

**ANNUAL FINANCIAL REPORT  
OF  
CLAY COUNTY, TENNESSEE  
AND  
CLAY COUNTY SCHOOL DEPARTMENT**

---

**SINGLE AUDIT REPORT**



**FOR THE YEAR ENDED JUNE 30, 2006**

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

**ANNUAL FINANCIAL REPORT**  
**CLAY COUNTY, TENNESSEE**  
**FOR THE YEAR ENDED JUNE 30, 2006**

*DEPARTMENT OF AUDIT*  
*JOHN G. MORGAN*  
*Comptroller of the Treasury*

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

*ARTHUR L. ALEXANDER*  
*Director*

*CARL LOWE, CGFM*  
*Audit Manager*

*ANITA SCARLETT, CPA*  
*Auditor 4*

*CHRISTY N. TENNANT, CPA*  
*TIM BRASHEARS*  
*KELLEY McNEAL, CPA, CGFM*  
*State Auditors*

This financial report is available at [www.comptroller.state.tn.us](http://www.comptroller.state.tn.us)

---



---

## CLAY COUNTY, TENNESSEE

### TABLE OF CONTENTS

---



---

	Exhibit	Page(s)
Audit Highlights		1-2
<u>INTRODUCTORY SECTION</u>		3
Clay County Officials		5
<u>FINANCIAL SECTION</u>		7
Independent Auditor's Report		9-11
BASIC FINANCIAL STATEMENTS:		13
Fund Financial Statements:		
Governmental Funds:		
Balance Sheet	A	15
Statement of Revenues, Expenditures, and Changes in Fund Balances	B	16-17
Fiduciary Funds:		
Statement of Fiduciary Assets and Liabilities	C	18
Notes to the Financial Statements		19-36
REQUIRED SUPPLEMENTARY INFORMATION:		37
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Actual and Budget:		
General Fund	D-1	39-40
Solid Waste/Sanitation Fund	D-2	41
Highway/Public Works Fund	D-3	42
Notes to the Required Supplementary Information		43
COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES:		45
Nonmajor Governmental Funds:		47
Combining Balance Sheet	E-1	49
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	E-2	50
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Actual and Budget:		
Courthouse and Jail Maintenance Fund	E-3	51
Drug Control Fund	E-4	52

	Exhibit	Page(s)
Major Governmental Fund:		53
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Actual and Budget:		
General Debt Service Fund	F	55
Fiduciary Funds:		57
Combining Statement of Fiduciary Assets and Liabilities	G-1	59
Combining Statement of Changes in Assets and Liabilities – All Agency Funds	G-2	60
Miscellaneous Schedules:		61
Schedule of Changes in Long-term Notes, Capital Leases, and Other Loans	H-1	63
Schedule of Notes Receivable	H-2	64
Schedule of Salaries and Official Bonds of Principal Officials	H-3	65
Schedule of Detailed Revenues – All Governmental Fund Types	H-4	66-69
Schedule of Detailed Expenditures – All Governmental Fund Types	H-5	70-83
Schedule of Detailed Receipts, Disbursements, and Changes in Cash Balance – City Agency Fund	H-6	84

# ***Audit Highlights***

Annual Financial Report  
Clay County, Tennessee  
For the Year Ended June 30, 2006

## ***Scope***

We have audited the financial statements of each major fund and the aggregate remaining fund information of Clay County as of and for the year ended June 30, 2006.

## ***Results***

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

Our audit resulted in 15 findings and recommendations, which we have reviewed with Clay County management. Detailed findings, recommendations, and management's responses are included in the Single Audit Report.

## ***Findings***

The following are summaries of the audit findings:

### **CLAY COUNTY**

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

---

### **OFFICE OF COUNTY MAYOR**

- ◆ The Solid Waste/Sanitation Fund had a fund deficit of \$46,035 at June 30, 2006.
- ◆ Expenditures exceeded total appropriations in the Solid Waste/Sanitation Fund.
- ◆ The office had not established a formal purchase order system, and several invoices were paid without documentation that goods had been received and/or services had been rendered. Also, some invoices were not on file to support the purchases, and some invoices did not adequately describe the purchases.
- ◆ Inventory records were not maintained for assets owned by the general county government as required by generally accepted accounting principles.
- ◆ Grant proceeds and the related expenditures for a Community Development Block Grant were not reflected on the county's financial statements.

