

ANNUAL FINANCIAL REPORT
UNICOI COUNTY, TENNESSEE



FOR THE YEAR ENDED JUNE 30, 2005

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

ANNUAL FINANCIAL REPORT
UNICOI COUNTY, TENNESSEE
FOR THE YEAR ENDED JUNE 30, 2005

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

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Audit Highlights

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

Scope

We have audited the basic financial statements of Unicoi County as of and for the year ended June 30, 2005.

Results

Our report on Unicoi County's aggregate discretely presented component units is qualified because the financial statements did not include a component unit whose financial statements were not available from other auditors at the date of this report. Our report on the governmental activities, each major fund, and the aggregate remaining fund information is unqualified.

Our audit resulted in twelve findings and recommendations, which we have reviewed with Unicoi County's management. The detailed findings, recommendations, and management's responses are included in the Single Audit section of this report.

Findings

The following are summaries of the audit findings:

OFFICE OF COUNTY MAYOR

- ◆ The office did not update its inventory records for assets that fell below the county's capitalization threshold and did not tag and clearly mark some equipment as county property.
- ◆ The General Debt Service Fund's estimated beginning fund balance at July 1, 2004, exceeded the actual fund balance by \$161,963. Expenditures exceeded appropriations in the Courthouse and Jail Maintenance Fund (\$1,169) and the Solid Waste/Sanitation Fund (\$3,487). Expenditures also exceeded appropriations in two major categories (the legal level of control) of the General Fund.

OFFICE OF ROAD SUPERINTENDENT

- ◆ The road superintendent was indicted on two counts of theft of property under \$500, two counts of official misconduct, and one count of tampering with evidence.
-

OFFICE OF DIRECTOR OF SCHOOLS

- ◆ The Central Cafeteria Fund's actual fund balance at July 1, 2004, exceeded the estimated beginning fund balance presented to the County Commission by a material amount.
-

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

- ◆ The clerk did not prepare a trial balance of execution docket cause balances for Circuit Court as required by Section 18-2-103, Tennessee Code Annotated, (TCA).
 - ◆ Funds were not deposited to the official bank accounts within three days of collection in Circuit and General Sessions Courts as required by Section 5-8-207, TCA.
 - ◆ During the year, a depository was not required to adequately collateralize funds that exceeded FDIC coverage as required by Section 5-8-201, TCA.
 - ◆ The clerk entered into a lease-purchase agreement for computer equipment without the approval of the County Commission as required by Section 7-51-904, TCA.
 - ◆ Several deficiencies were noted in the maintenance of accounting records in Circuit Court.
-

OFFICE OF SHERIFF

- ◆ Deficiencies were noted in the use of drug-control funds.
-

OTHER FINDINGS

- ◆ County officials had not adopted a central system of accounting, budgeting, and purchasing.
- ◆ Duties were not segregated adequately among the officials and employees in the Offices of Clerk and Master and Sheriff.

INTRODUCTORY SECTION

Unicoi County Officials

June 30, 2005

Officials:

F. Larry Rose, County Mayor
Terry Haynes, Road Superintendent
Denise Brown, Director of Schools
Paul Berry, Trustee
William J. Gaines, Assessor of Property
Ruby McLaughlin, County Clerk
Christy Erwin Howard, Circuit and General Sessions Courts Clerk
Teresa W. Simerly, Clerk and Master
Deborah Tittle, Register
David Kent Harris, Sheriff

Board of County Commissioners:

Lee H. Brown, Chairperson	Kenneth L. Lewis
Jimmy K. Erwin	Doug Bowman
Kenneth E. Garland	Cathy B. Pate
Kimberly J. Gouge	L. Glenn Runnion
Dr. James M. Hatcher	

Board of Education:

Pascal Bailey, Chairperson	Renea Rogers
Garland Evely	Steve Scott
Jan Parsley	Becky Shealy

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
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INDEPENDENT AUDITOR'S REPORT

November 15, 2005

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

To the County Mayor and Board of County Commissioners:

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Unicoi County, Tennessee, as of and for the year ended June 30, 2005, which collectively comprise Unicoi County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Unicoi 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 auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements of the Unicoi County Emergency Communications District, a component unit requiring discrete presentation, had not been made available by other auditor's as of the date of this report. Accordingly, the aggregate discretely presented component units financial statements referred to above do not include amounts for the

Unicoi County Emergency Communication District which should be included to conform with accounting principles generally accepted in the United States of America. The effects on the financial statements of the aggregate discretely presented component units are not reasonably determined.

In our opinion, except for the effects of not including the financial statements of the Unicoi County Emergency Communications District as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units of Unicoi County, Tennessee, at June 30, 2005, and the results of operations of the aggregate discretely presented component units, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Additionally, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Unicoi County, Tennessee, as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2005, on our consideration of Unicoi 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 V.B., Unicoi County has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as of June 30, 2005. For the first time, the financial statements include government-wide financial statements.

As described in Note V.B., Unicoi County has implemented GASB 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 management of Unicoi County did not prepare a management's discussion and analysis. The management's discussion and analysis section is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

The budgetary comparison information on pages 53 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 Unicoi 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, combining and individual fund financial statements of the Unicoi County School Department (a discretely presented component unit), 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, combining and individual fund financial statements of the Unicoi County School Department (a discretely presented component unit), and the miscellaneous schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Very truly yours,

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

John G. Morgan
Comptroller of the Treasury

JGM/rd

BASIC FINANCIAL STATEMENTS

Exhibit A

Unicoi County, Tennessee
Statement of Net Assets
June 30, 2005

	<u>Primary Government</u>	<u>Component Unit</u>
	Governmental Activities	Unicoi County School Department
<u>ASSETS</u>		
Cash and Equivalents	\$ 9,406	\$ 3,000
Equity in Pooled Cash and Investments	6,334,259	1,883,075
Accounts Receivable	8,989	4,565
Due from Other Governments	460,428	444,022
Property Taxes Receivable	3,748,422	2,515,720
Allowance for Uncollectible Property Taxes	(155,150)	(104,128)
Other Restricted Assets	0	43,683
Capital Assets		
Assets Not Depreciated:		
Land	157,064	438,180
Construction in Progress	413,073	0
Assets Net of Accumulated Depreciation:		
Buildings and Improvements	650,774	12,269,520
Other Capital Assets	900,223	751,016
Infrastructure - Roads, Streets, and Bridges	4,615,118	0
Total Assets	<u>\$ 17,142,606</u>	<u>\$ 18,248,653</u>
<u>LIABILITIES</u>		
Accounts Payable	\$ 141,594	\$ 21,192
Accrued Payroll	14,256	0
Accrued Interest Payable	168,060	0
Payroll Deductions Payable	7,294	0
Contracts Payable	40,401	0
Retainage Payable	41,318	0
Other Current Liabilities	0	275,847
Deferred Revenue - Property Taxes	3,396,803	2,279,734
Noncurrent Liabilities:		
Due Within One Year	830,664	82,243
Due in More than One Year	14,054,574	535,621
Total Liabilities	<u>\$ 18,694,964</u>	<u>\$ 3,194,637</u>

(Continued)

Exhibit A

Unicoi County, Tennessee
Statement of Net Assets (Cont.)

	<u>Primary Government</u>	<u>Component Unit</u>
	Governmental Activities	Unicoi County School Department
<u>NET ASSETS</u>		
Invested in Capital Assets, net of related debt	\$ 5,034,539	\$ 12,840,852
Restricted for:		
Highways	3,127,990	0
Debt Service	2,897,715	0
Capital Projects	51,752	0
Other Purposes	77,277	867,864
Unrestricted	<u>(12,741,631)</u>	<u>1,345,300</u>
Total Net Assets	<u>\$ (1,552,358)</u>	<u>\$ 15,054,016</u>

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

Exhibit B

Unicoi County, Tennessee
Statement of Activities
For the Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary	Component
					Total Governmental Activities	Unit Unicoi County School Department
Primary Government:						
Governmental Activities:						
General Government	\$ 514,537	\$ 107,871	\$ 16,380	\$ 0	\$ (390,286)	\$ 0
Finance	491,183	354,327	10,171	0	(126,685)	0
Administration of Justice	378,902	558,487	12,067	0	191,652	0
Public Safety	1,944,753	25,079	368,638	128,117	(1,422,919)	0
Public Health and Welfare	748,593	0	138,521	0	(610,072)	0
Social, Cultural, and Recreational Services	58,063	21,345	0	0	(36,718)	0
Agricultural and Natural Resources	30,704	0	0	0	(30,704)	0
Other Operations	642,837	0	0	38,167	(604,670)	0
Highways	2,093,270	24	1,435,399	229,664	(428,183)	0
Interest on General Long-Term Debt	661,606	0	167,007	0	(494,599)	0
Other Debt Service	25,241	0	0	0	(25,241)	0
Total Primary Government	\$ 7,589,689	\$ 1,067,133	\$ 2,148,183	\$ 395,948	\$ (3,978,425)	\$ 0
Component Unit:						
Unicoi County School Department	\$ 16,598,677	366,198	\$ 2,678,167	\$ 0	\$ 0	\$ (13,554,312)
Total Component Unit	\$ 16,598,677	\$ 366,198	\$ 2,678,167	\$ 0	\$ 0	\$ (13,554,312)

(Continued)

Exhibit B

Unicoi County, Tennessee
Statement of Activities (Cont.)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary	Component
					Government	Unit
				Total	Unicoi	
				Governmental	County	
				Activities	School	
					Department	
General Revenues:						
Property Taxes				\$ 3,254,999	\$ 2,186,055	
Sales Taxes				439,033	914,043	
Other Taxes				316,385	40,169	
Grants and Contributions not restricted to specific programs				232,543	10,024,257	
Unrestricted Investment Income				145,247	11,880	
Gain on Sale/Disposal of Capital Assets				46,845	0	
Miscellaneous				61,656	8,110	
Total General Revenues				<u>\$ 4,496,708</u>	<u>\$ 13,184,514</u>	
Change in Net Assets				\$ 518,283	\$ (369,798)	
Net Assets, July 1, 2004				<u>(2,070,641)</u>	<u>15,423,814</u>	
Net Assets, June 30, 2005				<u>\$ (1,552,358)</u>	<u>\$ 15,054,016</u>	

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

Exhibit C-1

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

	Major Funds			Nonmajor	Total
	General	Highway / Public Works	General Debt Service	Other Govern- mental Funds	
ASSETS					
Cash	\$ 0	\$ 0	\$ 0	\$ 9,406	\$ 9,406
Equity in Pooled Cash and Investments	347,011	2,899,482	2,929,794	157,972	6,334,259
Accounts Receivable	8,642	0	347	0	8,989
Due from Other Governments	120,329	258,345	80,254	1,500	460,428
Due from Other Funds	9,406	0	0	24,051	33,457
Property Taxes Receivable	2,628,927	62,893	1,056,602	0	3,748,422
Allowance for Uncollectible Property Taxes	(108,813)	(2,603)	(43,734)	0	(155,150)
Total Assets	<u>\$ 3,005,502</u>	<u>\$ 3,218,117</u>	<u>\$ 4,023,263</u>	<u>\$ 192,929</u>	<u>\$ 10,439,811</u>
LIABILITIES AND FUND BALANCES					
<u>Liabilities</u>					
Accounts Payable	\$ 109,834	\$ 7,637	\$ 0	\$ 24,123	\$ 141,594
Accrued Payroll	14,256	0	0	0	14,256
Payroll Deductions Payable	7,287	7	0	0	7,294
Contracts Payable	0	0	0	40,401	40,401
Retainage Payable	0	0	0	41,318	41,318
Due to Other Funds	24,051	0	0	9,406	33,457
Deferred Revenue - Current Property Taxes	2,382,322	56,993	957,488	0	3,396,803
Deferred Revenue - Delinquent Property Taxes	130,524	3,123	52,459	0	186,106
Other Deferred Revenues	91,281	114,927	39,918	0	246,126
Total Liabilities	<u>\$ 2,759,555</u>	<u>\$ 182,687</u>	<u>\$ 1,049,865</u>	<u>\$ 115,248</u>	<u>\$ 4,107,355</u>
<u>Fund Balances</u>					
Reserved for Encumbrances	\$ 0	\$ 72,184	\$ 0	\$ 42,560	\$ 114,744
Reserved for Alcohol and Drug Treatment	28,091	0	0	0	28,091
Reserved for Sexual Offender Registration	360	0	0	0	360
Reserved for Computer System - Register	10,099	0	0	0	10,099
Reserved for Automation Purposes - General Sessions Court	4,638	0	0	0	4,638
Reserved for Automation Purposes - Chancery Court	2,359	0	0	0	2,359
Reserved for Automation Purposes - Other Courts	5,176	0	0	0	5,176
Reserved for Automation Purposes - Sheriff	625	0	0	0	625
Unreserved, Reported In:					
General Fund	194,599	0	0	0	194,599
Special Revenue Funds	0	2,963,246	0	25,929	2,989,175
Debt Service Funds	0	0	2,973,398	0	2,973,398
Capital Projects Funds	0	0	0	9,192	9,192
Total Fund Balances	<u>\$ 245,947</u>	<u>\$ 3,035,430</u>	<u>\$ 2,973,398</u>	<u>\$ 77,681</u>	<u>\$ 6,332,456</u>
Total Liabilities and Fund Balances	<u>\$ 3,005,502</u>	<u>\$ 3,218,117</u>	<u>\$ 4,023,263</u>	<u>\$ 192,929</u>	<u>\$ 10,439,811</u>

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

Exhibit C-2

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

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

Total fund balances - balance sheet - governmental funds (Exhibit C-1)		\$	6,332,456
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			6,736,252
(2) Certain earned amounts are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.			432,232
(3) Interest costs of long-term debt are expensed when due in the governmental funds. Interest costs incurred as of the balance sheet date are accrued in the statement of net assets.			(168,060)
(4) Long-term liabilities, including other loans payable, are not due and payable in the current period and therefore are not reported in the governmental funds.			
Accrued leave	\$	188,527	
Notes payable		300,000	
Leases payable		25,663	
Bonds payable		12,972,565	
Other loans payable		1,398,483	
			<u>(14,885,238)</u>
Net assets of governmental activities (Exhibit A)		\$	<u>(1,552,358)</u>

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

Exhibit C-3

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

	Major Funds			Nonmajor	Total
	General	Highway / Public Works	General Debt Service	Other Govern- mental Funds	
Revenues					
Local Taxes	\$ 2,482,360	\$ 83,337	\$ 1,398,928	\$ 5,446	\$ 3,970,071
Licenses and Permits	10,607	253	4,261	0	15,121
Fines, Forfeitures, and Penalties	96,650	0	0	221,041	317,691
Charges for Current Services	49,010	0	0	14,990	64,000
Other Local Revenues	48,422	184,217	57,603	10,519	300,761
Fees Received from County Officials	668,175	0	0	0	668,175
State of Tennessee	418,958	1,354,691	29,671	38,167	1,841,487
Federal Government	135,943	176,570	0	0	312,513
Other Governments and Citizens Groups	139,284	146,219	167,007	38,048	490,558
Total Revenues	\$ 4,049,409	\$ 1,945,287	\$ 1,657,470	\$ 328,211	\$ 7,980,377
Expenditures					
Current:					
General Government	\$ 598,914	\$ 0	\$ 0	\$ 4,022	\$ 602,936
Finance	484,296	0	0	143	484,439
Administration of Justice	375,061	0	0	14,990	390,051
Public Safety	1,379,049	0	0	313,394	1,692,443
Public Health and Welfare	254,868	0	0	378,156	633,024
Social, Cultural, and Recreational Services	58,063	0	0	0	58,063
Agricultural and Natural Resources	30,704	0	0	0	30,704
Other Operations	642,837	0	0	0	642,837
Highways	0	2,086,100	0	0	2,086,100
Debt Service:					
Principal	5,916	0	724,421	0	730,337
Interest	1,174	0	667,486	0	668,660
Other Debt Service	0	0	25,241	0	25,241
Capital Projects	0	0	0	216,082	216,082
Capital Projects - Donated	0	0	0	300,000	300,000
Total Expenditures	\$ 3,830,882	\$ 2,086,100	\$ 1,417,148	\$ 1,226,787	\$ 8,560,917
Excess (Deficiency) of Revenues Over Expenditures					
	\$ 218,527	\$ (140,813)	\$ 240,322	\$ (898,576)	\$ (580,540)
Other Financing Sources (Uses)					
Notes Issued	\$ 0	\$ 0	\$ 0	\$ 300,000	\$ 300,000
Capital Leases Issued	31,579	0	0	0	31,579
Transfers In	0	0	0	604,611	604,611
Transfers Out	(604,611)	0	0	0	(604,611)
Total Other Financing Sources (Uses)	\$ (573,032)	\$ 0	\$ 0	\$ 904,611	\$ 331,579
Net Change in Fund Balances					
	\$ (354,505)	\$ (140,813)	\$ 240,322	\$ 6,035	\$ (248,961)
Fund Balance, July 1, 2004	600,452	3,176,243	2,733,076	71,646	6,581,417
Fund Balance, June 30, 2005	\$ 245,947	\$ 3,035,430	\$ 2,973,398	\$ 77,681	\$ 6,332,456

