments on a capital outlay note (\$98,223) and a capital lease (\$77,609) were posted as current year expenditures instead of reducing long-term liability accounts on the financial statements.

We presented adjustments to county officials for them to approve and post to the accounts to reflect properly the transactions in the financial statements of this report.

RECOMMENDATION

County officials should maintain the Solid Waste Disposal Fund on the accrual basis of accounting as required by generally accepted accounting principles. All assets, liabilities, fund equity, revenues, and expenses associated with the operation of the enterprise fund should be accounted for properly.

FINDING 05.04 **THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES**

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

Our examination of purchasing procedures revealed the following deficiencies:

- A. In several instances, purchase orders were not issued. Purchase orders are necessary to control who has authority to make purchases and to document purchasing commitments. Also, in some instances, purchase orders were issued after purchases were made. This practice defeats the purpose of the purchase order and makes it an approval of payment rather than an approval of the purchase.
- B. In several instances, invoices were paid without documentation that goods had been received or services had been rendered. This practice weakens controls over the purchasing process. We extended our audit procedures and determined that these purchased goods and services were received.
- C. In Finding 05.02(D), the sheriff advised us that there are several rubber stamps with his signature at the Sheriff's Department. However, he could not tell us the number of stamps or the location of these stamps. We noted that this signature stamp was used to approve invoices and travel reimbursement claims sent to the county mayor's office for payment. Tennessee Code Annotated does not provide authority for the use of a signature stamp.
- D. Several expenditures were coded to expenditure accounts that did not reflect the true nature of the expenditures. Misclassifying expenditures diminishes the usefulness of the accounting records as a management tool. Any material misclassifications noted during our examination were reclassified by management in the financial statements of this report.
- E. In some instances, invoices were not on file to support the purchases. We extended our audit procedures and determined that these disbursements were for the benefit of the county.

- F. We noted instances of altered invoices (see Finding 05.02(E,F,G,H,M)), altered purchase orders (see Finding 05.02(C,I)), and altered warrants (see Finding 05.02(C,J,K,L,M)). Therefore, personnel in the County Mayor's Office were not properly reviewing the documentation generated to support the purchasing process.
- G. Smith County general government employees had access to several county credit cards. However, the county did not maintain adequate controls over the location and/or use of the credit cards. As noted in Finding 05.02(B), there were several questionable purchases made with these credit cards. Subsequent to December 2004, the county mayor cancelled all of these credit cards and obtained several new credit cards. The county mayor maintains a list of the new card numbers and the department/office each card is assigned. However, the County Commission had not adopted written guidelines governing the use of these cards.
- H. Competitive bids were not solicited for a cleaning contract for county buildings (\$22,200). Section 5-14-204, Tennessee Code Annotated, requires all purchases exceeding \$5,000 to be based on competitive bids solicited through public advertisement.

RECOMMENDATION

To strengthen internal controls over the purchasing process and to document purchasing commitments, the office should issue purchase orders for all applicable purchases before purchases are made. Documentation should be obtained indicating that goods have been received and/or services have been rendered before invoices are paid. Management should discontinue the use of all signature stamps. Disbursements should be properly classified in accordance with the Uniform Chart of Accounts. Invoices should be on file to support all purchases. Office personnel should review all purchasing documentation for accuracy and authenticity. The County Commission should adopt written guidelines governing the use of credit cards. These guidelines should identify those who are entitled to use the credit cards and the purposes for which the credit cards can be used. Furthermore, competitive bids should be solicited for all purchases exceeding \$5,000 as required by state statute.

FINDING 05.05 **THE COURTHOUSE AND JAIL MAINTENANCE FUND HAD A FUND DEFICIT**
 (Internal Control – Reportable Condition Under Government Auditing Standards)

The Courthouse and Jail Maintenance Fund had a fund deficit of \$17,958 at June 30, 2005. This fund deficit resulted from the expenditure of funds reserved for the construction and renovation of the courthouse and jail.

RECOMMENDATION

County officials should eliminate the fund deficit in the Courthouse and Jail Maintenance Fund and take steps to ensure that the fund deficit does not recur. Reserved funds should only be expended for their restricted purpose.

FINDING 05.06 **THE AMBULANCE SERVICE FUND HAD A CASH OVERDRAFT**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Ambulance Service Fund had a cash overdraft of \$70,587 at June 30, 2005. This overdraft resulted from the issuance of warrants that exceeded cash on deposit with the county trustee. The cash overdraft was liquidated subsequent to June 30, 2005, when the county issued a revenue anticipation note.