## **OFFICE OF COUNTY MAYOR (CONT.)**

- ◆ The office did not file a Report on Debt Obligations with the state director of Local Finance for a capital lease issued during the year.
  - ◆ The office did not document a subrecipient's compliance with the Davis-Bacon Act on an Appalachian Regional Development grant.
- 

## **OFFICE OF ROAD SUPERINTENDENT**

- ◆ The office had not established a formal purchase order system, and several invoices were paid without documentation that goods had been received and/or services had been rendered. Furthermore, competitive bids were not solicited for the purchase of a chipper.
  - ◆ A list of county roads and a summary of changes from the prior year were not submitted to the County Commission as required by state statute.
- 

## **OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK**

- ◆ The cash journal did not properly reflect the operations of the office. Bank statements were not reconciled with general ledger accounts. Cash on hand was not reconciled with the general ledger, and short-term account balances did not agree with the general ledger. Several receipts were voided without an explanation or the original receipt on file, and funds were not deposited intact to the bank within three days of collection.
  - ◆ Trial balances of execution docket cause balances for Circuit and General Sessions Courts did not reconcile with the general ledgers.
- 

## **OFFICE OF CLERK AND MASTER**

- ◆ The clerk did not post the short-term accounts to the office's accounting records.
- 

## **OTHER FINDINGS**

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

---

---

# INTRODUCTORY SECTION

---

---

Clay County Officials  
June 30, 2006

---

**Officials**

Luke Collins, County Mayor  
Ernest Garrison, Road Superintendent  
Charlie Key, Trustee  
Billy Smith, Assessor of Property  
Patricia Hix, County Clerk  
Peggy Ballard, Circuit and General Sessions Courts Clerk  
Corinne McLerran, Clerk and Master  
Brenda Browning, Register  
Jerry Rhoton, Sheriff

**Board of County Commissioners**

Luke Collins, Chairman  
James Atchley  
Michael Boles  
Denzil Cherry  
Dorothy Forney  
Ronnie Parsons  
Harlon Sherrell  
Jean Smith  
Malcolm Spivey  
Robert Watson  
Winton Young

---

---

## FINANCIAL SECTION

---

---



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

**INDEPENDENT AUDITOR'S REPORT**

February 16, 2007

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

To the County Mayor and Board of County Commissioners:

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Clay County, Tennessee, as of and for the year ended June 30, 2006, as shown on pages 15 through 36, which collectively comprise a portion of the county's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Clay County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

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

In our opinion, because of the effects of the matters discussed in the two preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Clay County, Tennessee, as of June 30, 2006, or the changes in its financial position for the year then ended.

However, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Clay County, Tennessee, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting prescribed by the Comptroller of the Treasury of the State of Tennessee.

In accordance with Government Auditing Standards, we have also issued our report dated February 16, 2007, on our consideration of Clay 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.

The budgetary comparison information on pages 39 through 43 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 Clay County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the General Debt Service Fund, and miscellaneous schedules are presented for purposes of additional analysis and are not a

required part of the basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the General Debt Service Fund, and the miscellaneous schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Very truly yours,