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

Exhibit C-4

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

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

Net change in fund balances - total governmental funds (Exhibit C-3)		\$ (248,961)
<p>(1) Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of these assets is allocated over their useful lives and reported as depreciation expense. The amount that capital outlays exceeded depreciation is itemized as follows:</p>		
Add: Capital outlays in the current period	\$ 695,428	
Less: Current year depreciation	<u>(403,418)</u>	292,010
<p>(2) Governmental funds only report the disposal of capital assets to the extent proceeds are received from the disposal. In the statement of activities, gains or losses are recorded for disposals.</p>		
Less: Proceeds received from disposals of capital assets	\$ (91,712)	
Plus: Gain on disposals of capital assets	<u>46,845</u>	(44,867)
<p>(3) Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
For the year ended June 30, 2004	\$ (259,770)	
For the year ended June 30, 2005	<u>432,232</u>	172,462
<p>(4) The issuance of long-term debt (e.g., notes, capital lease) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.</p>		
Less: Note proceeds issued	\$ (300,000)	
Less: Capital leases issued	(31,579)	
Add: Principal payment on notes	240,000	
Add: Principal payment on capital leases	5,916	
Add: Principal payment on bonds	<u>484,421</u>	398,758

(Continued)

Exhibit C-4

Unicoi County, Tennessee
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities (Cont.)

- (5) Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Change in accrued interest payable	\$ 7,054	
Change in compensated absences	<u>(58,173)</u>	<u>\$ (51,119)</u>
Change in net assets of governmental activities (Exhibit B)		<u><u>\$ 518,283</u></u>

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

Exhibit D

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

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash	\$ 405,220
Accounts Receivable	2,268
Due from Other Governments	156,349
Restricted Assets:	
Other Restricted Assets	<u>58,949</u>
Total Assets	<u><u>\$ 622,786</u></u>
<u>LIABILITIES</u>	
Due to Other Taxing Units	\$ 156,349
Due to Litigants, Heirs, and Others	<u>466,437</u>
Total Liabilities	<u><u>\$ 622,786</u></u>

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

Unicoi County is a public municipal corporation governed by an elected nine-member board. As required by GAAP, these financial statements present Unicoi County (the primary government) and its component units. The component units discussed below are included in the county's reporting entity because of the significance of their operational or financial relationships with the county.

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

Discretely Presented Component Units – The following entities meet the criteria for discretely presented component units of the county. They are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the county.

The Unicoi County School Department operates the public school system in the county, and the voters of Unicoi 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 Unicoi County Emergency Communications District provides a simplified means of securing emergency services through a uniform emergency number for the residents of Unicoi County, and the Unicoi 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 financial statements of the Unicoi County Emergency Communications District were not available from other auditors in time for inclusion in this report.

The Unicoi County School Department does not issue separate financial statements from those of the county. Therefore, basic financial statements of the Unicoi County School Department are included in this report as listed in the table of contents. Although required by GAAP, the financial statements of the Unicoi County Emergency Communications District were not available in time for inclusion, as previously mentioned. Complete financial statements of the Unicoi County Emergency Communications District can be obtained from their administrative offices at the following addresses:

Administrative Offices:

Unicoi County Emergency Communications District
P.O. Box 548
Erwin, TN 37650

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities, which rely to a significant extent on fees and charges, are required to be reported separately from governmental activities in government-wide financial statements. However, the primary government of Unicoi County does not have any business-type activities to report. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The Unicoi County School Department component unit only reports governmental activities in the government-wide financial statements.

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

Unicoi County issues debt for the Unicoi County School Department and the Unicoi County Emergency Communications District. Net debt issues

(\$300,000) were contributed by the county to the Unicoi County Emergency Communications District during the year ended June 30, 2005.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary funds financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund financial statements of Unicoi County are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. However, Unicoi County has no proprietary funds to report. An emphasis is placed on major funds within the governmental category. Separate financial statements are provided for governmental funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All other governmental funds are aggregated into a single column on the fund financial statements. 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. Unicoi County considers grant and similar revenues to be available if they are collected within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Principal and interest on long-term debt are recognized as fund liabilities when due or when amounts have been accumulated in the General Debt Service Fund for payments to be made early in the following year.

Property taxes for the period levied, 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. Applicable business taxes, litigation taxes, state-shared excise taxes, fines,

forfeitures, and penalties are not susceptible to accrual since they are not measurable (reasonably estimable). All other revenue items are considered to be measurable and available only when the county receives cash.

Fiduciary fund financial statements are reported using 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.

Unicoi 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’s Highway Department.

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

Additionally, Unicoi County reports the following fund types:

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

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

The discretely presented Unicoi County School Department reports the following major governmental funds:

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

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

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and

contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

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

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

2. Receivables and Payables

Activity between funds for unremitted current collections outstanding at the end of the fiscal year is referred to as due to/from other funds.

All property taxes receivable are shown with an allowance for uncollectibles. The allowance for uncollectible property taxes is equal to 2.3 percent of total taxes levied.

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

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

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

Restricted assets in the agency funds consist of various investments held by the clerk and master in a court ordered co-substitute trustee capacity for a testamentary trust heir.

The discretely presented Unicoi County School Department has entered into a contract with the Tennessee Valley Authority (TVA) to make energy management improvements at various schools. The School Department has also entered into a lease-purchase agreement with SunTrust Bank whereby SunTrust provides financing for the improvements and leases those improvements to the School

Department. Funds to pay for the improvements have been placed in escrow and invested in U.S. government securities. Funds are drawn as payments are due. Those funds are shown as Other Restricted Assets in the General Purpose School Fund. The commitment with TVA is reflected as Reserved for Encumbrances.

4. Capital Assets

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

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	30
Other Capital Assets	5 - 10
Infrastructure:	
Roads	40
Bridges	40

Unicoi County retroactively reported infrastructure assets for bridges and road paving acquired between July 1, 1980, and June 30, 2003.

5. Compensated Absences

It is the county's policy to permit employees to accumulate a limited amount of earned but unused vacation benefits. Vacation benefits for

employees of the discretely presented School Department do not vest or accumulate and must be used within the year or lost. There is no liability for unpaid accumulated sick leave since neither Unicoi County nor the discretely presented Unicoi County School Department has a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements for the county. A liability for vacation pay is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

6. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets.

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

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

7. Net Assets and Fund Equity

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

- a. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.

- c. Unrestricted net assets – All other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

As of June 30, 2005, Unicoi County had \$11,948,133 in outstanding debt for capital purposes for the discretely presented Unicoi County School Department and \$300,000 in outstanding debt for capital purposes for the Unicoi County Emergency Communications District. The debt is a liability of Unicoi County, but the capital assets acquired are reported in the financial statements of these component units. Therefore, Unicoi County has incurred a liability significantly decreasing its unrestricted net assets with no corresponding increase in the county's capital assets.

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

On the government-wide statement of net assets (Exhibit A), the account restricted for other purposes for the primary government consists of various restrictions (\$77,277) with the primary restrictions being Alcohol and Drug Treatment (\$28,091) and computer automation for the various offices (\$22,897). For the discretely presented Unicoi County School Department, the account balance restricted for other purposes, primarily consists of amounts restricted for the school lunch and breakfast program (\$482,369) and other federal assistance programs (\$326,817).

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Primary Government

Exhibit C-2 includes explanations of the nature of individual elements of items required to reconcile fund balances – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets.

Discretely Presented Unicoi County School Department

The discretely presented Unicoi County School Department's Exhibit I-2 includes explanations of the nature of individual elements of items required to reconcile fund balances – total governmental funds and net assets of governmental funds reported in the government-wide statement of net assets.

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

Primary Government

Exhibit C-4 includes explanations of the nature of individual elements of items required to reconcile net changes in fund balances – governmental funds and changes in net assets governmental activities reported in the government-wide statement of activities.

Discretely Presented Unicoi County School Department

The discretely presented Unicoi County School Department's Exhibit I-4 includes explanations of the nature of individual elements of items required to reconcile net changes in fund balances – total governmental funds and changes in net assets of governmental funds as reported in the government-wide statement of activities.

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Expenditures Exceeded Appropriations

Expenditures exceeded the total appropriations approved by the County Commission in the Courthouse and Jail Maintenance Fund (\$1,169) and the Solid Waste/Sanitation Fund (\$3,487). Also, expenditures exceeded appropriations approved by the County Commission in the Circuit Court (\$14,562) and Employee Benefits (\$1,700) major appropriation categories (the legal level of control) of the General Fund. The majority of the overexpenditure in the Circuit Court major appropriation category was caused by the court clerk's failure to obtain the County Commission's approval for a capital lease as discussed in the following note. Such overexpenditures are a violation of state law. These overexpenditures were funded by available fund balances or by greater than anticipated revenues.

B. Capital Lease Not In Compliance With State Statutes

On December 24, 2004, the circuit and general sessions courts clerk entered into a lease purchase agreement for computer equipment (\$13,230) without the approval of the County Commission as required by Section 7-51-904, Tennessee Code Annotated.

C. Estimated Beginning Fund Balances Materially Varied from the Actual Fund Balances

The General Debt Service Fund's estimated beginning fund balance at July 1, 2004, exceeded the actual fund balance by \$161,963. Also, the Central

Cafeteria Fund's actual fund balance at July 1, 2004, exceeded the estimated fund balance reflected in the budget by \$259,535.

D. Investigations

As reported in previous reports, the Federal Bureau of Investigation had seized many financial records of the former circuit and general sessions courts clerk, Gregory Masters. Subsequent to June 30, 2005, Mr. Masters entered into a plea agreement in federal court to wrongfully converting county funds for personal use of at least \$10,507, between January 1, 2001, and December 31, 2001. The seized records were returned to the Office of Circuit and General Sessions Courts Clerk in November 2005.

Additionally, the road superintendent, Mr. Terry Haynes, was indicted by the Unicoi County Grand Jury on July 12, 2004, on two counts of theft of property under \$500, two counts of official misconduct, and one count of tampering with evidence. On May 5, 2005, Mr. Haynes entered into a Memorandum of Understanding agreement with the State of Tennessee. Under this agreement the charges will be suspended for a period of twenty-four months. During this period Mr. Haynes must comply with conditions under the agreement. The agreement further states that upon completing the period of diversion without a violation of the conditions, an order dismissing the charges against the defendant, Mr. Haynes, will be issued.

E. The County Had Deposits That Were Exposed to Custodial Risk

The circuit and general sessions courts clerk did not require one depository holding county funds to pledge adequate securities to protect funds that exceeded Federal Deposit Insurance Corporation (FDIC) coverage. During December 2004, deposits at one depository exceeded FDIC coverage by \$111,593. Section 5-8-201, Tennessee Code Annotated, provides for county officials to require any bank that is a depository of county funds to deposit in an escrow account in a second bank collateral security equal to 105 percent of such county funds. The bank accounts were adequately secured as of June 30, 2005.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

Deposits

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

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

Investments

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

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

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value Or Cost</u>
State Treasurer's Investment Pool	Daily	\$ <u>545,653</u>
Total		\$ <u><u>545,653</u></u>

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. State statutes limit the maturities of certain investments as previously disclosed. Unicoi 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. Unicoi County has no investment policy that would further limit its investment choices. As of June 30, 2005, Unicoi County's investment in the State Treasurer's Investment Pool was unrated.

B. Capital Assets

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

Primary Government

Governmental Activities:

	Balance 7-1-04	Increases	Decreases	Balance 6-30-05
Capital Assets Not Depreciated:				
Land	\$ 122,064	\$ 35,000	\$ 0	\$ 157,064
Construction in Progress	235,158	177,915	0	413,073
Total Capital Assets Not Depreciated	\$ 357,222	\$ 212,915	\$ 0	\$ 570,137

Capital Assets Depreciated:

Buildings and Improvements	\$ 2,267,313	\$ 0	\$ 0	\$ 2,267,313
Infrastructure	6,472,191	98,550	0	6,570,741
Other Capital Assets	2,231,334	383,963	(100,524)	2,514,773
Total Capital Assets Depreciated	\$ 10,970,838	\$ 482,513	\$ (100,524)	\$ 11,352,827

Governmental Activities (Cont.):

	Balance 7-1-04	Increases	Decreases	Balance 6-30-05
Less Accumulated Depreciation For:				
Buildings and Improvements	\$ 1,554,986	\$ 61,553	\$ 0	\$ 1,616,539
Infrastructure	1,801,720	153,903	0	1,955,623
Other Capital Assets	1,482,245	187,962	(55,657)	1,614,550
Total Accumulated Depreciation	\$ 4,838,951	\$ 403,418	\$ (55,657)	\$ 5,186,712
Total Capital Assets Depreciated, Net	\$ 6,131,887	\$ 79,095	\$ (44,867)	\$ 6,166,115
Governmental Activities Capital Assets, Net	\$ 6,489,109	\$ 292,010	\$ (44,867)	\$ 6,736,252

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 38,847
Finance	1,710
Administration of Justice	772
Public Safety	76,769
Highways	<u>285,320</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 403,418</u>

Discretely Presented Unicoi County School Department

Governmental Activities:

	Balance 7-1-04	Increases	Decreases	Balance 6-30-05
Capital Assets Not Depreciated:				
Land	\$ 368,180	\$ 70,000	\$ 0	\$ 438,180
Total Capital Assets Not Depreciated	\$ 368,180	\$ 70,000	\$ 0	\$ 438,180

Governmental Activities (Cont.):

	Balance 7-1-04	Increases	Decreases	Balance 6-30-05
Capital Assets Depreciated:				
Buildings and Improvements	\$ 18,973,208	\$ 646,138	\$ (316,723)	\$ 19,302,623
Other Capital Assets	1,781,603	109,944	0	1,891,547
Total Capital Assets Depreciated	<u>\$ 20,754,811</u>	<u>\$ 756,082</u>	<u>\$ (316,723)</u>	<u>\$ 21,194,170</u>
Less Accumulated Depreciated For:				
Buildings and Improvements	\$ 6,743,470	\$ 606,356	\$ (316,723)	\$ 7,033,103
Other Capital Assets	1,001,298	139,233	0	1,140,531
Total Accumulated Depreciation	<u>\$ 7,744,768</u>	<u>\$ 745,589</u>	<u>\$ (316,723)</u>	<u>\$ 8,173,634</u>
Total Capital Assets Depreciated, Net	<u>\$ 13,010,043</u>	<u>\$ 10,493</u>	<u>\$ 0</u>	<u>\$ 13,020,536</u>
Governmental Activities Capital Assets, Net	<u>\$ 13,378,223</u>	<u>\$ 80,493</u>	<u>\$ 0</u>	<u>\$ 13,458,716</u>

Depreciation expense totaling \$745,589 was charged by the discretely presented Unicoi County School Department.

C. Construction Commitments

At June 30, 2005, Unicoi County had uncompleted construction commitments reflected in General Capital Project Fund (a nonmajor governmental fund) related to the Health Department building addition totaling \$42,560. Funding has been received for these future expenditures.