RECOMMENDATION

The office should not make disbursements that exceed available cash on deposit with the county trustee.

FINDING 05.07 **THE AMBULANCE SERVICE HAD OPERATING DEFICIENCIES**
(A. and B. Internal Control – Reportable Condition Under Government Auditing Standards; C. and D. Noncompliance Under Government Auditing Standards)

Our examination of Ambulance Service operations revealed the following deficiencies:

- A. Duties were not segregated adequately among employees at the Ambulance Service. The office manager collected funds, issued receipts, deposited funds with the county trustee, maintained the computerized billing and accounts receivable system, computed employees' payroll checks, and distributed the payroll checks. Sound internal controls require segregation of incompatible duties involving the receipt and disbursement of funds.
- B. The computerized billing system provided a total of patients' accounts receivable. However, the related allowance for uncollectible accounts was not determined by Ambulance Service personnel. Therefore, the accounts receivable and the allowance for uncollectible accounts were not recorded in the accounts of the Ambulance Service Fund as required by generally accepted accounting principles. We determined the current patients' accounts

receivable from available records and provided adjustments to county officials for them to approve and post to the general ledger for proper financial statement presentation.

- C. The Ambulance Service did not follow the County Commission's policies concerning the collection of patients' accounts. Collection efforts were limited to sending statements to patients. Also, the computerized billing system's capability to age accounts receivable as a means of enhancing collection efforts for delinquent accounts was not utilized.
- D. The Ambulance Service did not follow the County Commission's policies for the write-off of uncollectible accounts. Personnel informed us that uncollectible accounts were substantial but had not been written-off in recent years.

RECOMMENDATION

Employees' duties should be segregated in the Ambulance Service for effective internal control over the receipt and disbursement of funds. Accounts receivable and the related allowance for uncollectible accounts should be determined and recorded in the financial statements of the Ambulance Service Fund. Furthermore, the Ambulance Service should follow the County Commission's policies regarding the collection and write-off of patients' accounts.

FINDING 05.08 **CAPITAL OUTLAY NOTE PROCEEDS AND DISBURSEMENTS WERE NOT CHANNELED THROUGH THE TRUSTEE'S OFFICE OR REFLECTED IN THE COUNTY'S FINANCIAL STATEMENTS**

(Material Noncompliance Under Government Auditing Standards)

During the year, the county issued a \$135,000 capital outlay note to purchase land for a Senior Citizens Center and an Agriculture Center. Instead of being deposited with the county trustee, the county mayor instructed the bank to issue a \$135,000 cashiers check to the county attorney so the attorney could make all disbursements related to the land purchase. Section 5-8-207, Tennessee Code Annotated, requires county funds be disbursed by warrants drawn on the county trustee. Management adjusted the General Fund's financial statements to reflect properly the capital outlay note proceeds and related expenditures in the financial statements of this report.

RECOMMENDATION

All county funds should be received and disbursed by the county trustee, who acts as treasurer for the county. County officials should properly record all financing sources and expenditures on the financial statements as required by generally accepted accounting principles.

FINDING 05.09 INVENTORY RECORDS WERE NOT MAINTAINED ADEQUATELY
(Internal Control – Reportable Condition Under Government Auditing Standards)

County officials maintained inventory records of assets owned by Smith County; however, these records were not verified by personnel independent of maintaining the inventory records. Also, the county did not have procedures to ensure that newly acquired assets were added to the inventory records, and some assets were not labeled as county property. Generally accepted accounting principles require accountability for all county-owned assets, such as equipment, furniture, and vehicles.

RECOMMENDATION

The office should implement procedures to ensure personnel independent of the record-keeping process periodically verify inventory records. Also, procedures should be implemented to ensure that new assets are added to the inventory, and all assets should be labeled as county property.

FINDING 05.10 THE SOLID WASTE DEPARTMENT DID NOT HAVE WRITTEN POLICIES CONCERNING THE COLLECTION AND WRITE-OFF OF ACCOUNTS
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Solid Waste Department did not have written policies concerning the collection and write-off of customer accounts. Without formal policies for the collection and write-off of customer accounts, employees have no guidance for consistent and uniform treatment of customers.

RECOMMENDATION

The department should develop written policies concerning the collection and write-off of customer accounts and present these policies to the County Commission for their consideration.