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

John G. Morgan  
Comptroller of the Treasury

JGM/yu

---

---

# BASIC FINANCIAL STATEMENTS

---

---

Exhibit A

Clay County, Tennessee  
Balance Sheet  
Governmental Funds  
June 30, 2006

	Major Funds				Nonmajor	Total
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern- mental Funds	
<u>ASSETS</u>						
Cash	\$ 0	\$ 0	\$ 0	\$ 0	\$ 32,306	\$ 32,306
Equity in Pooled Cash and Investments	762,080	4,461	349,956	686,362	32,448	1,835,307
Accounts Receivable	686	20,415	0	0	70	21,171
Allowance for Uncollectibles	0	(4,505)	0	0	0	(4,505)
Due from Other Governments	144,848	0	243,304	0	0	388,152
Due from Other Funds	1,635	0	0	0	0	1,635
Property Taxes Receivable	864,244	387,294	0	30,968	0	1,282,506
Allowance for Uncollectible Property Taxes	(21,552)	(9,080)	0	(788)	0	(31,420)
Notes Receivable - Current	64,920	0	0	0	0	64,920
<b>Total Assets</b>	<b>\$ 1,816,861</b>	<b>\$ 398,585</b>	<b>\$ 593,260</b>	<b>\$ 716,542</b>	<b>\$ 64,824</b>	<b>\$ 3,590,072</b>
<u>LIABILITIES AND FUND BALANCES</u>						
<u>Liabilities</u>						
Due to Other Funds	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,635	\$ 1,635
Revenue Anticipation Notes Payable	0	64,920	0	0	0	64,920
Deferred Revenue - Current Property Taxes	792,505	358,514	0	28,304	0	1,179,323
Deferred Revenue - Delinquent Property Taxes	46,190	18,131	0	1,727	0	66,048
Other Deferred Revenues	44,149	3,055	117,062	0	0	164,266
<b>Total Liabilities</b>	<b>\$ 882,844</b>	<b>\$ 444,620</b>	<b>\$ 117,062</b>	<b>\$ 30,031</b>	<b>\$ 1,635</b>	<b>\$ 1,476,192</b>
<u>Fund Balances</u>						
Reserved for Computer System - Register	\$ 7,945	\$ 0	\$ 0	\$ 0	\$ 0	\$ 7,945
Reserved for Other General Purposes	64,920	0	0	0	0	64,920
Unreserved, Reported In:						
General Fund	861,152	0	0	0	0	861,152
Special Revenue Funds (Deficit)	0	(46,035)	476,198	0	63,189	493,352
Debt Service Funds	0	0	0	686,511	0	686,511
<b>Total Fund Balances</b>	<b>\$ 934,017</b>	<b>\$ (46,035)</b>	<b>\$ 476,198</b>	<b>\$ 686,511</b>	<b>\$ 63,189</b>	<b>\$ 2,113,880</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,816,861</b>	<b>\$ 398,585</b>	<b>\$ 593,260</b>	<b>\$ 716,542</b>	<b>\$ 64,824</b>	<b>\$ 3,590,072</b>

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

Exhibit B

Clay County, Tennessee  
Statement of Revenues, Expenditures,  
and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2006

	Major Funds				Nonmajor	Total
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern- mental Funds	
<b>Revenues</b>						
Local Taxes	\$ 1,686,338	\$ 325,743	\$ 5,588	\$ 65,785	\$ 1,280	\$ 2,084,734
Licenses and Permits	3,342	0	0	0	0	3,342
Fines, Forfeitures, and Penalties	32,624	0	0	0	22,304	54,928
Charges for Current Services	7,736	95,402	0	0	150,097	253,235
Other Local Revenues	56,861	12,324	51,909	91,366	0	212,460
Fees Received from County Officials	168,093	0	0	0	0	168,093
State of Tennessee	409,556	28,282	1,425,306	0	0	1,863,144
Federal Government	974,729	0	0	0	0	974,729
Other Governments and Citizens Groups	5,000	0	0	0	0	5,000
<b>Total Revenues</b>	<b>\$ 3,344,279</b>	<b>\$ 461,751</b>	<b>\$ 1,482,803</b>	<b>\$ 157,151</b>	<b>\$ 173,681</b>	<b>\$ 5,619,665</b>
<b>Expenditures</b>						
<b>Current:</b>						
General Government	\$ 475,270	\$ 0	\$ 0	\$ 0	\$ 1,375	\$ 476,645
Finance	111,365	0	0	0	150,103	261,468
Administration of Justice	252,223	0	0	0	0	252,223
Public Safety	803,419	0	0	0	10,291	813,710
Public Health and Welfare	293,495	690,497	0	0	0	983,992
Social, Cultural, and Recreational Services	138,979	0	0	0	0	138,979
Agricultural and Natural Resources	80,401	0	0	0	0	80,401
Other Operations	1,264,941	7,627	0	0	146	1,272,714
Highways	46,050	0	1,719,863	0	0	1,765,913
<b>Debt Service:</b>						
Principal on Debt	4,286	0	0	16,818	0	21,104
Interest on Debt	4,737	0	0	552	0	5,289
Other Debt Service	193	0	0	1,796	0	1,989
<b>Total Expenditures</b>	<b>\$ 3,475,359</b>	<b>\$ 698,124</b>	<b>\$ 1,719,863</b>	<b>\$ 19,166</b>	<b>\$ 161,915</b>	<b>\$ 6,074,427</b>
<b>Excess (Deficiency) of Revenues</b>						
Over Expenditures	\$ (131,080)	\$ (236,373)	\$ (237,060)	\$ 137,985	\$ 11,766	\$ (454,762)