D. 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>
Primary Government:		
General	Nonmajor governmental	\$ 9,406
Nonmajor governmental	General	<u>24,051</u>
Total		<u><u>\$ 33,457</u></u>

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

Interfund Transfers:

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

Primary Government

<u>Transfers Out</u>	<u>Transfers In</u> Nonmajor Governmental Funds
General Fund	\$ <u>604,611</u>
Total	<u><u>\$ 604,611</u></u>

Discretely Presented Unicoi County School Department

<u>Transfers Out</u>	<u>Transfers In</u> General Purpose School Fund
Nonmajor governmental fund	\$ <u>1,108</u>
Total	<u><u>\$ 1,108</u></u>

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

E. Payables

Most payables are disaggregated on the face of the financial statements. The \$41,318 reflected as retainage payable in the General Capital Projects Fund represents amounts withheld from payments made to contractors on construction projects to ensure contract performance. The \$275,847 reflected as other current liabilities in the General Purpose School Fund of the discretely presented Unicoi County School Department represents insurance premiums held in a clearing account and due to the insurance administrator.

F. Capital Leases

Primary Government

On September 13, 2004, Unicoi County entered into a three-year lease-purchase agreement for a Sheriff Department vehicle. The terms of the agreement require total lease payments of \$18,349 plus interest of 5.05 percent. Title to the vehicle will transfer to Unicoi County at the end of the lease period. The lease payments are made by the General Fund.

On December 24, 2004, the circuit and general sessions courts clerk entered into a five-year lease-purchase agreement for data processing equipment. The terms of the agreement require total lease payments of \$13,230 plus interest of 6.25 percent. Title to the equipment will transfer to Unicoi County at the end of the lease period. The lease payments are made by the General Fund. This lease-purchase agreement was not entered into in compliance with state statutes.

Future minimum lease payments and the net present value of these minimum lease payments as of June 30, 2005, were as follows:

<u>Year Ending June 30</u>	<u>Governmental Funds</u>
2006	\$ 9,796
2007	9,796
2008	4,315
2009	3,219
2010	<u>1,074</u>
Total Minimum Lease Payments	\$ 28,200
Amounts Representing Interest	<u>(2,537)</u>
Present Value of Minimum Lease Payments	<u><u>\$ 25,663</u></u>

Discretely Presented Unicoi County School Department

The discretely presented Unicoi County School Department has entered into two ten-year lease-purchase agreements for HVAC equipment. The terms of the agreements require total lease payments of \$862,369 plus interest ranging from 3.99 to 4.93 percent. Title to the equipment transfers to Unicoi County School Department at the end of the lease period.

Future minimum lease payments and the net present value of these minimum lease payments as of June 30, 2005, were as follows:

<u>Year Ending June 30</u>	<u>Governmental Funds</u>
2006	\$ 106,309
2007	106,309
2008	106,309
2009	78,532
2010	69,273
2011-2014	<u>254,001</u>
Total Minimum Lease Payments	\$ 720,733
Amounts Representing Interest	<u>(102,869)</u>
Present Value of Minimum Lease Payments	<u><u>\$ 617,864</u></u>

G. Long-term Debt

Primary Government

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 38 years for bonds, up to five years for notes, and up to 11 years for other loans. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All bonds, notes, and other loans included in long-term debt as of June 30, 2005, will be retired from the General Debt Service Fund.

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	3.9 to 6.2 %	\$ 13,700,000	\$ 4,577,565
General Obligation Bonds - Refunding	2.45 to 5.25	8,715,000	8,395,000
Capital Outlay Notes	3.45	300,000	300,000
Other Loans	0	1,551,362	1,398,483
Capital Leases	5.05 to 6.25	31,579	25,663

During the 2000-01 year, Unicoi County entered into an interest-free loan agreement with the Tennessee State School Bond Authority. Under this agreement, the authority issued interest-free qualified zone academy bonds of \$1,551,362 and loaned the proceeds to Unicoi County. The repayment schedule calls for Unicoi County to make annual payments through 2011. In addition to pledging the county's full faith and credit for repayment of this loan, the county also specifically pledged its unobligated state-shared taxes toward the loan.

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	\$ 504,881	\$ 630,564	\$ 60,000	\$ 9,315
2007	530,363	604,017	60,000	7,245
2008	555,868	582,012	60,000	5,175
2009	586,398	556,062	60,000	3,105
2010	606,953	531,315	60,000	1,035
2011-2015	3,544,096	2,222,879	0	0
2016-2020	4,627,664	1,245,875	0	0
2021-2025	1,696,219	212,641	0	0
2026-2030	141,104	64,926	0	0
2031-2035	179,019	27,011	0	0
Total	<u>\$ 12,972,565</u>	<u>\$ 6,677,302</u>	<u>\$ 300,000</u>	<u>\$ 25,875</u>

Year Ending June 30	Other Loan Principal
2006	\$ 191,005
2007	196,506
2008	196,506
2009	196,506
2010	196,506
2011-2015	421,454
Total	<u>\$ 1,398,483</u>

There is \$2,973,398 available in the General Debt Service Fund to service long-term debt. Bonded debt per capita amounted to \$734, based on the 2000 federal census. Total debt per capita, including bonds, notes, capital leases, and other loans outstanding amounted to \$832, based on the 2000 federal census.

Changes in Long-term Liabilities

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

Governmental Activities:	Bonds	Notes	Other Loans
Balance, July 1, 2004	\$ 13,456,986	\$ 240,000	\$ 1,398,483
Additions	0	300,000	0
Deductions	(484,421)	(240,000)	0
Balance, June 30, 2005	<u>\$ 12,972,565</u>	<u>\$ 300,000</u>	<u>\$ 1,398,483</u>
Balance Due Within One Year	<u>\$ 504,881</u>	<u>\$ 60,000</u>	<u>\$ 191,005</u>

	Capital Leases	Compensated Absences
Balance, July 1, 2004	\$ 0	\$ 130,354
Additions	31,579	121,234
Deductions	(5,916)	(63,061)
Balance, June 30, 2005	<u>\$ 25,663</u>	<u>\$ 188,527</u>
Balance Due Within One Year	<u>\$ 8,563</u>	<u>\$ 66,215</u>

Analysis of Noncurrent Liabilities Presented on Exhibit A:

Total Noncurrent Liabilities, June 30, 2005	\$ 14,885,238
Less: Balance Due Within One Year	<u>(830,664)</u>
Noncurrent Liabilities - Due In More Than One Year - Exhibit A	<u>\$ 14,054,574</u>

Defeasance of Prior Debt

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

	<u>Amount</u>
1996 General Obligation Public Improvement Bonds (callable 4/1/06)	\$ 8,210,000

Discretely Presented Unicoi County School Department

Changes in Long-term Liabilities

Long-term liability activity for the discretely presented Unicoi County School Department for the year ended June 30, 2005, was as follows:

Governmental Activities:

	<u>Capital Leases</u>
Balance, July 1, 2004	\$ 696,606
Deductions	<u>(78,742)</u>
Balance, June 30, 2005	<u>\$ 617,864</u>
Balance Due Within One Year	<u>\$ 82,243</u>

H. Short-term Debt

Unicoi County issued revenue anticipation notes in advance of property tax collections and deposited the proceeds in the General Fund. These notes were necessary because funds were not available to meet obligations coming due before current tax collections. Short-term debt activity for the year ended June 30, 2005, was as follows:

	<u>Balance 7-1-04</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance 6-30-05</u>
Revenue Anticipation Notes - General Fund	\$ 0	\$ 450,000	\$ (450,000)	\$ 0

V. OTHER INFORMATION

A. Risk Management

Primary Government

It is the policy of Unicoi County to purchase commercial insurance for the risks of losses to which it is exposed for general liability, property, casualty, and employee health and accident. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. It should be noted,

that employee's health and accident claims exceeded premiums paid during the previous fiscal year.

The Unicoi County general government decided it was more economically feasible to join a public entity risk pool as opposed to purchasing commercial insurance for workers' compensation coverage. The county joined the Local Government Workers' Compensation Fund (LGWCF), which is a public entity risk pool established by an association of member local governments. The county pays an annual premium to LGWCF for its workers' compensation insurance coverage. The creation of LGWCF provides for it to be self-sustaining through member premiums. LGWCF reinsures through commercial insurance companies for claims exceeding a specified amount for each insured event.

Discretely Presented Unicoi County School Department

The School Department joined 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 were established for the primary purpose of providing services for or on behalf of state and local governments. In accordance with Section 8-27-207, Tennessee Code Annotated, all local governments and quasi-governmental entities described above are eligible to participate. The LGGIF is included in the Comprehensive Annual Financial Report of the State of Tennessee, but the state does not retain any risk for losses by this fund. The state statute provides for the LGGIF to be self-sustaining through member premiums.

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

B. Accounting Changes

At the beginning of the year, Unicoi County and the Unicoi County School Department implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis-for State and Local Governments. In the prior year, the county and the School Department had only elected to

implement the provisions of Statement 34 that related to the fund financial statements.

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

C. Subsequent Event

Subsequent to June 30, 2005, Unicoi County has issued revenue anticipation notes of \$600,000 to provide temporary operating funds for the General Fund.

D. Contingent Liabilities

The county is involved in several pending lawsuits. Based on letters from attorneys, management estimates that the potential claims not covered by insurance resulting from such litigation would not materially affect the financial statements.

E. Change in Administration

On August 31, 2004, Beverly Tinker left the Office of Circuit and General Sessions Courts Clerk and was succeeded by Christy Howard.

F. Joint Ventures

The Unicoi County Memorial Hospital is a joint venture in which the county and the Town of Erwin participate in its operation. The hospital was created for the purpose of providing for the care of mental and physical needs of the citizens of Unicoi County, Tennessee, and the surrounding areas. The hospital is governed by a seven-member board comprising three appointees from the county, three from the city, and the president of the medical staff. On dissolution of the corporation, the net assets of the hospital will be shared equally by the county and the city. The hospital generates its operating revenue from providing health care services to the community. Complete financial statements for the Unicoi County Memorial Hospital can be obtained from its administrative office at the following address:

Unicoi County Memorial Hospital
Greenway Circle
Erwin, Tennessee 37650

The Upper East Tennessee Juvenile Detention Center was formed through cooperative agreements between Unicoi County and the counties of Carter, Greene, Hawkins, Johnson, Sullivan, and Washington for the operation of a program to divert youth from commitment to the Department of Correction facilities. This program is governed by a Board of Directors designated by the counties. The Board of Directors has contracted with Keystone Education and Youth Services to undertake the management of this program. Operation costs to the counties are allocated according to percentages based on population. Unicoi County's participation is 3.8 percent. The county also pays a daily fee for individuals from the county using the facility.

Complete financial statements for the Juvenile Detention Center can be obtained from their administrative office at the following address:

Upper East Tennessee Regional Juvenile Detention Center
307 Wesley Street
Johnson City, TN 37601

G. Jointly Governed Organization

The East Tennessee Regional Agribusiness Marketing Authority was established through Title 64 of Tennessee Code Annotated and includes the counties of Claiborne, Cocke, Grainger, Greene, Hamblen, Hancock, Hawkins, Jefferson, Johnson, Sullivan, Unicoi, and Washington. The purpose of the authority is to establish and operate a market for agricultural products of the region through a food distribution center. The authority is governed by a board of directors consisting of the county mayors/executives of each county or the county mayor's/executive's designee and one nonvoting member representing each of the following: the Tennessee Department of Agriculture, and the University of Tennessee's Agriculture Extension Service. An executive committee, consisting of the chairman, vice chairman, secretary, and treasurer of the board of directors, along with the center manager as an ex-officio member, is in charge of the daily operations of the center.

Discretely Presented Unicoi County School Department

The Upper East Tennessee Educational Cooperative was established through a contractual agreement between the Boards of Education of Unicoi County, Bristol City, Carter County, Cocke County, Elizabethton City, Greeneville City, Greene County, Hamblen County, Hancock County, Hawkins County, Johnson City, Johnson County, Kingsport City, Newport City, Rogersville City, Sullivan County, and Washington County. The cooperative was authorized through Chapter 49 of Tennessee Code Annotated. The cooperative was established to provide the First Tennessee Virginia Development District with educational programs and services of higher quality, greater scope, and greater accessibility. The cooperative is governed by a Board of Control, consisting of one board member and the director of schools from each of the systems. The executive committee consists of the chairman and vice chairman of the Board of Control and the member director

of schools. Funding for the cooperative is provided through state grants and member schools' contributions.

H. Retirement Commitments

Plan Description

Employees of Unicoi 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 Unicoi 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

Unicoi County requires employees to contribute five percent of earnable compensation. The county is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2005, was 6.64 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Unicoi County is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2005, Unicoi County's annual pension cost of \$265,800 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. Unicoi 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	\$265,800	100%	\$0
6-30-04	201,628	100	0
6-30-03	184,882	100	0

Required Supplementary Information

Schedule of Funding Progress for Unicoi County

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6-30-03	\$8,804	\$8,804	\$0	100%	\$3,478	0%
6-30-01	8,116	8,333	217	97.40	3,332	6.51
6-30-99	6,978	7,112	134	98.12	2,952	4.54

SCHOOL TEACHERS

Plan Description

The Unicoi County School Department contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employers 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 Unicoi 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 Unicoi County School Department is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2005, 2004, and 2003, were \$418,637, \$240,964, and \$231,173, respectively, equal to the required contributions for each year.

I. Other Post-employment Benefits

The Unicoi County Board of Education, through school board policy, provides postretirement health care benefits to all teachers (professionals) who retire from service and qualify for incentive retirement. To be eligible for incentive retirement benefits, the retired employee must meet two criteria. The employee must be at least age 52 and must have at least 15 years of experience teaching in the Unicoi County School System. Those eligible employees will receive a supplement of \$1,200 for a period of ten years. This supplement may be applied toward health insurance premiums or used at the employee's discretion. Upon death of the employee, this benefit ceases. The Unicoi County Board of Education currently pays this supplement to 29 employees. Of the 29 retirees, ten were paid the \$1,200 directly; the other 19 had their supplements applied towards their health insurance premiums. During the year, expenditures of \$33,200 were made for post-employment benefits.