**FINDING 05.11 THE COUNTY HAD NOT ADOPTED A CAPITAL ASSETS POLICY
(Internal Control – Reportable Condition Under Government Auditing Standards)**

The county had not adopted a formal capital assets policy for recording capital assets presented in the proprietary fund statements. Officials have historically recorded capital assets at cost, estimated the useful life, and depreciated assets on a straight-line method based on the estimated useful life.

RECOMMENDATION

The county should adopt a formal capital assets policy detailing the recording of capital assets in the financial statements. This policy should include, at a minimum, the method for determining the cost of the asset, the depreciation method, and a schedule of useful lives of each type of asset.

**FINDING 05.12 THE SMITH COUNTY PUBLIC LIBRARY WAS NOT AUDITED
(Noncompliance Under Government Auditing Standards)**

The Smith County Public Library is a special revenue fund of Smith County. The library maintains its own financial records and received \$80,600 in funding from Smith County for the year ended June 30, 2005. The library's financial records were not subjected to an independent audit; therefore, financial information of the library is not included in the financial statements of this report as required by generally accepted accounting principles. Section 10-3-106, Tennessee Code Annotated, states that "All library accounts of every character shall be audited annually by or under the county legislative body and/or city governing body."

RECOMMENDATION

All revenues and expenditures related to the library's operation should be audited and included in the financial statements of Smith County.

OFFICES OF COUNTY MAYOR AND SHERIFF

**FINDING 05.13 PAYROLL DISBURSEMENTS WERE MADE TO AN EMPLOYEE OF THE SHERIFF'S OFFICE BASED ON FALSE TIME REPORTS
(Noncompliance Under Government Auditing Standards)**

Time reports were falsified for a part-time employee of the Sheriff's Department. This employee had previously retired from county employment, but under state retirement regulations is allowed to contract for work with the county for a maximum of 120 days. The time reports on file in the Sheriff's Office reflected that this employee worked two days per

week throughout the entire year. However, the employee advised us that he did not work at the Sheriff's Department from November 20, 2004, until approximately April 1, 2005. The employee also informed us that he usually worked three days a week, but requested to be paid for only two days per week so that his compensation could be constant throughout the year. He also informed us that he did not fill out or approve his time reports on file at the Sheriff's Department. The Sheriff's Department prepared a summary of time worked for all employees and submitted this to the County Mayor's Office as documentation for payroll disbursements. The summaries, which included this falsified time information, were signed by the sheriff as evidence of his review and approval. Based on the employee's statements of working three days per week instead of the reported two days per week, we could not determine the actual number of days the employee worked. Time reports should reflect the actual hours worked each day for each employee and should be signed by the employees' supervisor as evidence of review and approval. Section 39-16-504(a)(1), Tennessee Code Annotated, makes it unlawful for any person to "knowingly make a false entry in, or false alteration of, a governmental record". We have discussed this finding with the district attorney general.

RECOMMENDATION

Employees should be paid for actual time worked based on accurate time reports. Time reports should be prepared and signed by employees and should be reviewed and approved by the employees' supervisor.

FINDING 05.14 SHERIFF'S DEPARTMENT PERSONNEL RECORDS WERE NOT MAINTAINED ADEQUATELY
(Internal Control – Reportable Condition Under Government Auditing Standards)

We noted the following deficiencies in the Sheriff's Department personnel records that were used by the County Mayor's Office to support payroll disbursements:

- A. Some employees in the Sheriff's Department did not adequately document hours worked on their time sheets, and most employees did not sign their time sheets. Without properly prepared time and/or attendance records, we could not determine whether these employees were paid correctly.
- B. Supervisors at the Sheriff's Department did not sign employees' time sheets as evidence of supervisory review and approval.
- C. All salaried and some hourly Sheriff's Department employees were paid for county holidays whether they did or did not actually work that holiday. The department's personnel policy did not provide guidance concerning holiday pay.

RECOMMENDATION

All employees should properly document hours worked and sign their time sheets. Supervisors should sign employees' time sheets as evidence of supervisory review and approval. The department's personnel policy should provide written guidance concerning holiday pay.

OFFICE OF HIGHWAY SUPERINTENDENT

FINDING 05.15 **THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES**

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

Our examination of the office's purchasing procedures noted the following deficiencies:

- A. Purchase orders were not issued for some applicable purchases. Purchase orders are necessary to control who has authority to make purchases and to document purchasing commitments. Furthermore, some purchase orders were issued without recording the date of issuance, making it impossible to determine whether the purchase order was issued prior to the purchase.
- B. In some instances, invoices were paid without documentation that goods had been received and/or services had been rendered. This practice weakens controls over the purchasing process. We extended our audit procedures and determined that these goods were received and services were rendered.
- C. Competitive bids were not solicited for the lease-purchase of a loader (\$18,000). The Uniform Road Law, Section 54-7-113, Tennessee Code Annotated, requires purchases exceeding \$10,000 to be made after public advertisement and solicitation of competitive bids.