(Continued)

Exhibit B

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

	Major Funds				Nonmajor Funds	Total Governmental Funds
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern- mental Funds	
<u>Other Financing Sources (Uses)</u>						
Capital Leases Issued	\$ 72,727	\$ 0	\$ 0	\$ 0	\$ 0	72,727
Other Loans Issued	9,803	217,330	0	0	0	227,133
Total Other Financing Sources (Uses)	\$ 82,530	\$ 217,330	\$ 0	\$ 0	\$ 0	299,860
Net Change in Fund Balances	\$ (48,550)	\$ (19,043)	\$ (237,060)	\$ 137,985	\$ 11,766	\$ (154,902)
Fund Balance, July 1, 2005	982,567	(26,992)	713,258	548,526	51,423	2,268,782
Fund Balance, June 30, 2006	\$ 934,017	\$ (46,035)	\$ 476,198	\$ 686,511	\$ 63,189	\$ 2,113,880

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

Exhibit C

Clay County, Tennessee  
Statement of Fiduciary Assets and Liabilities  
Fiduciary Funds  
June 30, 2006

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash	\$ 406,058
Due from Other Governments	<u>49,621</u>
Total Assets	<u><u>\$ 455,679</u></u>
<u>LIABILITIES</u>	
Due to Other Taxing Units	\$ 49,621
Due to Litigants, Heirs, and Others	<u>406,058</u>
Total Liabilities	<u><u>\$ 455,679</u></u>

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

**CLAY COUNTY, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

**A. Reporting Entity**

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

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

**Excluded Component Units** – The following entities meet the criteria for discretely presented component units of the county. Since Clay County is

presenting fund financial statements only, the financial information of entities that meet the criteria for discretely presented component units is not included in the fund financial statements, as required by generally accepted accounting principles. These entities would have been presented as separate columns in those statements to emphasize that they are legally separate from the county.

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

Administrative Office:

Clay County Emergency Communications District  
400 West Lake Avenue  
Celina, TN 38551

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

Fund financial statements of Clay 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, Clay County does not have any proprietary funds to report. An emphasis is placed on major funds within the governmental category.

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the county considers revenues other than grants to be available if they are collected within 30 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and the revenues are available. Clay County considers grants and similar revenues to be available if they are collected within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Principal and interest on long-term debt are recognized as fund liabilities when due or when amounts have been accumulated in the 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 the economic resources measurement focus and the accrual basis of accounting, except for agency funds which have no measurement focus. 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.

Clay County reports the following major governmental funds:

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

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

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

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

Additionally, Clay County reports the following fund type:

**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 Clay County. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. They do, however, use the accrual basis of accounting to recognize receivables and payables.

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

**1. Deposits and Investments**

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

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

fair value. No investments required to be reported at fair value were held at the balance sheet date.