J. Purchasing Laws

Office of County Mayor

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

Office of Road Superintendent

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

Office of Director of Schools

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

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit E-1

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 2,482,360	\$ 2,479,629	\$ 2,479,629	\$ 2,731
Licenses and Permits	10,607	9,900	9,900	707
Fines, Forfeitures, and Penalties	96,650	72,265	89,554	7,096
Charges for Current Services	49,010	51,675	51,675	(2,665)
Other Local Revenues	48,422	38,900	49,377	(955)
Fees Received from County Officials	668,175	645,050	645,050	23,125
State of Tennessee	418,958	475,471	475,471	(56,513)
Federal Government	135,943	166,076	217,997	(82,054)
Other Governments and Citizens Groups	139,284	220,107	267,008	(127,724)
Total Revenues	\$ 4,049,409	\$ 4,159,073	\$ 4,285,661	\$ (236,252)
<u>Expenditures</u>				
<u>General Government</u>				
County Commission	\$ 34,722	\$ 33,000	\$ 36,000	\$ 1,278
Board of Equalization	617	2,800	2,800	2,183
County Mayor	152,839	153,337	154,347	1,508
County Attorney	8,400	12,900	9,900	1,500
Election Commission	121,646	119,546	122,916	1,270
Register of Deeds	105,702	111,151	111,151	5,449
Development	7,000	7,000	7,000	0
County Buildings	85,168	88,082	88,230	3,062
Other General Administration	82,820	102,560	91,333	8,513
<u>Finance</u>				
Property Assessor's Office	162,470	167,296	167,296	4,826
County Trustee's Office	111,264	113,242	113,242	1,978
County Clerk's Office	160,979	152,546	163,607	2,628
Other Finance	49,583	50,000	53,965	4,382
<u>Administration of Justice</u>				
Circuit Court	196,955	177,110	182,393	(14,562)
General Sessions Court	62,056	62,500	62,500	444
Chancery Court	74,930	77,555	77,555	2,625
Juvenile Court	41,120	35,270	42,716	1,596
<u>Public Safety</u>				
Sheriff's Department	867,092	799,296	875,627	8,535
Jail	295,734	293,689	296,660	926
Juvenile Services	9,227	9,000	9,227	0
Fire Prevention and Control	18,000	18,000	18,000	0
Civil Defense	85,035	118,908	155,095	70,060
Other Emergency Management	3,000	3,000	3,000	0
County Coroner/Medical Examiner	10,847	11,022	11,022	175
Public Safety Grant Programs	21,150	21,150	21,150	0
Other Public Safety	68,964	60,076	73,094	4,130

(Continued)

Exhibit E-1

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Expenditures (Cont.)</u>				
<u>Public Health and Welfare</u>				
Local Health Center	\$ 174,296	\$ 234,387	\$ 235,770	\$ 61,474
Regional Mental Health Center	10,185	10,185	10,185	0
Appropriation to State	38,720	38,720	38,720	0
Sanitation Education/Information	31,667	31,737	31,737	70
<u>Social, Cultural and Recreational Services</u>				
Adult Activities	5,000	5,000	5,000	0
Senior Citizens Assistance	30,600	30,600	30,600	0
Libraries	19,500	19,500	19,500	0
Other Social, Cultural, and Recreational	2,963	2,963	2,963	0
<u>Agriculture & Natural Resources</u>				
Agriculture Extension Service	24,459	29,224	29,224	4,765
Forest Service	800	800	800	0
Soil Conservation	5,445	5,445	5,445	0
<u>Other Operations</u>				
Tourism	31,250	31,250	31,250	0
Industrial Development	36,379	21,000	36,843	464
Other Economic and Community Development	35,709	22,000	52,662	16,953
Veterans' Services	25	500	500	475
Contributions to Other Agencies	1,000	1,000	1,000	0
Employee Benefits	521,974	517,799	520,274	(1,700)
Payments to Cities	12,000	12,000	12,000	0
Miscellaneous	4,500	4,500	4,500	0
<u>Principal</u>				
General Government	5,916	0	5,916	0
<u>Interest</u>				
General Government	1,174	0	1,175	1
<u>Capital Projects</u>				
Public Health and Welfare Projects	0	255,453	0	0
Total Expenditures	\$ 3,830,882	\$ 4,074,099	\$ 4,025,890	\$ 195,008
Excess (Deficiency) of Revenues				
Over Expenditures	\$ 218,527	\$ 84,974	\$ 259,771	\$ (41,244)
<u>Other Financing Sources (Uses)</u>				
Capital Leases Issued	\$ 31,579	\$ 0	\$ 18,349	\$ 13,230
Transfers Out	(604,611)	(300,000)	(630,122)	25,511
Total Other Financing Sources (Uses)	\$ (573,032)	\$ (300,000)	\$ (611,773)	\$ 38,741

(Continued)

Exhibit E-1

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
Net Change in Fund Balance	\$ (354,505)	\$ (215,026)	\$ (352,002)	\$ (2,503)
Fund Balance, July 1, 2004	600,452	581,592	581,592	18,860
Fund Balance, June 30, 2005	\$ 245,947	\$ 366,566	\$ 229,590	\$ 16,357

Exhibit E-2

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2004	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	\$ 83,337	\$ 0	\$ 0	\$ 83,337	\$ 83,476	\$ 83,476	\$ (139)
Licenses and Permits	253	0	0	253	307	307	(54)
Other Local Revenues	184,217	0	0	184,217	56,010	78,985	105,232
State of Tennessee	1,354,691	0	0	1,354,691	1,995,011	1,995,011	(640,320)
Federal Government	176,570	0	0	176,570	331,780	483,411	(306,841)
Other Governments and Citizens Groups	146,219	0	0	146,219	140,000	140,000	6,219
Total Revenues	\$ 1,945,287	\$ 0	\$ 0	\$ 1,945,287	\$ 2,606,584	\$ 2,781,190	\$ (835,903)
<u>Expenditures</u>							
<u>Highways</u>							
Administration	\$ 115,987	\$ 0	\$ 0	\$ 115,987	\$ 124,511	\$ 124,511	\$ 8,524
Highway and Bridge Maintenance	958,463	0	0	958,463	1,108,307	1,094,375	135,912
Operation and Maintenance of Equipment	190,135	0	0	190,135	176,100	210,775	20,640
Other Charges	129,231	0	0	129,231	134,246	140,718	11,487
Employee Benefits	212,525	0	0	212,525	176,450	217,050	4,525
Capital Outlay	479,759	(151,631)	72,184	400,312	1,569,096	1,675,247	1,274,935
Total Expenditures	\$ 2,086,100	\$ (151,631)	\$ 72,184	\$ 2,006,653	\$ 3,288,710	\$ 3,462,676	\$ 1,456,023
Excess (Deficiency) of Revenues Over Expenditures	\$ (140,813)	\$ 151,631	\$ (72,184)	\$ (61,366)	\$ (682,126)	\$ (681,486)	\$ 620,120
Net Change in Fund Balance	\$ (140,813)	\$ 151,631	\$ (72,184)	\$ (61,366)	\$ (682,126)	\$ (681,486)	\$ 620,120
Fund Balance, July 1, 2004	3,176,243	(151,631)	0	3,024,612	3,197,366	2,912,845	111,767
Fund Balance, June 30, 2005	\$ 3,035,430	\$ 0	\$ (72,184)	\$ 2,963,246	\$ 2,515,240	\$ 2,231,359	\$ 731,887

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

A. Budgetary Information

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

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

The county's budgetary basis of accounting is consistent with generally accepted accounting principles (GAAP), except instances in which encumbrances are treated as budgeted expenditures. Therefore, actual amounts in the accompanying budgetary statements for the major funds are presented on this budgetary basis. A reconciliation of the differences between the budgetary basis and the GAAP basis is presented on the face of each budgetary statement.

B. Expenditures Exceeded Appropriations

Expenditures exceeded appropriations approved by the County Commission in the Circuit Court (\$14,562) and Employee Benefits (\$1,700) major appropriation categories (the legal level of control) in the General Fund. The majority of the amount in Circuit Court was caused by the clerk's failure to obtain County Commission approval for a capital lease. Such overexpenditures are a violation of state law. These overexpenditures were funded by available fund balances or by greater than anticipated revenues.

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

Nonmajor Governmental Funds

Special Revenue Funds

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

Courthouse and Jail Maintenance Fund – The Courthouse and Jail Maintenance Fund is used to account for a special tax levies 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 the contracts relating to the garbage pickup service and disposal.

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

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

Capital Projects Funds

The 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 Project Fund is used to account for expenditures related to the Health Department building addition.

Community Development/Industrial Park Fund - The Community Development/Industrial Park Fund is used to account for expenditures related to community development in the county.

Exhibit F-1

Unicoi 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	Drug Control	Constitu - tional Officers - Fees	Total	General Capital Projects	Community Development/ Industrial Park	Total	
<u>ASSETS</u>									
Cash	\$ 0	\$ 0	\$ 0	\$ 9,406	\$ 9,406	\$ 0	\$ 0	\$ 0	9,406
Equity in Pooled Cash and Investments	7,223	2,927	14,351	0	24,501	130,259	3,212	133,471	157,972
Due from Other Governments	0	0	1,500	0	1,500	0	0	0	1,500
Due from Other Funds	0	24,051	0	0	24,051	0	0	0	24,051
Total Assets	\$ 7,223	\$ 26,978	\$ 15,851	\$ 9,406	\$ 59,458	\$ 130,259	\$ 3,212	\$ 133,471	\$ 192,929
<u>LIABILITIES AND FUND BALANCES</u>									
<u>Liabilities</u>									
Accounts Payable	\$ 0	\$ 24,051	\$ 72	\$ 0	\$ 24,123	\$ 0	\$ 0	\$ 0	24,123
Contracts Payable	0	0	0	0	0	40,401	0	40,401	40,401
Retainage Payable	0	0	0	0	0	41,318	0	41,318	41,318
Due to Other Funds	0	0	0	9,406	9,406	0	0	0	9,406
Total Liabilities	\$ 0	\$ 24,051	\$ 72	\$ 9,406	\$ 33,529	\$ 81,719	\$ 0	\$ 81,719	\$ 115,248
<u>Fund Balances</u>									
Reserved for Encumbrances	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 42,560	\$ 0	\$ 42,560	42,560
Unreserved	7,223	2,927	15,779	0	25,929	5,980	3,212	9,192	35,121
Total Fund Balances	\$ 7,223	\$ 2,927	\$ 15,779	\$ 0	\$ 25,929	\$ 48,540	\$ 3,212	\$ 51,752	\$ 77,681
Total Liabilities and Fund Balances	\$ 7,223	\$ 26,978	\$ 15,851	\$ 9,406	\$ 59,458	\$ 130,259	\$ 3,212	\$ 133,471	\$ 192,929

Exhibit F-2

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

	Special Revenue Funds					Capital Projects Funds			Total Nonmajor Governmental Funds
	Courthouse and Jail Maintenance	Solid Waste / Sanitation	Drug Control	Constitu - tional Officers - Fees	Total	General Capital Projects	Community Development/ Industrial Park	Total	
Revenues									
Local Taxes	\$ 5,446	\$ 0	\$ 0	\$ 0	\$ 5,446	\$ 0	\$ 0	\$ 0	5,446
Fines, Forfeitures and Penalties	0	0	221,041	0	221,041	0	0	0	221,041
Charges for Current Services	0	0	0	14,990	14,990	0	0	0	14,990
Other Local Revenues	0	0	10,519	0	10,519	0	0	0	10,519
State of Tennessee	0	0	0	0	0	0	38,167	38,167	38,167
Other Governments and Citizens Groups	0	0	38,048	0	38,048	0	0	0	38,048
Total Revenues	\$ 5,446	\$ 0	\$ 269,608	\$ 14,990	\$ 290,044	\$ 0	\$ 38,167	\$ 38,167	\$ 328,211
Expenditures									
Current:									
General Government	\$ 4,022	\$ 0	\$ 0	\$ 0	\$ 4,022	\$ 0	\$ 0	\$ 0	4,022
Finance	0	0	143	0	143	0	0	0	143
Administration of Justice	0	0	0	14,990	14,990	0	0	0	14,990
Public Safety	0	0	313,394	0	313,394	0	0	0	313,394
Public Health and Welfare	0	378,156	0	0	378,156	0	0	0	378,156
Capital Projects	0	0	0	0	0	177,915	38,167	216,082	216,082
Capital Projects - Donated	0	0	0	0	0	300,000	0	300,000	300,000
Total Expenditures	\$ 4,022	\$ 378,156	\$ 313,537	\$ 14,990	\$ 710,705	\$ 477,915	\$ 38,167	\$ 516,082	\$ 1,226,787
Excess (Deficiency) of Revenues Over Expenditures	\$ 1,424	\$ (378,156)	\$ (43,929)	\$ 0	\$ (420,661)	\$ (477,915)	\$ 0	\$ (477,915)	\$ (898,576)
Other Financing Sources (Uses)									
Notes Issued	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 300,000	\$ 0	\$ 300,000	\$ 300,000
Transfers In	0	378,156	0	0	378,156	226,455	0	226,455	604,611
Total Other Financing Sources (Uses)	\$ 0	\$ 378,156	\$ 0	\$ 0	\$ 378,156	\$ 526,455	\$ 0	\$ 526,455	\$ 904,611
Net Change in Fund Balances	\$ 1,424	\$ 0	\$ (43,929)	\$ 0	\$ (42,505)	\$ 48,540	\$ 0	\$ 48,540	\$ 6,035
Fund Balance, July 1, 2004	5,799	2,927	59,708	0	68,434	0	3,212	3,212	71,646
Fund Balance, June 30, 2005	\$ 7,223	\$ 2,927	\$ 15,779	\$ 0	\$ 25,929	\$ 48,540	\$ 3,212	\$ 51,752	\$ 77,681

Exhibit F-3

Unicoi 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	\$ 5,446	\$ 3,200	\$ 3,200	\$ 2,246
Total Revenues	\$ 5,446	\$ 3,200	\$ 3,200	\$ 2,246
<u>Expenditures</u>				
<u>General Government</u>				
County Buildings	\$ 4,022	\$ 2,540	\$ 2,853	\$ (1,169)
Total Expenditures	\$ 4,022	\$ 2,540	\$ 2,853	\$ (1,169)
Excess (Deficiency) of Revenues Over Expenditures	\$ 1,424	\$ 660	\$ 347	\$ 1,077
Net Change in Fund Balance	\$ 1,424	\$ 660	\$ 347	\$ 1,077
Fund Balance, July 1, 2004	5,799	5,799	5,799	0
Fund Balance, June 30, 2005	\$ 7,223	\$ 6,459	\$ 6,146	\$ 1,077

Exhibit F-4

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
Total Revenues	\$ 0	\$ 0	\$ 0	\$ 0
<u>Expenditures</u>				
<u>Public Health and Welfare</u>				
Sanitation Management	\$ 378,156	\$ 300,000	\$ 374,669	\$ (3,487)
Total Expenditures	\$ 378,156	\$ 300,000	\$ 374,669	\$ (3,487)
Excess (Deficiency) of Revenues Over Expenditures	\$ (378,156)	\$ (300,000)	\$ (374,669)	\$ (3,487)
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 378,156	\$ 300,000	\$ 374,669	\$ 3,487
Total Other Financing Sources (Uses)	\$ 378,156	\$ 300,000	\$ 374,669	\$ 3,487
Net Change in Fund Balance	\$ 0	\$ 0	\$ 0	\$ 0
Fund Balance, July 1, 2004	2,927	2,928	2,928	(1)
Fund Balance, June 30, 2005	\$ 2,927	\$ 2,928	\$ 2,928	\$ (1)

Exhibit F-5

Unicoi 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	\$ 221,041	\$ 206,324	\$ 206,324	\$ 14,717
Other Local Revenues	10,519	8,000	16,465	(5,946)
Other Governments and Citizens Groups	38,048	35,000	35,000	3,048
Total Revenues	<u>\$ 269,608</u>	<u>\$ 249,324</u>	<u>\$ 257,789</u>	<u>\$ 11,819</u>
<u>Expenditures</u>				
<u>Finance</u>				
Other Finance	\$ 143	\$ 0	\$ 0	\$ (143)
<u>Public Safety</u>				
Sheriff's Department	313,394	249,324	320,270	6,876
Total Expenditures	<u>\$ 313,537</u>	<u>\$ 249,324</u>	<u>\$ 320,270</u>	<u>\$ 6,733</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (43,929)</u>	<u>\$ 0</u>	<u>\$ (62,481)</u>	<u>\$ 18,552</u>
Net Change in Fund Balance	\$ (43,929)	\$ 0	\$ (62,481)	\$ 18,552
Fund Balance, July 1, 2004	59,708	63,577	63,577	(3,869)
Fund Balance, June 30, 2005	<u>\$ 15,779</u>	<u>\$ 63,577</u>	<u>\$ 1,096</u>	<u>\$ 14,683</u>

Major Governmental Fund

General Debt Service Fund

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

Exhibit G

Unicoi 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	\$ 1,398,928	\$ 1,368,672	\$ 1,368,672	\$ 30,256
Licenses and Permits	4,261	4,000	4,000	261
Other Local Revenues	57,603	40,250	40,250	17,353
State of Tennessee	29,671	19,500	19,500	10,171
Other Governments and Citizens Groups	167,007	150,000	155,233	11,774
Total Revenues	<u>\$ 1,657,470</u>	<u>\$ 1,582,422</u>	<u>\$ 1,587,655</u>	<u>\$ 69,815</u>
<u>Expenditures</u>				
<u>Principal</u>				
General Government	\$ 724,421	\$ 724,422	\$ 724,422	\$ 1
<u>Interest</u>				
General Government	667,486	662,784	668,017	531
<u>Other Debt Service</u>				
General Government	25,241	25,700	25,700	459
Total Expenditures	<u>\$ 1,417,148</u>	<u>\$ 1,412,906</u>	<u>\$ 1,418,139</u>	<u>\$ 991</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 240,322</u>	<u>\$ 169,516</u>	<u>\$ 169,516</u>	<u>\$ 70,806</u>
Net Change in Fund Balance	\$ 240,322	\$ 169,516	\$ 169,516	\$ 70,806
Fund Balance, July 1, 2004	<u>2,733,076</u>	<u>2,895,039</u>	<u>2,895,039</u>	<u>(161,963)</u>
Fund Balance, June 30, 2005	<u>\$ 2,973,398</u>	<u>\$ 3,064,555</u>	<u>\$ 3,064,555</u>	<u>\$ (91,157)</u>