RECOMMENDATION

Purchase orders should be issued for all applicable purchases and should include the date of issuance. Documentation should be obtained indicating that goods have been received and/or services have been rendered before invoices are paid. Competitive bids should be solicited for all purchases exceeding \$10,000 as require by state statute.

FINDING 05.16 THE OFFICE DID NOT IDENTIFY SOME CAPITAL ASSETS
(A. Internal Control – Reportable Condition Under Government Auditing Standards; B. Noncompliance Under Government Auditing Standards)

Our review of inventory disclosed the following deficiencies:

- A. The highway superintendent maintained inventory records of assets owned by the Highway Department; however, these records were not verified by personnel independent of maintaining the inventory records. Also, the department did not have procedures to ensure that newly acquired assets were added to the inventory records. Generally accepted accounting principles require accountability for all county-owned assets, such as equipment, furniture, and vehicles.

- B. Some assets were not identified as property of the Highway Department. The County Uniform Road Law, Section 54-7-112, Tennessee Code Annotated, requires that “all machinery, equipment, and tools shall be plainly marked as property of the ... department and each item shall be numbered ...”

RECOMMENDATION

The office should implement procedures to ensure personnel independent of the record-keeping process periodically verify inventory records. Also, procedures should be implemented to ensure that new equipment is added to the inventory, and all assets should be plainly identified as property of the Highway Department

FINDING 05.17 A COMPLETE COUNTY ROAD LIST WAS NOT SUBMITTED TO THE COUNTY COMMISSION FOR APPROVAL
(Noncompliance Under Government Auditing Standards)

The highway superintendent submitted a list of county road names to the County Commission; however, this list did not include the required classification, width of each county road, nor the summary of changes from the prior year. 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 roads the department is authorized to work.

RECOMMENDATION

The highway superintendent should submit to the County Commission a list of county roads that includes the classification, width and distance of each road, and a summary of changes as required by state statute.

FINDING 05.18 **OFFICE EMPLOYEES WERE NOT BONDED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Office employees of the Highway Department who handle cash and maintain the accounting system were not bonded.

RECOMMENDATION

Office employees of the Highway Department should be covered by either individual bonds or a public employees' blanket bond.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 05.19 **THE GENERAL PURPOSE SCHOOL FUND'S ESTIMATED FUND BALANCE AND RESERVES EXCEEDED THE ACTUAL FUND BALANCE AND RESERVES BY A MATERIAL AMOUNT**
(Internal Control – Material Weakness Under Government Auditing Standards)

The General Purpose School Fund's estimated fund balance and reserves reflected in the county's budget at July 1, 2004, was \$5,717,301; however, the actual fund balance and reserves was \$3,501,371. Therefore, the estimated fund balance and reserves presented to the County Commission exceeded the actual fund balance and reserves by \$2,215,930.

RECOMMENDATION

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

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

Transfers for \$2,245,000 were taken from the fund balance after the budget document had been prepared. The transfers were to be from the fund balance in Education Capital Projects.

FINDING 05.20 INVENTORY RECORDS WERE NOT MAINTAINED ADEQUATELY
(Internal Control – Reportable Condition Under Government Auditing Standards)

School officials maintained inventory records of assets owned by the School Department; however, these records were not verified by personnel independent of maintaining the inventory records. Also, the School Department did not have procedures to ensure that newly acquired assets were added to the inventory records, and some assets were not identified by serial number or detailed descriptions that would allow for proper identification of the property. Generally accepted accounting principles require accountability for all department-owned assets, such as equipment, furniture, and vehicles.

RECOMMENDATION

The School Department should implement procedures to ensure personnel independent of the record-keeping process periodically verify inventory records. Also, procedures should be implemented to ensure that new assets are added to the inventory, and all assets should be identified by serial numbers, detailed descriptions, and/or numbered labels.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

We are now using new procedures.