## **2. Receivables and Payables**

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

Notes receivable between funds, as reported in the fund financial statements, are offset by a fund balance reserve to indicate that they are not available for current appropriation and are not expendable available financial resources.

All solid waste and property taxes receivable are shown with an allowance for uncollectibles. Solid waste receivables allowance for uncollectibles is based on historical collection data. The allowance for uncollectible property taxes is equal to 1.29 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. Capital Assets**

Governmental funds do not capitalize the cost of capital outlays; these funds report capital outlays as expenditures upon acquisition. Clay County does not maintain capital assets records, as required by generally accepted accounting principles. Capital assets should be reported in the government-wide statement of net assets; however, as previously noted, Clay County does not present government-wide statements.

**4. Compensated Absences**

It is the county's general policy to permit employees to accumulate up to 12 days each of vacation and sick leave beyond year-end. There is no liability for unpaid sick leave since the county does not have a policy to pay any amounts when employees separate from service with the government. The payment of vacation leave is guaranteed. A liability for vacation pay is reported in governmental funds only if amounts have matured, for example, as a result of employee resignations and retirements. However, amounts for accumulated vacation benefits are not considered material and therefore are not included in the financial statements of Clay County.

**5. Long-term Obligations**

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

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

**6. Fund Equity**

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

## II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all governmental funds except the Constitutional Officers – Fees Fund (special revenue fund) which is not budgeted, and the capital projects funds which adopt project length budgets. All annual appropriations lapse at fiscal year end.

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/Executive, County Attorney, etc.). Management may make revisions within major categories, but only the County Commission may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

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

### B. Fund Deficit

The Solid Waste/Sanitation Fund (special revenue fund) had a fund deficit of \$46,035 at June 30, 2006. This deficit resulted from expenditures exceeding available funds and was liquidated subsequent to June 30, 2006.

### C. Expenditures Exceeded Appropriations

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

Fund	Major Appropriation Category	Amount
General	County Clerk's Office	\$ 218
"	Chancery Court	77
"	Drug Enforcement	3,000
"	Other Local Health Services	1,397
Drug Control	Other Charges	135
General Debt Service	Other Debt Service - General Government	796

Also, expenditures exceeded the total appropriations approved by the County Commission in the Solid Waste/Sanitation Fund by \$18,163.

Such overexpenditures are a violation of state statutes. These overexpenditures were funded by available fund balances and by greater than anticipated revenues.

**D. Appropriations Exceeded Estimated Available Funds**

Appropriations of the Drug Control Fund exceeded estimated available funds by \$3,000.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

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

**Deposits**

**Legal Provisions.** All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public fund accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held.

Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for the purposes of credit risk disclosure.

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

**Investments**

**Legal Provisions.** Counties are authorized to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; and the county’s own legally issued bonds or notes. These investments may not have a maturity greater than two years. The county may make investments with longer maturities if various restrictions set out in state law are followed. Counties are also authorized to make investments in the State Treasurer’s Investment Pool and in repurchase agreements. Repurchase agreements must be approved by the state director of Local Finance and executed in accordance with procedures established by the State Funding Board. Securities purchased under a repurchase agreement must be obligations of the U.S. government, or obligations guaranteed by the U.S. government, or any of its agencies. When repurchase agreements are executed, the purchase of the securities must be priced at least two percent below the market value of the securities on the day of purchase. Clay County had no pooled or nonpooled investments at June 30, 2006.

**B. Interfund Receivables and Payables**

The composition of interfund balances as of June 30, 2006, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental	\$ 1,635

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

**C. Capital Leases**

On November 13, 2000, Clay County entered into a six-year lease-purchase agreement for a garbage truck. The terms of the agreement require total lease payments of \$149,750 plus interest of 6.36 percent. Title to the garbage truck transfers to Clay County at the end of the lease period. The lease payments are made by the Solid Waste/Sanitation Fund.

On September 1, 2005, Clay County entered into a ten-year lease-purchase agreement for a geothermal heating system for the administration/senior center building. The terms of the agreement require total lease payments of \$72,727 plus interest of five percent. The lease payments are made by the General Fund.