Fiduciary Funds

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

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

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

Exhibit H-1

Unicoi 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	\$ 405,220	\$ 405,220
Accounts Receivable	0	2,268	2,268
Due from Other Governments	156,349	0	156,349
Restricted Assets:			
Other Restricted Assets	0	58,949	58,949
Total Assets	<u>\$ 156,349</u>	<u>\$ 466,437</u>	<u>\$ 622,786</u>
<u>LIABILITIES</u>			
Due to Other Taxing Units	\$ 156,349	\$ 0	\$ 156,349
Due to Litigants, Heirs, and Others	0	466,437	466,437
Total Liabilities	<u>\$ 156,349</u>	<u>\$ 466,437</u>	<u>\$ 622,786</u>

Exhibit H-2

Unicoi 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	\$ 870,770	\$ 870,770	\$ 0
Due From Other Governments	145,919	156,349	145,919	156,349
Total Assets	\$ 145,919	\$ 1,027,119	\$ 1,016,689	\$ 156,349
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 145,919	\$ 1,027,119	\$ 1,016,689	\$ 156,349
Total Liabilities	\$ 145,919	\$ 1,027,119	\$ 1,016,689	\$ 156,349
<u>Constitutional Officers - Agency Fund</u>				
<u>Assets</u>				
Cash	\$ 351,705	\$ 3,415,238	\$ 3,361,723	\$ 405,220
Accounts Receivable	1,730	2,268	1,730	2,268
Other Restricted Assets	61,426	58,949	61,426	58,949
Total Assets	\$ 414,861	\$ 3,476,455	\$ 3,424,879	\$ 466,437
<u>Liabilities</u>				
Due to Litigants, Heirs, and Others	\$ 414,861	\$ 3,476,455	\$ 3,424,879	\$ 466,437
Total Liabilities	\$ 414,861	\$ 3,476,455	\$ 3,424,879	\$ 466,437
<u>Totals - All Agency Funds</u>				
<u>Assets</u>				
Equity in Pooled Cash and Investments	\$ 0	\$ 870,770	\$ 870,770	\$ 0
Cash	351,705	3,415,238	3,361,723	405,220
Accounts Receivable	1,730	2,268	1,730	2,268
Due From Other Governments	145,919	156,349	145,919	156,349
Other Restricted Assets	61,426	58,949	61,426	58,949
Total Assets	\$ 560,780	\$ 4,503,574	\$ 4,441,568	\$ 622,786
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 145,919	\$ 1,027,119	\$ 1,016,689	\$ 156,349
Due to Litigants, Heirs, and Others	414,861	3,476,455	3,424,879	466,437
Total Liabilities	\$ 560,780	\$ 4,503,574	\$ 4,441,568	\$ 622,786

Unicoi County School Department

This section presents combining and individual fund financial statements for the Unicoi County School Department, a discretely presented component unit. The School Department uses a General Fund and two Special Revenue Funds.

General Purpose School Fund – The General Purpose School Fund is used to account for general operations of the School Department.

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

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

Exhibit I-1

Unicoi County, Tennessee
Balance Sheet - Governmental Funds
Discretely Presented Unicoi County School Department
June 30, 2005

	<u>Major Funds</u>		<u>Nonmajor</u>	<u>Total</u>
	<u>General Purpose School</u>	<u>Central Cafeteria</u>	<u>Fund School Federal Projects</u>	
<u>ASSETS</u>				
Cash	\$ 0	\$ 3,000	\$ 0	\$ 3,000
Equity in Pooled Cash and Investments	1,211,193	345,065	326,817	1,883,075
Accounts Receivable	4,565	0	0	4,565
Due from Other Governments	305,560	138,462	0	444,022
Property Taxes Receivable	2,515,720	0	0	2,515,720
Allowance for Uncollectible Property Taxes	(104,128)	0	0	(104,128)
Restricted Assets:				
Other Restricted Assets	43,683	0	0	43,683
Total Assets	\$ 3,976,593	\$ 486,527	\$ 326,817	\$ 4,789,937
<u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 17,034	\$ 4,158	\$ 0	\$ 21,192
Other Current Liabilities	275,847	0	0	275,847
Deferred Revenue - Current Property Taxes	2,279,734	0	0	2,279,734
Deferred Revenue - Delinquent Property Taxes	124,903	0	0	124,903
Other Deferred Revenues	139,834	0	0	139,834
Total Liabilities	\$ 2,837,352	\$ 4,158	\$ 0	\$ 2,841,510
<u>Fund Balances</u>				
Reserved for Encumbrances	\$ 181,159	\$ 0	\$ 5,471	\$ 186,630
Other Local Education Reserves	9,250	0	0	9,250
Reserved for Career Ladder Program	5,745	0	0	5,745
Reserved for Title I Grants to Local Education Agencies	0	0	76,502	76,502
Reserved for Special Education - Grants to States	0	0	213,929	213,929
Other Federal Reserves	0	0	30,915	30,915
Unreserved, Reported In:				
General Fund	943,087	0	0	943,087
Special Revenue Funds	0	482,369	0	482,369
Total Fund Balances	\$ 1,139,241	\$ 482,369	\$ 326,817	\$ 1,948,427
Total Liabilities and Fund Balances	\$ 3,976,593	\$ 486,527	\$ 326,817	\$ 4,789,937

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

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

Total fund balances - balance sheet - governmental funds (Exhibit I-1)	\$ 1,948,427
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	13,458,716
(2) Certain earned amounts are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.	264,737
(3) Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds. Leases payable	<u>(617,864)</u>
Net assets of governmental activities (Exhibit A)	<u>\$ 15,054,016</u>

Exhibit I-3

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

	Major Funds		Nonmajor	Total
	General Purpose School	Central Cafeteria	Fund School Federal Projects	
<u>Revenues</u>				
Local Taxes	\$ 3,119,448	\$ 0	\$ 0	\$ 3,119,448
Licenses and Permits	12,569	0	0	12,569
Fines, Forfeitures and Penalties	1,468	0	0	1,468
Charges for Current Services	3,583	350,036	0	353,619
Other Local Revenues	16,280	10,127	0	26,407
State of Tennessee	9,713,914	0	0	9,713,914
Federal Government	850,129	524,292	1,477,492	2,851,913
Other Governments and Citizens Groups	26,703	0	0	26,703
Total Revenues	<u>\$ 13,744,094</u>	<u>\$ 884,455</u>	<u>\$ 1,477,492</u>	<u>\$ 16,106,041</u>
<u>Expenditures</u>				
Current:				
Instruction	\$ 8,424,978	\$ 0	\$ 1,020,513	\$ 9,445,491
Support Services	5,097,999	0	391,634	5,489,633
Operation of Non-Instructional Services	611,820	816,613	0	1,428,433
Capital Outlay	138,600	0	0	138,600
Debt Service:				
Principal	78,742	0	0	78,742
Interest	27,013	0	0	27,013
Other Debt Service	150,000	0	0	150,000
Total Expenditures	<u>\$ 14,529,152</u>	<u>\$ 816,613</u>	<u>\$ 1,412,147</u>	<u>\$ 16,757,912</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (785,058)</u>	<u>\$ 67,842</u>	<u>\$ 65,345</u>	<u>\$ (651,871)</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 1,108	\$ 0	\$ 0	\$ 1,108
Transfers Out	0	0	(1,108)	(1,108)
Total Other Financing Sources (Uses)	<u>\$ 1,108</u>	<u>\$ 0</u>	<u>\$ (1,108)</u>	<u>\$ 0</u>
Net Change in Fund Balances	\$ (783,950)	\$ 67,842	\$ 64,237	\$ (651,871)
Fund Balance, July 1, 2004	1,923,191	414,527	262,580	2,600,298
Fund Balance, June 30, 2005	<u>\$ 1,139,241</u>	<u>\$ 482,369</u>	<u>\$ 326,817</u>	<u>\$ 1,948,427</u>

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

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

Net change in fund balances - total governmental funds (Exhibit I-3)		\$ (651,871)
<p>(1) Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of these assets is allocated over their useful lives and reported as depreciation expense. The amount that capital outlays exceeded depreciation is itemized as follows:</p>		
Add: Capital outlays in the current period	\$ 826,082	
Less: Current year depreciation	<u>(745,589)</u>	80,493
<p>(2) Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
For the year ended June 30, 2004	\$ (141,899)	
For the year ended June 30, 2005	<u>264,737</u>	122,838
<p>(3) The issuance of long-term debt (e.g., capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction however, has any effect on net assets.</p>		
Add: Principal payment on capitalized leases		<u>78,742</u>
Change in net assets of governmental activities (Exhibit B)		<u><u>\$ (369,798)</u></u>

Exhibit I-5

Unicoi County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Discretely Presented Unicoi 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	\$ 3,119,448	\$ 0	\$ 0	\$ 3,119,448	\$ 3,141,878	\$ 3,134,670	\$ (15,222)
Licenses and Permits	12,569	0	0	12,569	13,000	13,200	(631)
Fines, Forfeitures and Penalties	1,468	0	0	1,468	0	800	668
Charges for Current Services	3,583	0	0	3,583	1,000	3,500	83
Other Local Revenues	16,280	0	0	16,280	31,000	80,708	(64,428)
State of Tennessee	9,713,914	0	0	9,713,914	9,708,557	9,696,168	17,746
Federal Government	850,129	0	0	850,129	625,568	974,378	(124,249)
Other Governments and Citizens Groups	26,703	0	0	26,703	0	25,039	1,664
Total Revenues	\$ 13,744,094	\$ 0	\$ 0	\$ 13,744,094	\$ 13,521,003	\$ 13,928,463	\$ (184,369)
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 6,486,113	\$ (2,415)	\$ 8,600	\$ 6,492,298	\$ 6,614,212	\$ 6,699,546	\$ 207,248
Alternative Instruction Program	52,433	0	0	52,433	94,978	52,625	192
Special Education Program	1,161,290	0	0	1,161,290	1,172,065	1,171,953	10,663
Vocational Education Program	677,094	0	300	677,394	687,061	690,162	12,768
Adult Education Program	48,048	(200)	18,095	65,943	58,081	80,152	14,209
<u>Support Services</u>							
Attendance	77,416	0	0	77,416	77,372	77,878	462
Health Services	70,801	(171)	386	71,016	74,690	71,165	149
Other Student Support	283,577	0	0	283,577	291,102	302,173	18,596
Regular Instruction Program	269,424	(3,132)	0	266,292	261,803	281,848	15,556
Alternative Instruction Program	50,617	0	0	50,617	53,327	51,074	457
Special Education Program	146,596	0	0	146,596	144,413	147,107	511
Vocational Education Program	108,410	0	0	108,410	111,792	112,286	3,876
Adult Programs	68,860	0	0	68,860	69,927	69,927	1,067

(Continued)

Exhibit I-5

Unicoi County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Discretely Presented Unicoi 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>							
Board of Education	\$ 317,694	\$ 0	\$ 434	\$ 318,128	\$ 324,664	\$ 335,437	\$ 17,309
Director of Schools	244,889	(6,553)	0	238,336	244,533	250,467	12,131
Office of the Principal	787,772	0	0	787,772	801,078	815,845	28,073
Fiscal Services	78,397	(1,211)	81	77,267	79,164	79,535	2,268
Operation of Plant	1,535,276	(505,132)	43,481	1,073,625	1,196,753	1,178,212	104,587
Maintenance of Plant	384,591	(12,828)	21,282	393,045	420,537	430,405	37,360
Transportation	577,066	(157)	0	576,909	558,670	587,996	11,087
Central and Other	96,613	0	0	96,613	94,038	102,633	6,020
<u>Operation of Non-Instructional Services</u>							
Food Service	84,355	0	0	84,355	81,945	84,937	582
Community Services	527,465	0	88,500	615,965	536,900	644,202	28,237
<u>Capital Outlay</u>							
Regular Capital Outlay	138,600	0	0	138,600	0	139,000	400
<u>Principal</u>							
Education	78,742	0	0	78,742	78,738	78,742	0
<u>Interest</u>							
Education	27,013	0	0	27,013	27,568	27,564	551
<u>Other Debt Service</u>							
Education	150,000	0	0	150,000	0	150,000	0
Total Expenditures	\$ 14,529,152	\$ (531,799)	\$ 181,159	\$ 14,178,512	\$ 14,155,411	\$ 14,712,871	\$ 534,359
Excess (Deficiency) of Revenues Over Expenditures	\$ (785,058)	\$ 531,799	\$ (181,159)	\$ (434,418)	\$ (634,408)	\$ (784,408)	\$ 349,990

(Continued)

Exhibit I-5

Unicoi County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Discretely Presented Unicoi 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>Other Financing Sources (Uses)</u>							
Transfers In	\$ 1,108	\$ 0	\$ 0	\$ 1,108	\$ 23,000	\$ 23,000	\$ (21,892)
Transfers Out	0	0	0	0	(150,000)	0	0
Total Other Financing Sources (Uses)	<u>\$ 1,108</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,108</u>	<u>\$ (127,000)</u>	<u>\$ 23,000</u>	<u>\$ (21,892)</u>
Net Change in Fund Balance	\$ (783,950)	\$ 531,799	\$ (181,159)	\$ (433,310)	\$ (761,408)	\$ (761,408)	\$ 328,098
Fund Balance, July 1, 2004	<u>1,923,191</u>	<u>(531,799)</u>	<u>0</u>	<u>1,391,392</u>	<u>761,408</u>	<u>761,408</u>	<u>629,984</u>
Fund Balance, June 30, 2005	<u>\$ 1,139,241</u>	<u>\$ 0</u>	<u>\$ (181,159)</u>	<u>\$ 958,082</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 958,082</u>

Exhibit I-6

Unicoi County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Discretely Presented Unicoi County School Department
School Federal Projects 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>						
Federal Government	\$ 1,477,492	\$ 0	\$ 1,477,492	\$ 1,429,839	\$ 1,655,464	\$ (177,972)
Total Revenues	\$ 1,477,492	\$ 0	\$ 1,477,492	\$ 1,429,839	\$ 1,655,464	\$ (177,972)
<u>Expenditures</u>						
<u>Instruction</u>						
Regular Instruction Program	\$ 427,800	\$ 0	\$ 427,800	\$ 469,835	\$ 473,137	\$ 45,337
Special Education Program	554,813	5,471	560,284	675,909	736,871	176,587
Vocational Education Program	37,900	0	37,900	36,000	37,900	0
<u>Support Services</u>						
Other Student Support	37,468	0	37,468	37,500	37,620	152
Regular Instruction Program	296,949	0	296,949	356,521	411,055	114,106
Special Education Program	55,063	0	55,063	80,377	81,447	26,384
Vocational Education Program	0	0	0	1,900	0	0
Board of Education	2,154	0	2,154	3,662	4,128	1,974
Total Expenditures	\$ 1,412,147	\$ 5,471	\$ 1,417,618	\$ 1,661,704	\$ 1,782,158	\$ 364,540
Excess (Deficiency) of Revenues Over Expenditures	\$ 65,345	\$ (5,471)	\$ 59,874	\$ (231,865)	\$ (126,694)	\$ 186,568
<u>Other Financing Sources (Uses)</u>						
Transfers Out	\$ (1,108)	\$ 0	\$ (1,108)	\$ (21,025)	\$ (21,024)	\$ 19,916
Total Other Financing Sources (Uses)	\$ (1,108)	\$ 0	\$ (1,108)	\$ (21,025)	\$ (21,024)	\$ 19,916