FINDING 05.21 THE DEPARTMENT DID NOT MAINTAIN ADEQUATE CONTROLS OVER CONSUMABLE ASSETS
(Internal Control – Reportable Condition Under Government Auditing Standards)

The School Department did not maintain adequate controls over consumable assets. Our audit disclosed the following weaknesses:

- A. The School Department dispensed fuel from pumps located at the bus garage. However, the department did not reconcile amounts used with amounts purchased and on hand.
- B. The bus garage did not maintain inventory records of consumable assets, such as repair parts. The failure to maintain adequate records of consumable assets weakens controls over these assets and increases the risk of inventory loss.

RECOMMENDATION

The School Department should maintain records of consumable assets, such as fuel and repair parts. Furthermore, personnel independent of maintaining the inventory should periodically verify these records.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

Proper inventory records for tracking are now in place.

OFFICE OF SHERIFF

FINDING 05.22

THE OFFICE HAD ACCOUNTING DEFICIENCIES

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

The following deficiencies were noted during our examination of the office's accounting records:

- A. The cash journal did not accurately reflect the operations of the Sheriff's Department. Commissary and drug control funds were not posted to the cash journal.
- B. Bank statements for the commissary and the drug control funds were not reconciled with cash control records. The bank balances were determined by bank confirmations and alternative audit procedures.
- C. Official prenumbered receipts were not issued for all collections. Section 9-2-103, Tennessee Code Annotated (TCA), requires official prenumbered receipts for all collections.
- D. Funds were not always deposited to the office bank account within three days of collection. Section 5-8-207, TCA, requires county officials to deposit all public funds to their office bank account within three days of collection.

RECOMMENDATION

The cash journal should accurately reflect the office's operations. All commissary and drug control funds should be posted to the cash journal, and bank statements should be reconciled with the cash journal monthly. Official prenumbered receipts should be issued for all collections, and funds should be deposited to the office bank account within three days of collection as required by state statutes.

**FINDING 05.23 A SIGNATURE STAMP WAS USED TO SIGN DOCUMENTS
(Internal Control – Material Weakness Under Government Auditing Standards)**

Our examination disclosed that a signature stamp was used to affix the signature of the sheriff to invoices and travel claims (see Finding 05.02(D,H,K,M). Tennessee Code Annotated does not provide authority for the use of a signature stamp. The sheriff advised us that there are several rubber stamps with his signature at the Sheriff's Department; however, he did not know the number of stamps or the location of these stamps.

RECOMMENDATION

Management should discontinue the use of any signature stamps.

**FINDING 05.24 THE OFFICE USED CONFIDENTIAL FUNDS TO PAY NONCONFIDENTIAL EXPENDITURES
(Noncompliance Under Government Auditing Standards)**

The Sheriff's Office used confidential drug funds to pay \$1,653 of nonconfidential expenditures. These expenditures included payments for the purchase of two guns (\$1,163) and a laser printer (\$490). Section 39-17-420(a)(1), Tennessee Code Annotated, states, "Cash transactions related to undercover investigative operations ... shall be administered in compliance with procedures established by the comptroller of the treasury." These procedures provide that payments from local drug funds for all nonconfidential expenses should be made by the county's Drug Control Fund through the budgetary process.

RECOMMENDATION

The office should use confidential drug funds only for confidential purposes. Nonconfidential expenditures should be paid by warrants drawn on the county's Drug Control Fund (special revenue fund) through the budgetary process.

OTHER FINDINGS AND RECOMMENDATIONS

**FINDING 05.25 A CENTRAL SYSTEM OF ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED
(Internal Control – Reportable Condition Under Government Auditing Standards)**

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

RECOMMENDATION

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

MANAGEMENT’S RESPONSE – DIRECTOR OF SCHOOLS

We believe centralization would reduce the ability of our department to function in a timely manner and feel that costs would increase.

REBUTTAL

Establishing a central system would significantly improve internal controls over the accounting, budgeting, and purchasing processes that could improve efficiency and reduce costs.

FINDING 05.26 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF COUNTY MAYOR, HIGHWAY SUPERINTENDENT, DIRECTOR OF SCHOOLS, TRUSTEE, COUNTY CLERK, CIRCUIT AND GENERAL SESSIONS COURTS CLERK, CLERK AND MASTER, REGISTER, AND SHERIFF**
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

MANAGEMENT’S RESPONSE – DIRECTOR OF SCHOOLS

We believe progress is being made by adding a federal projects bookkeeper but recognize small systems cannot meet all desired segregation.

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

There were no findings and questioned costs for federal awards.

**SMITH COUNTY, TENNESSEE, AND THE
SMITH 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.