(Continued)

Exhibit I-6

Unicoi County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Discretely Presented Unicoi County School Department
School Federal Projects 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	\$ 64,237	\$ (5,471)	\$ 58,766	\$ (252,890)	\$ (147,718)	\$ 206,484
Fund Balance, July 1, 2004	262,580	0	262,580	252,890	147,718	114,862
Fund Balance, June 30, 2005	\$ 326,817	\$ (5,471)	\$ 321,346	\$ 0	\$ 0	\$ 321,346

Exhibit I-7

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Charges for Current Services	\$ 350,036	\$ 318,000	\$ 330,453	\$ 19,583
Other Local Revenues	10,127	30,000	30,000	(19,873)
Federal Government	524,292	385,000	533,909	(9,617)
Total Revenues	<u>\$ 884,455</u>	<u>\$ 733,000</u>	<u>\$ 894,362</u>	<u>\$ (9,907)</u>
<u>Expenditures</u>				
<u>Operation of Non-Instructional Services</u>				
Food Service	\$ 816,613	\$ 887,992	\$ 1,049,354	\$ 232,741
Total Expenditures	<u>\$ 816,613</u>	<u>\$ 887,992</u>	<u>\$ 1,049,354</u>	<u>\$ 232,741</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 67,842</u>	<u>\$ (154,992)</u>	<u>\$ (154,992)</u>	<u>\$ 222,834</u>
Net Change in Fund Balance	\$ 67,842	\$ (154,992)	\$ (154,992)	\$ 222,834
Fund Balance, July 1, 2004	414,527	154,992	154,992	259,535
Fund Balance, June 30, 2005	<u>\$ 482,369</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 482,369</u>

MISCELLANEOUS SCHEDULES

Exhibit J-1

Unicoi County, Tennessee
Schedule of Changes in Long-Term Notes, Bonds,
Other Loans, and Capital Leases
Primary Government and Discretely Presented Unicoi County School Department
For the Year Ended June 30, 2005

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-04	Issued During Period	Paid and/or Matured During Period	Outstanding 6-30-05
<u>PRIMARY GOVERNMENT</u>								
<u>NOTES PAYABLE</u>								
<u>Payable through General Debt Service Fund</u>								
Capital Outlay - Furniture and Fixtures/ New High School	\$ 450,000	4.63 %	7-16-1999	7-13-04	\$ 90,000	\$ 0	\$ 90,000	\$ 0
Capital Outlay - School Buses and Equipment	450,000	3.75	10-23-01	10-23-04	150,000	0	150,000	0
Capital Outlay - 911 Communication Equipment	300,000	3.45	10-4-04	10-4-09	0	300,000	0	300,000
Total Notes Payable					<u>\$ 240,000</u>	<u>\$ 300,000</u>	<u>\$ 240,000</u>	<u>\$ 300,000</u>
<u>CAPITAL LEASES PAYABLE</u>								
<u>Payable through General Fund</u>								
Sheriff Department Vehicle	18,349	5.05	9-13-04	8-13-07	\$ 0	\$ 18,349	\$ 4,879	\$ 13,470
Circuit Court Computer System	13,230	6.25	12-24-04	11-21-09	0	13,230	1,037	12,193
Total Capital Leases Payable					<u>\$ 0</u>	<u>\$ 31,579</u>	<u>\$ 5,916</u>	<u>\$ 25,663</u>
<u>BONDS PAYABLE</u>								
<u>Payable through General Debt Service Fund</u>								
General Obligation Public Improvement Bond	9,200,000	5.2 to 6	4-1-1996	4-1-21	\$ 675,000	\$ 0	\$ 330,000	\$ 345,000
General Obligation Public Improvement Bond	700,000	4.875	4-9-1997	1-1-35	651,986	0	9,421	642,565
General Obligation Public Improvement Bond	800,000	5.1 to 6.2	5-1-1997	4-1-21	775,000	0	30,000	745,000
School Bonds	3,000,000	3.9 to 4.85	9-1-1998	4-1-23	2,925,000	0	80,000	2,845,000
General Obligation Refunding Bond	8,715,000	2.45 to 5.25	9-1-01	4-1-21	8,430,000	0	35,000	8,395,000
Total Bonds Payable					<u>\$ 13,456,986</u>	<u>\$ 0</u>	<u>\$ 484,421</u>	<u>\$ 12,972,565</u>

(Continued)

Exhibit J-1

Unicoi County, Tennessee
Schedule of Changes in Long-Term Notes, Bonds,
Other Loans, and Capital Leases
Primary Government and Discretely Presented Unicoi County School Department (Cont.)

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-04	Issued During Period	Paid and/or Matured During Period	Outstanding 6-30-05
<u>PRIMARY GOVERNMENT (Cont.)</u>								
<u>OTHER LOANS PAYABLE</u>								
<u>Tennessee State School Bond Authority</u>								
<u>Loan Agreement</u>								
<u>Payable through General Debt Service Fund</u>								
Qualified Zone Academy Bonds - School Renovation, Repairs, and Equipping	\$ 1,551,362	0 %	9-29-01	5-25-11	\$ 1,398,483	\$ 0	\$ 0	\$ 1,398,483
Total Other Loans Payable					<u>\$ 1,398,483</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,398,483</u>
<u>DISCRETELY PRESENTED UNICOI COUNTY SCHOOL DEPARTMENT</u>								
<u>CAPITAL LEASES PAYABLE</u>								
<u>Payable through General Purpose School Fund</u>								
HVAC Equipment	291,927	4.93	9-9-1998	9-9-08	\$ 141,746	\$ 0	\$ 30,737	\$ 111,009
HVAC Equipment	570,442	3.99	2-17-04	2-17-14	554,860	0	48,005	506,855
Total Payable through General Purpose School Fund					<u>\$ 696,606</u>	<u>\$ 0</u>	<u>\$ 78,742</u>	<u>\$ 617,864</u>
Total Capital Leases Payable					<u>\$ 696,606</u>	<u>\$ 0</u>	<u>\$ 78,742</u>	<u>\$ 617,864</u>

Exhibit J-2

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

Year Ending June 30	Bond Requirements	Interest Requirements	Total Requirements
2006	\$ 504,881	\$ 630,564	\$ 1,135,445
2007	530,363	604,017	1,134,380
2008	555,868	582,012	1,137,880
2009	586,398	556,062	1,142,460
2010	606,953	531,315	1,138,268
2011	637,536	505,638	1,143,174
2012	678,147	477,949	1,156,096
2013	703,788	448,219	1,152,007
2014	739,460	413,700	1,153,160
2015	785,165	377,373	1,162,538
2016	825,905	338,722	1,164,627
2017	871,680	296,501	1,168,181
2018	927,493	251,856	1,179,349
2019	968,346	204,278	1,172,624
2020	1,034,240	154,518	1,188,758
2021	1,095,178	101,270	1,196,448
2022	266,162	44,779	310,941
2023	287,194	31,865	319,059
2024	23,275	17,931	41,206
2025	24,410	16,796	41,206
2026	25,600	15,606	41,206
2027	26,848	14,358	41,206
2028	28,157	13,049	41,206
2029	29,530	11,676	41,206
2030	30,969	10,237	41,206
2031	32,479	8,727	41,206
2032	34,062	7,144	41,206
2033	35,723	5,483	41,206
2034	37,464	3,742	41,206
2035	39,291	1,915	41,206
Total	\$ 12,972,565	\$ 6,677,302	\$ 19,649,867

Exhibit J-3

Unicoi County, Tennessee
Schedule of Transfers - All Funds
and Discretely Presented Unicoi County School Department
For the Year Ended June 30, 2005

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Solid Waste/Sanitation	To provide funds for operations	\$ 378,156
General	General Capital Projects	To provide funds for construction	226,455
School Federal Projects (School Dept.)	General Purpose School (School Dept.)	Indirect costs	<u>1,108</u>
Total Transfers			<u>\$ 605,719</u>

Unicoi 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	Ohio Casualty Insurance Company
Road Superintendent	Section 8-24-102, <u>TCA</u>	52,765	100,000	"
Director of Schools	State Board of Education and Unicoi County Board of Education	86,650 (1)	50,000	Western Surety Company
Trustee	Section 8-24-102, <u>TCA</u>	47,969	479,400	Ohio Casualty Insurance Company
Assessor of Property	Section 8-24-102, <u>TCA</u>	47,969	10,000	"
County Clerk	Section 8-24-102, <u>TCA</u>	47,969	70,000	"
Circuit Court Clerk:				
Beverly Tinker (7-1-04 through 8-31-04)	Section 8-24-102, <u>TCA</u>	7,991	50,000	"
Christy Howard (9-1-04 through 6-30-05)	Section 8-24-102, <u>TCA</u>	39,958	50,000	"
Clerk and Master	Section 8-24-102, <u>TCA</u> , and Chancery Court Judge	62,959 (2)	100,000	"
Register	Section 8-24-102, <u>TCA</u>	47,969	25,000	"
Sheriff	Section 8-24-102, <u>TCA</u>	52,765	35,000	"
All County Departments:				
Dishonesty or Fraudulent Acts			10,000	"
School Department Employee Blanket Bond Coverage:				
Dishonesty or Fraudulent Acts			150,000	Tennessee School Boards Risk Management Trust

(1) Includes chief executive officer's training supplement in the amount of \$1,000.
(2) Includes special commissioner fees of \$14,990.

Exhibit J-5

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

	Special Revenue Funds					Debt Service Fund	Capital Projects Fund	Total
	General	Courthouse and Jail Maintenance	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	Community Development/ Industrial Park	
<u>Local Taxes</u>								
<u>County Property Taxes</u>								
Current Property Tax	\$ 2,106,549	\$ 0	\$ 0	\$ 0	\$ 50,391	\$ 846,656	\$ 0	\$ 3,003,596
Trustee's Collections - Prior Year	58,758	0	0	0	1,487	26,709	0	86,954
Circuit/Clerk & Master Collections - Prior Years	31,974	0	0	0	969	14,534	0	47,477
Interest and Penalty	13,111	0	0	0	385	5,755	0	19,251
Pick-up Taxes	2,394	0	0	0	61	993	0	3,448
Payments in Lieu of Taxes - T.V.A.	207	0	0	0	5	83	0	295
Payments in Lieu of Taxes - Local Utilities	28,810	0	0	0	525	10,221	0	39,556
Payments in Lieu of Taxes - Other	6,295	0	0	0	151	2,530	0	8,976
<u>County Local Option Taxes</u>								
Local Option Sales Tax	0	0	0	0	0	437,012	0	437,012
Hotel/Motel Tax	47,742	0	0	0	0	0	0	47,742
Litigation Tax - General	106,362	0	0	0	0	0	0	106,362
Litigation Tax - Special Purpose	0	5,446	0	0	0	0	0	5,446
Litigation Tax - Jail, Workhouse, or Courthouse	0	0	0	0	0	33,208	0	33,208
Business Tax	36,729	0	0	0	868	14,829	0	52,426
Mineral Severance Tax	28,194	0	0	0	28,194	0	0	56,388
<u>Statutory Local Taxes</u>								
Bank Excise Tax	10,548	0	0	0	252	4,239	0	15,039
Wholesale Beer Tax	1,611	0	0	0	49	764	0	2,424
Interstate Telecommunications Tax	0	0	0	0	0	1,395	0	1,395
Other Statutory Local Taxes	3,076	0	0	0	0	0	0	3,076
Total Local Taxes	\$ 2,482,360	\$ 5,446	\$ 0	\$ 0	\$ 83,337	\$ 1,398,928	\$ 0	\$ 3,970,071
<u>Licenses and Permits</u>								
<u>Licenses</u>								
Cable TV Franchise	\$ 10,607	\$ 0	\$ 0	\$ 0	\$ 253	\$ 4,261	\$ 0	\$ 15,121
Total Licenses and Permits	\$ 10,607	\$ 0	\$ 0	\$ 0	\$ 253	\$ 4,261	\$ 0	\$ 15,121
<u>Fines, Forfeitures and Penalties</u>								
<u>Circuit Court</u>								
Fines	\$ 6,328	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,328
Officers Costs	2,373	0	0	0	0	0	0	2,373

(Continued)

Exhibit J-5

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

	Special Revenue Funds					Debt Service Fund	Capital Projects Fund	Total
	General	Courthouse and Jail Maintenance	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	Community Development/ Industrial Park	
<u>Fines, Forfeitures and Penalties (Cont.)</u>								
<u>Circuit Court (Cont.)</u>								
Drug Control Fines	\$ 0	\$ 0	\$ 3,253	\$ 0	\$ 0	\$ 0	\$ 0	3,253
Jail Fees	57	0	0	0	0	0	0	57
<u>Criminal Court</u>								
Data Entry Fee - Criminal Court	332	0	0	0	0	0	0	332
<u>General Sessions Court</u>								
Fines	18,367	0	0	0	0	0	0	18,367
Officers Costs	23,963	0	0	0	0	0	0	23,963
Game and Fish Fines	47	0	0	0	0	0	0	47
Drug Control Fines	0	0	11,034	0	0	0	0	11,034
Drug Court Fees	3,030	0	0	0	0	0	0	3,030
Jail Fees	3,555	0	0	0	0	0	0	3,555
DUI Treatment Fines	6,939	0	0	0	0	0	0	6,939
Data Entry Fee - General Sessions Court	6,588	0	0	0	0	0	0	6,588
<u>Juvenile Court</u>								
Fines	511	0	0	0	0	0	0	511
Officers Costs	1,691	0	0	0	0	0	0	1,691
Jail Fees	3,369	0	0	0	0	0	0	3,369
Data Entry Fee - Juvenile Court	142	0	0	0	0	0	0	142
<u>Chancery Court</u>								
Officers Costs	1,821	0	0	0	0	0	0	1,821
Data Entry Fee - Chancery Court	824	0	0	0	0	0	0	824
<u>Judicial District Drug Program</u>								
Drug Task Force Forfeitures and Seizures	0	0	45,210	0	0	0	0	45,210
Data Entry Fee - Other Courts	16,238	0	0	0	0	0	0	16,238
<u>Other Fines, Forfeitures, and Penalties</u>								
Proceeds from Confiscated Property	475	0	161,544	0	0	0	0	162,019
Total Fines, Forfeitures and Penalties	\$ 96,650	\$ 0	\$ 221,041	\$ 0	\$ 0	\$ 0	\$ 0	317,691
<u>Charges for Current Services</u>								
<u>General Service Charges</u>								
Work Release Charges for Board	\$ 18,123	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	18,123

(Continued)

Exhibit J-5

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

	Special Revenue Funds					Debt Service Fund	Capital Projects Fund	Total
	General	Courthouse and Jail Maintenance	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	Community Development/ Industrial Park	
<u>Charges for Current Services (Cont.)</u>								
<u>Fees</u>								
Recreation Fees	\$ 21,345	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 21,345
Copy Fees	195	0	0	0	0	0	0	195
Telephone Commissions	1,267	0	0	0	0	0	0	1,267
Vending Machine Collections	681	0	0	0	0	0	0	681
Special Commissioner Fees/Special Master Fees	0	0	0	14,990	0	0	0	14,990
Data Processing Fee - Register	6,354	0	0	0	0	0	0	6,354
Data Processing Fee - Sheriff	625	0	0	0	0	0	0	625
Sexual Offender Registration Fee	420	0	0	0	0	0	0	420
Total Charges for Current Services	\$ 49,010	\$ 0	\$ 0	\$ 14,990	\$ 0	\$ 0	\$ 0	\$ 64,000
<u>Other Local Revenues</u>								
<u>Recurring Items</u>								
Investment Income	\$ 27,895	\$ 0	\$ 0	\$ 0	\$ 60,383	\$ 56,969	\$ 0	\$ 145,247
Lease/Rentals	1,007	0	0	0	24	405	0	1,436
Sale of Recycled Materials	710	0	0	0	0	0	0	710
Retirees' Insurance Payments	5,269	0	0	0	620	0	0	5,889
Miscellaneous Refunds	5,642	0	2,054	0	29,437	229	0	37,362
<u>Nonrecurring Items</u>								
Insurance Recovery	7,899	0	8,465	0	93,753	0	0	110,117
Total Other Local Revenues	\$ 48,422	\$ 0	\$ 10,519	\$ 0	\$ 184,217	\$ 57,603	\$ 0	\$ 300,761
<u>Fees Received from County Officials</u>								
<u>Fees In Lieu of Salary</u>								
County Clerk	\$ 174,504	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 174,504
Circuit Court Clerk	35,430	0	0	0	0	0	0	35,430
General Sessions Court Clerk	154,701	0	0	0	0	0	0	154,701
Clerk and Master	35,480	0	0	0	0	0	0	35,480
Register	84,960	0	0	0	0	0	0	84,960
Sheriff	3,277	0	0	0	0	0	0	3,277
Trustee	179,823	0	0	0	0	0	0	179,823
Total Fees Received from County Officials	\$ 668,175	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 668,175

(Continued)

Exhibit J-5

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

	General	Special Revenue Funds				Debt	Capital	Total
		Courthouse and Jail Maintenance	Drug Control	Constitu - tional Officers - Fees	Highway / Public Works	Service Fund	Projects Fund	
						General Debt Service	Community Development/ Industrial Park	
<u>State of Tennessee</u>								
<u>General Government Grants</u>								
Juvenile Services Program	\$ 12,067	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	12,067
State Reappraisal Grant	6,779	0	0	0	0	0	0	6,779
Other General Government Grants	30,000	0	0	0	0	0	0	30,000
<u>Public Safety Grants</u>								
Law Enforcement Training Programs	8,818	0	0	0	0	0	0	8,818
<u>Health and Welfare Grants</u>								
Health Department Programs	109,936	0	0	0	0	0	0	109,936
<u>Public Works Grants</u>								
State Aid Program	0	0	0	0	73,913	0	0	73,913
Litter Program	23,234	0	0	0	0	0	0	23,234
Tennessee Industrial Infrastructure Program	0	0	0	0	0	0	38,167	38,167
<u>Other State Revenues</u>								
Income Tax	17,816	0	0	0	0	0	0	17,816
Beer Tax	12,885	0	0	0	0	0	0	12,885
Alcoholic Beverage Tax	19,049	0	0	0	0	0	0	19,049
Mixed Drink Tax	1,878	0	0	0	0	0	0	1,878
State Revenue Sharing - T.V.A.	73,825	0	0	0	1,766	29,671	0	105,262
Contracted Prisoner Boarding	82,899	0	0	0	0	0	0	82,899
Gasoline and Motor Fuel Tax	0	0	0	0	1,264,800	0	0	1,264,800
Petroleum Special Tax	0	0	0	0	14,212	0	0	14,212
Reappraisal Program Reimbursement	3,392	0	0	0	0	0	0	3,392
Registrar's Salary Supplement	16,380	0	0	0	0	0	0	16,380
Total State of Tennessee	\$ 418,958	\$ 0	\$ 0	\$ 0	\$ 1,354,691	\$ 29,671	\$ 38,167	\$ 1,841,487
<u>Federal Government</u>								
<u>Federal Through State</u>								
Civil Defense Reimbursement	\$ 15,009	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	15,009
Disaster Relief	0	0	0	0	8,886	0	0	8,886
Homeland Security Grants	61,139	0	0	0	0	0	0	61,139
Law Enforcement Grants	4,139	0	0	0	0	0	0	4,139
Other Federal through State	42,337	0	0	0	0	0	0	42,337

(Continued)

Exhibit J-5

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

	Special Revenue Funds					Debt Service Fund	Capital Projects Fund	Total
	General	Courthouse and Jail Maintenance	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	Community Development/ Industrial Park	
<u>Federal Government (Cont.)</u>								
<u>Direct Federal Revenue</u>								
Forest Service	\$ 11,919	\$ 0	\$ 0	\$ 0	\$ 11,933	\$ 0	\$ 0	23,852
Other Direct Federal Revenue	1,400	0	0	0	155,751	0	0	157,151
Total Federal Government	\$ 135,943	\$ 0	\$ 0	\$ 0	\$ 176,570	\$ 0	\$ 0	312,513
<u>Other Governments and Citizens Groups</u>								
<u>Other Governments</u>								
Contributions	\$ 29,907	\$ 0	\$ 38,048	\$ 0	\$ 0	\$ 155,233	\$ 0	223,188
Contracted Services	109,377	0	0	0	146,219	0	0	255,596
<u>Other</u>								
Other	0	0	0	0	0	11,774	0	11,774
Total Other Governments and Citizens Groups	\$ 139,284	\$ 0	\$ 38,048	\$ 0	\$ 146,219	\$ 167,007	\$ 0	490,558
Total	\$ 4,049,409	\$ 5,446	\$ 269,608	\$ 14,990	\$ 1,945,287	\$ 1,657,470	\$ 38,167	7,980,377

Exhibit J-6

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

	General Purpose School	School Federal Projects	Central Cafeteria	Total
<u>Local Taxes</u>				
<u>County Property Taxes</u>				
Current Property Tax	\$ 2,005,873	\$ 0	\$ 0	\$ 2,005,873
Trustee's Collections - Prior Year	70,500	0	0	70,500
Circuit/Clerk & Master Collections - Prior Years	32,943	0	0	32,943
Interest and Penalty	13,223	0	0	13,223
Pick-up Taxes	2,333	0	0	2,333
Payments in Lieu of Taxes - T.V.A.	198	0	0	198
Payments in Lieu of Taxes - Local Utilities	25,906	0	0	25,906
Payments in Lieu of Taxes - Other	6,024	0	0	6,024
<u>County Local Option Taxes</u>				
Local Option Sales Tax	911,451	0	0	911,451
Business Tax	35,539	0	0	35,539
Other County Local Option Taxes	775	0	0	775
<u>Statutory Local Taxes</u>				
Bank Excise Tax	10,093	0	0	10,093
Wholesale Beer Tax	1,640	0	0	1,640
Interstate Telecommunications Tax	2,950	0	0	2,950
Total Local Taxes	\$ 3,119,448	\$ 0	\$ 0	\$ 3,119,448
<u>Licenses and Permits</u>				
<u>Licenses</u>				
Marriage Licenses	\$ 2,422	\$ 0	\$ 0	\$ 2,422
Cable TV Franchise	10,147	0	0	10,147
Total Licenses and Permits	\$ 12,569	\$ 0	\$ 0	\$ 12,569
<u>Fines, Forfeitures and Penalties</u>				
<u>Juvenile Court</u>				
Fines	\$ 1,468	\$ 0	\$ 0	\$ 1,468
Total Fines, Forfeitures and Penalties	\$ 1,468	\$ 0	\$ 0	\$ 1,468
<u>Charges for Current Services</u>				
<u>Education Charges</u>				
Tuition - Regular Day Students	\$ 3,583	\$ 0	\$ 0	\$ 3,583
Lunch Payments - Children	0	0	262,220	262,220
Lunch Payments - Adults	0	0	23,962	23,962
Income from Breakfast	0	0	661	661
A la carte Sales	0	0	63,193	63,193
Total Charges for Current Services	\$ 3,583	\$ 0	\$ 350,036	\$ 353,619
<u>Other Local Revenues</u>				
<u>Recurring Items</u>				
Investment Income	\$ 6,347	\$ 0	\$ 5,533	\$ 11,880
Lease/Rentals	964	0	0	964
Retirees' Insurance Payments	59	0	0	59
Miscellaneous Refunds	3,457	0	4,594	8,051
<u>Nonrecurring Items</u>				
Sale of Equipment	5,453	0	0	5,453
Total Other Local Revenues	\$ 16,280	\$ 0	\$ 10,127	\$ 26,407

(Continued)

Exhibit J-6

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

	General Purpose School	School Federal Projects	Central Cafeteria	Total
<u>State of Tennessee</u>				
<u>State Education Funds</u>				
Basic Education Program	\$ 9,273,161	\$ 0	\$ 0	\$ 9,273,161
School Food Service	13,349	0	0	13,349
Other State Education Funds	112,453	0	0	112,453
Career Ladder Program	152,870	0	0	152,870
Career Ladder - Extended Contract	91,435	0	0	91,435
<u>Other State Revenues</u>				
State Revenue Sharing - T.V.A.	70,646	0	0	70,646
Total State of Tennessee	\$ 9,713,914	\$ 0	\$ 0	\$ 9,713,914
<u>Federal Government</u>				
<u>Federal Through State</u>				
USDA School Lunch Program	\$ 0	\$ 0	\$ 394,628	\$ 394,628
Breakfast	0	0	129,611	129,611
USDA - Other	0	0	53	53
Adult Education State Grant Program	62,432	0	0	62,432
Vocational Education - Basic Grants to States	0	50,345	0	50,345
Other Vocational	25,000	0	0	25,000
Title I Grants to Local Education Agencies	0	523,525	0	523,525
Innovative Education Program Strategies	0	12,524	0	12,524
Special Education - Grants to States	10,276	643,334	0	653,610
Special Education Preschool Grants	0	62,181	0	62,181
Other Federal through State	529,559	185,583	0	715,142
<u>Direct Federal Revenue</u>				
Public Law 874 - Maintenance and Operation	93,530	0	0	93,530
ROTC Reimbursement	45,080	0	0	45,080
Forest Service	84,252	0	0	84,252
Total Federal Government	\$ 850,129	\$ 1,477,492	\$ 524,292	\$ 2,851,913
<u>Other Governments and Citizens Groups</u>				
<u>Citizens Groups</u>				
Donations	\$ 26,703	\$ 0	\$ 0	\$ 26,703
Total Other Governments and Citizens Groups	\$ 26,703	\$ 0	\$ 0	\$ 26,703
Total	\$ 13,744,094	\$ 1,477,492	\$ 884,455	\$ 16,106,041

STATISTICAL SECTION

Table 1

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

<u>Year</u>	<u>Amount</u>
1994	\$ 573
1995	380
1996	385
1997	443
1998	443
1999	3,707
2000	20,230
2001	22,127
2002	49,391
2003	<u>111,153</u>
Total	<u>\$ 208,832</u>

Table 2

Unicoi County, Tennessee
Tax Rates and Assessments
Last Ten Years

Fund	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
General	\$ 1.190	\$ 1.240	\$ 1.08	\$ 1.09	\$ 1.09	\$ 1.09	\$ 1.21	\$ 0.92	\$ 0.99	1.045
Highway/Public Works	0.065	0.065	0.06	0.05	0.04	0.04	0.04	0.03	0.03	0.025
General Purpose School	1.370	1.370	1.17	1.17	1.18	1.18	1.18	1.02	1.02	1.000
General Debt Service	0.465	0.445	0.41	0.41	0.41	0.41	0.29	0.40	0.45	0.420
Total Tax Rates	\$ 3.090	\$ 3.120	\$ 2.72	\$ 2.37	\$ 2.49	2.490				
Assessed Valuation										
Real and Personal	\$ 113,534,902	\$ 117,333,792	\$ 140,543,465	\$ 145,503,361	\$ 151,990,676	\$ 157,531,599	\$ 159,443,550	\$ 198,448,766	\$ 200,755,134	\$ 203,858,421
Public Utilities	9,390,284	9,488,359	9,655,009	9,799,512	9,616,129	9,521,832	8,795,389	10,492,595	10,318,700	9,658,809
Total Assessed Valuation	\$ 122,925,186	\$ 126,822,151	\$ 150,198,474	\$ 155,302,873	\$ 161,606,805	\$ 167,053,431	\$ 168,238,939	\$ 208,941,361	\$ 211,073,834	\$ 213,517,230

SINGLE AUDIT 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

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

November 15, 2005

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

To the County Mayor and Board of County Commissioners:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Unicoi County, Tennessee, as of and for the year ended June 30, 2005, which collectively comprise Unicoi County's basic financial statements and have issued our report thereon dated November 15, 2005. Our report on the aggregate discretely presented component units' financial information was qualified because the financial statements did not include the financial information of the Unicoi County Emergency Communications District, which was not available from other auditors as of the date of this report. 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 Unicoi County'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 Unicoi County'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 05.01, 05.02(A), 05.04, 05.09, 05.10(B), 05.11, and 05.12.

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(A) and 05.04 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Unicoi County's 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 which are described in the accompanying Schedule of Findings and Questioned Costs as items 05.02(B), 05.03, 05.05, 05.06, 05.07, 05.08, and 05.10(A).

We also noted certain matters that we reported to the management of Unicoi County in separate communications.

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

Very truly yours,



John G. Morgan
Comptroller of the Treasury

JGM/rd



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

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

November 15, 2005

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

To the County Mayor and Board of County Commissioners:

Compliance

We have audited the compliance of Unicoi County 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 its major federal programs for the year ended June 30, 2005. Unicoi County'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 its major federal programs is the responsibility of Unicoi County's management. Our responsibility is to express an opinion on Unicoi County'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 Unicoi County'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 Unicoi County's compliance with those requirements.

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

Internal Control Over Compliance

The management of Unicoi County 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 Unicoi County'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.

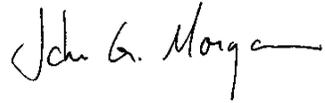
Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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 the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Unicoi County, Tennessee, as of and for the year ended June 30, 2005, and have issued our report thereon dated November 15, 2005. Our report on the aggregate discretely presented component units' financial information was qualified because the financial statements did not include the financial information of the Unicoi County Emergency Communications District, which was not available from other auditors as of the date of this report. 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, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

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

John G. Morgan
Comptroller of the Treasury

JGM/rd

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

Federal/Pass Through Agency/State Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
U.S. Department of Agriculture:			
Passed-through State Department of Agriculture:			
Food Donation (Noncash Assistance)	10.550	(2)	\$ 93,310
Passed-through State Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	(2)	129,611
National School Lunch Program	10.555	(2)	394,681
Total U.S. Department of Agriculture			<u>\$ 617,602</u>
U.S. Department of Justice:			
Passed-through State Department of Finance and Administration:			
Violence Against Women Formula Grants	16.588	Z-00-001450-01	\$ 41,788
Total U.S. Department of Justice			<u>\$ 41,788</u>
U.S. Department of Labor:			
Passed-through State Department of Labor and Workforce Development:			
WIA Incentive Grants - Section 503 Grants to States	17.267	Z-04-025669-01	\$ 2,155
Total U.S. Department of Labor			<u>\$ 2,155</u>
Federal Emergency Management Agency:			
Passed-through State Department of Military:			
Disaster Assistance	83.516	(2)	\$ 8,886
Total Federal Emergency Management Agency			<u>\$ 8,886</u>
U.S. Department of Education :			
Direct Program:			
Safe and Drug-Free Schools and Communities - National Programs	84.184	(2)	\$ 66,163
Passed-through State Department of Education:			
Adult Education - State Grant Program	84.002	(2)	25,000 (3)
Title I Grants to Local Educational Agencies	84.010	N/A	497,746
Special Education Cluster:			
Special Education - Grants to States	84.027	N/A	557,168
Special Education - Preschool Grants	84.173	N/A	62,955
Impact Aid	84.041	N/A	93,530
Vocational Education - Basic Grants to States	84.048	N/A	50,345
Safe and Drug-Free Schools and Communities - State Grants	84.186	(2)	14,675
Even Start - State Educational Agencies	84.213	Z-05-020478-00	80,720
State Grants for Innovative Programs	84.298	N/A	80,074
Technology Literacy Challenge Fund Grants	84.318	Z-04-020857-00	290,697 (4)
Technology Literacy Challenge Fund Grants	84.318	N/A	12,797 (4)
Advanced Placement Program	84.330	Z-03-013328-00	3,705
English Language Acquisition Grants	84.365	N/A	32,449
Improving Teacher Quality State Grants	84.367	N/A	115,321

(Continued)

Unicoi County, Tennessee

Schedule of Expenditures of Federal Awards and State Grants (1) (Cont.)

Federal/Pass Through Agency/State Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
U.S. Department of Education (Cont.):			
Passed-through State Department of Labor and Workforce Development:			
Adult Education - State Grant Program	84.002	Z-05-022275-00	\$ 62,432 (3)
Total U.S. Department of Education			<u>\$ 2,045,777</u>
U.S. Department of Health and Human Services:			
Passed-through State Department of Education:			
Temporary Assistance for Needy Families	93.558	Z-05-022175-00	\$ 130,000 (5)
Passed-through State Department of Labor and Workforce Development:			
Temporary Assistance for Needy Families	93.558	Z-05-022361-00	15,142 (5)
Total U.S. Department of Health and Human Services			<u>\$ 145,142</u>
U.S. Department of Homeland Security:			
Passed-through State Department of Military:			
State Domestic Preparedness Equipment Support Program	97.004	Z-04-020152-00	\$ 13,226 (6)
State Domestic Preparedness Equipment Support Program	97.004	Z-03-017807-01	30,000 (6)
State Domestic Preparedness Equipment Support Program	97.004	Z-03-014483-01	7,409 (6)
Emergency Management Performance Grants	97.042	Z-04-020304-00	4,000 (7)
Emergency Management Performance Grants	97.042	Z-05-025381-00	10,504 (7)
State and Local All Hazards Emergency Operations Planning	97.051	Z-03-015220-01	11,009
Total U.S. Department of Homeland Security			<u>\$ 76,148</u>
Total Expenditures of Federal Awards			<u>\$ 2,937,498</u>
<u>State Grants</u>			
Juvenile Services Officers Grant - State Children's Services Commission	N/A	(2)	\$ 12,067
Reappraisal Program - State Comptroller of the Treasury	N/A	(2)	6,779
Health Department Grant - State Department of Health	N/A	(2)	109,936
Litter Grant - State Department of Transportation	N/A	(2)	23,234
State Industrial Infrastructure Program - State Department of Economic and Community Development	N/A	(2)	<u>38,167</u>
Total State Grants			<u>\$ 190,183</u>

CFDA = Catalog of Federal Domestic Assistance

N/A = Not Applicable

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

(2) Information not available.

(3) Total Adult Education - State Grant Program (CFDA Number 84.002)
from the U.S. Department of Education \$87,432.

(4) Total Education Technology State Grants (CFDA Number 84.318)
from the U.S. Department of Education \$303,494.

(5) Total Temporary Assistance for Needy Families (CFDA Number 93.558)
from the U.S. Department of Health and Human Services \$145,142.

(6) Total State Domestic Preparedness Equipment Support Program (CFDA Number 97.004)
from the U.S. Department of Homeland Security \$50,635.

(7) Total Emergency Management Performance Grants (CFDA Number 97.042)
from the U.S. Department of Homeland Security \$14,504.

Unicoi County, Tennessee
Schedule of Audit Findings Not Corrected
June 30, 2005

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

OFFICE OF COUNTY MAYOR

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
04.02	15	Controls over inventory were not adequate

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
04.03	15	Circuit Court did not prepare an execution docket trial balance

OTHER FINDINGS AND RECOMMENDATIONS

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
04.04	16	A central system of accounting, budgeting, and purchasing had not been adopted
04.05	16	Duties were not segregated adequately in the Offices of Clerk and Master and Sheriff

UNICOI COUNTY, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2005

PART I, SUMMARY OF AUDITOR'S RESULTS

1. An unqualified opinion was issued on the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Unicoi County. A qualified opinion was issued on the financial statements of the aggregate discretely presented component units of Unicoi County.
2. The audit of the financial statements disclosed reportable conditions in internal control. Two of these conditions were considered to be material weaknesses.
3. The audit disclosed two instances of noncompliance which are material to the financial statements of Unicoi County.
4. The audit disclosed no reportable conditions in internal control over major programs.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit revealed no findings that are required to be reported under Section 510(a) of OMB Circular A-133.
7. The Child Nutrition Cluster: the School Breakfast Program and the National School Lunch Program (CFDA Nos. 10.553 and 10.555), Title I Grants to Local Educational Agencies (CFDA No. 84.010), the Special Education Cluster: the Special Education – Grants to States and the Special Education Preschool Grants (CFDA Nos. 84.027 and 84.173), and the Education Technology State Grants (CFDA No. 84.318) 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. Unicoi County did not qualify as low-risk auditee.

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. Written responses from the circuit and general sessions courts clerk and the sheriff 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.

OFFICE COUNTY MAYOR

FINDING 05.01 **CONTROLS OVER INVENTORY WERE NOT ADEQUATE**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The County Mayor's Office maintained inventory records of county-owned assets; however, records of assets that fell below the county's capitalization threshold (\$5,000) were not regularly updated. In addition, equipment was not tagged or clearly marked as county property.

RECOMMENDATION

The office should regularly update the county's inventory records of capital assets that fall below the county's capitalization threshold and should ensure that all county-owned assets are tagged or clearly marked as property of Unicoi County.

FINDING 05.02 **THE OFFICE HAD DEFICIENCIES IN BUDGET OPERATIONS**
(A. Internal Control – Material Weakness Under Government Auditing Standards; B. Noncompliance Under Government Auditing Standards)

Our examination of budget operations revealed the following deficiencies:

- A. The General Debt Service Fund's actual fund balance at July 1, 2004, was \$2,733,076; however, the estimated fund balance reflected in the county's budget at July 1, 2004, was \$2,895,039. Therefore, the estimated fund balance exceeded the actual fund balance presented to the County Commission by \$161,963.
- B. Expenditures exceeded appropriations approved by the County Commission in the Courthouse and Jail Maintenance Fund (\$1,169) and in the Solid Waste/Sanitation Fund (\$3,487). Also, General Fund expenditures exceeded appropriations at the major category level (the legal level of control) in the Circuit Court (\$14,562) and Employee Benefits (\$1,700) major appropriation categories.

Section 5-9-401, Tennessee Code Annotated, states that “All funds ... including, but not limited to ... taxes, county aid funds, federal funds, and fines, which are to be used in the operation and respective programs of the various departments, commissions, institutions, boards, offices, and agencies of county governments shall be appropriated to such use by the county legislative bodies.”

RECOMMENDATION

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

OFFICE OF ROAD SUPERINTENDENT

FINDING 05.03 **THEFT OF PROPERTY, OFFICIAL MISCONDUCT, AND TAMPERING WITH EVIDENCE**
(Material Noncompliance Under Government Auditing Standards)

On July 12, 2004, Terry Haynes, road superintendent, was indicted by the Unicoi County Grand Jury on two counts of theft of property under \$500, two counts of official misconduct, and one count of tampering with evidence. On May 5, 2005, Mr. Haynes entered into a Memorandum of Understanding agreement with the State of Tennessee that the charges will be suspended for a period of twenty-four months pending compliance with provisions of the agreement. The agreement further provides that upon completion of the period of diversion without a violation of the agreement, an order will be issued dismissing the charges against the defendant, with prejudice, and ordering the expungement of all public records relating to this prosecution.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 05.04 **THE ACTUAL FUND BALANCE EXCEEDED THE ESTIMATED BEGINNING FUND BALANCE BY A MATERIAL AMOUNT**
(Internal Control – Material Weakness Under Government Auditing Standards)

The Central Cafeteria Fund’s actual fund balance at July 1, 2004, was \$414,527; however, the estimated fund balance reflected in the county’s budget at July 1, 2004, was \$154,992. Therefore, the actual fund balance exceeded the estimated fund balance presented to the County Commission by \$259,535.

RECOMMENDATION

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

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

As reported in the independent auditor's report for the year ended June 30, 2003, many financial records for that year and previous years had been seized by the Federal Bureau of Investigation. In September 2005, Gregory Masters, the former circuit and general sessions court clerk entered into a plea agreement in U.S. District Court to wrongfully converting public funds of at least \$10,507 for personal use between January 1, 2001, and December 31, 2001. Gregory Masters resigned from office July 28, 2003, and Beverly Tinker served as clerk from July 29, 2003, through August 31, 2004. Christy Howard became clerk effective September 1, 2004.

FINDING 05.05 **CIRCUIT COURT DID NOT PREPARE AN EXECUTION DOCKET TRIAL BALANCE**

(Material Noncompliance Under Government Auditing Standards)

The clerk did not prepare a trial balance of execution docket cause balances for Circuit Court as required by Section 18-2-103, Tennessee Code Annotated, (TCA). Records were manually maintained in Circuit Court until February 2005 when the office began the computerization of its records. Balances from cases maintained on the manual accounting system prior to February 2005 had not been identified by case and posted to the new computer system. Certain records, including execution dockets maintained during the term of the previous clerk, Gregory Masters, had been seized by the Federal Bureau of Investigation and were not returned to the office until after June 30, 2005.

Because of the absence of an execution docket trial balance, we were unable to reconcile cash control records with cause balances. Furthermore, we were unable to determine if the clerk had complied with provisions of the Unclaimed Property Act, Section 66-29-110, TCA. This statute provides that any funds held by the court for one year and unclaimed by the owner are considered abandoned. Section 66-29-113, TCA further requires these funds to be reported and paid to the state Treasurer's Office. Circuit Court had unidentified court funds of \$65,065 at June 30, 2005.

RECOMMENDATION

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

FINDING 05.06 CIRCUIT AND GENERAL SESSIONS COURTS COLLECTIONS WERE NOT DEPOSITED PROPERLY
(Noncompliance Under Government Auditing Standards)

The circuit and general sessions courts clerk did not always deposit collections to the offices bank accounts within three days of collection as required by Section 5-8-207, Tennessee Code Annotated. This statute requires that county officials deposit all funds within three days of collection.

RECOMMENDATION

To strengthen internal controls over cash collections and deposits, the clerk should deposit all funds intact within three days of collection.

FINDING 05.07 A DEPOSITORY WAS NOT REQUIRED TO ADEQUATELY COLLATERALIZE FUNDS THAT EXCEEDED FDIC COVERAGE
(Noncompliance Under Government Auditing Standards)

The clerk did not require one depository to pledge securities to protect county funds exceeding Federal Deposit Insurance Corporation (FDIC) coverage. At December 31, 2004, deposits at this depository exceeded FDIC coverage by \$111,593. Section 5-8-201, Tennessee Code Annotated, provides for county officials to require any bank that is a depository of county funds to deposit in an escrow account in a second bank collateral security equal to 105 percent of funds exceeding FDIC coverage. The courts' bank accounts were adequately secured as of June 30, 2005.

RECOMMENDATION

The clerk should require depositories to pledge adequate securities to protect county funds exceeding FDIC coverage as required by state statute.

FINDING 05.08 THE CIRCUIT COURT CLERK IMPROPERLY ENTERED INTO A LEASE-PURCHASE AGREEMENT
(Noncompliance Under Government Auditing Standards)

The circuit court clerk improperly entered into a lease-purchase agreement for computer equipment (\$13,230) without the approval of the County Commission, and by her signature, obligated the county without going through the budgetary process. Section 7-51-904, Tennessee Code Annotated (TCA), requires such contracts, leases, or lease-purchase agreements to be approved by resolution of the County Commission. Section 5-6-108, TCA,

provides that the county mayor is the chief financial officer of the county and has the care and custody of all county property.

RECOMMENDATION

Lease purchase agreements should be approved by the County Commission. All purchases for the circuit and general sessions courts should be made by the county mayor through the General Fund and should be subject to the budgetary process.

FINDING 05.09 **CIRCUIT COURT HAD DEFICIENCIES IN THE MAINTENANCE OF FINANCIAL RECORDS** (Internal Control – Reportable Condition Under Government Auditing Standards)

As noted previously, the Circuit Court began using a computerized accounting system in February 2005. Prior to February, the manually posted cash journal had not been properly totaled and balanced, and many transactions were not posted to the execution dockets. Bank statements had not been reconciled with cash journal controls. Furthermore, litigant trust account subsidiary records had not been updated currently and reconciled with cash journal controls. Bank statements were reconciled with general ledger controls subsequent to June 30, 2005.

RECOMMENDATION

The clerk should ensure that accounting records are accurately maintained. Bank statements should be reconciled with cash control records monthly and any errors detected should be corrected promptly. Litigant trust account subsidiary records should be maintained on a current basis and reconciled with general ledger controls.

MANAGEMENT'S RESPONSES TO FINDINGS 05.05 THROUGH 05.09 – CIRCUIT COURT CLERK CHRISTY HOWARD

Finding 05.05 states that Circuit Court did not prepare an execution docket trial balance, and Finding 05.09 states that there were deficiencies in the maintenance of financial records. These issues were beyond the control of anyone in this office because of the ongoing investigation of the former clerk, Gregg Masters. In July 2003, the Federal Bureau of Investigation closed the office and seized all financial records and execution dockets. The records were in the possession and control of the FBI until November 2005, well after the end of the stated audit period. In February 2005, all records in the control of the Circuit Court Clerk's Office were entered into the computer, and a trial balance was generated. However, there was a sum of \$65,065 in unidentified funds. Steps are being taken to identify the unknown balances and to reconcile the balance with cash control records.

Finding 05.08 states a lease-purchase agreement was not entered into in accordance with state statutes. I was not aware of this statute at the time the lease agreement was entered into. The lease was for a much needed hardware and software update.

We corrected Finding 05.06 and Finding 05.07 prior to the end of the 2005 fiscal year.

REBUTTAL TO MANAGEMENT'S RESPONSE FOR 05.09

The manually posted cash journal maintained from September 1, 2004 until the computer system was implemented in February 2005, was not properly posted, totaled, and balanced. This deficiency was under the control of the current clerk and was not related to the ongoing investigation of the prior clerk.

OFFICE OF SHERIFF

FINDING 05.10 **DEFICIENCIES WERE NOTED IN THE ADMINISTRATION OF THE DRUG CONTROL FUND**
(A. Noncompliance Under Government Auditing Standards; B. Internal Control – Reportable Condition Under Government Auditing Standards)

Our review of Drug Control Fund expenditures noted the following deficiencies:

- A. The county used Drug Control Funds to pay wireless telephone charges and to purchase uniforms, clothing, boots, shirts, coats, and ammunition. Section 39-17-420, Tennessee Code Annotated, provides that drug control funds can only be expended for (1) the local drug enforcement program, (2) the local drug education program, (3) the local drug treatment program, and (4) nonrecurring general law enforcement expenditures. Recurring operating expenditures such as those noted above do not meet any of the four criteria for the expenditure of drug funds.

- B. During the year, the sheriff purchased a 1963 Ford Galaxy (\$3,800) for the D.A.R.E. program and two bloodhounds (\$775) using his personal funds, and the Drug Control Fund subsequently reimbursed the sheriff for these purchases. Purchasing items for the county with personal funds weakens controls over the purchasing and accounting processes.

RECOMMENDATION

Drug Control Funds should only be expended for items that comply with the criteria as provided by state statute. Likewise, all non-confidential purchases from the Drug Control Fund should be made by county warrant to the vendor.

MANAGEMENT'S RESPONSE – SHERIFF

We did not have sufficient funding in the county's General Fund to purchase enough uniforms, clothing, boots, polo shirts, coats, ammunition, etc., and pay wireless charges; therefore, these items were purchased from the Drug Control Fund. I purchased the 1963

Ford Galaxy out of state with personal funds, obtained a receipt, bill of sale, and notarized title, and was reimbursed from the Drug Control Fund. This vehicle will be used as an anti-drug promotion and was paid for from local donations to the drug fund at no cost to the county. I purchased the two bloodhounds from a breeder in Roane County with personal funds and was reimbursed from the Drug Control Fund. Again, local donations covered the cost of these animals.

REBUTTAL

Drug Control Funds should not be expended for recurring operating expenditures as provided by Section 39-17-420, TCA. Also, to strengthen internal control over purchasing, the practice of purchasing items with personal funds and obtaining reimbursement from the county should be discontinued.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 05.11 **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 process.

RECOMMENDATION

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

FINDING 05.12 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF CLERK AND MASTER AND SHERIFF**
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

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

There were no findings and questioned costs for federal awards.

UNICOI COUNTY, TENNESSEE
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.