Since Clay County is presenting fund financial statements only, the present value of minimum lease payments under the lease agreements has not been reported as a liability in the financial statements of the governmental funds. Long-term debt for governmental funds is required to be reported as a liability in the government-wide financial statements, but Clay County is not presenting government-wide financial statements. Future minimum lease payments and the net present value of these minimum lease payments as of June 30, 2006, were as follows:

<u>Year Ending June 30</u>	<u>Governmental Funds</u>
2007	\$ 16,692
2008	9,256
2009	9,257
2010	9,256
2011	9,257
2012-2016	<u>39,342</u>
Total Minimum Lease Payments	\$ 93,060
Less: Amount Representing Interest	<u>(17,299)</u>
Present Value of Minimum Lease Payments	<u>\$ 75,761</u>

**D. Long-term Debt**

Since Clay County is presenting fund financial statements only, long-term debt is not reported as a liability in the financial statements of the governmental funds. Long-term debt for governmental funds is required to be reported as a liability in government-wide financial statements, but Clay County is not presenting government-wide financial statements.

Other Loans

The county issues other loans to provide funds for the acquisition and construction of major capital facilities.

The county's other loan is a direct obligation and pledges the full faith and credit of the government. The other loan outstanding was issued for an original term of 27 years. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. The other loan included in long-term debt as of June 30, 2006, will be retired from the General Debt Service Fund.

The other loan and capital leases outstanding as of June 30, 2006, are as follows:

Type	Interest Rate	Original Amount of Issue	Balance 6-30-06
Other Loan	variable	\$ 227,133	\$ 227,133
Capital Leases	5 to 6.36 %	222,477	75,761

During the year, Clay County entered into a loan agreement with the Montgomery County Public Building Authority. This loan agreement provided for the authority to make \$2,000,000 available for loan to Clay County on an as-needed basis for various renovation and construction projects and to purchase solid waste equipment. As of June 30, 2006, Clay County had borrowed \$227,133 of this loan. This loan is repayable at an interest rate that is a tax-exempt variable rate determined by the remarketing agent daily or weekly, depending on the particular program. In addition, the county pays various other fees (trustee, letter of credit, and debt remarketing) in connection with this loan. At June 30, 2006, the variable interest rate was 3.7 percent, and other fees amounted to approximately .25 percent (letter of credit), .7 percent (remarketing), and a trustee fee of \$100 per month.

The annual requirements to amortize the other loan outstanding as of June 30, 2006, including interest payments and other fees, are presented in the following table:

Year Ending June 30	Other Loan			Total
	Principal	Interest	Other Fees	
2007	\$ 42,000	\$ 73,871	\$ 7,589	\$ 123,460
2008	44,000	72,310	7,454	123,764
2009	46,000	70,676	7,313	123,989
2010	48,000	68,968	7,165	124,133
2011	47,133	67,186	7,011	121,330
Total	\$ 227,133	\$ 353,011	\$ 36,532	\$ 616,676

There is \$686,511 available in the General Debt Service Fund to service long-term debt. Debt per capita totaled \$38, based on the 2000 federal census.

#### Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

Governmental Activities:

	Note	Capital Leases	Other Loan
Balance, July 1, 2005	\$ 16,818	\$ 35,472	\$ 0
Additions	0	72,727	227,133
Deductions	(16,818)	(32,438)	0
Balance, June 30, 2006	\$ 0	\$ 75,761	\$ 227,133
Balance Due Within One Year	\$ 0	\$ 13,290	\$ 42,000

#### **E. Short-term Debt**

Clay County issued a tax anticipation note from the General Fund in advance of property tax collections and deposited the proceeds into the Solid Waste/Sanitation Fund. This note was necessary because funds were not available to meet current expenditures coming due before current tax collections. This loan should have been retired by June 30, 2006; however, after notifying the state director of Local Finance, the note remained unpaid as of June 30, 2006, and therefore has been reflected in the financial statements of this report as a current note receivable in the General Fund and a revenue anticipation note payable in the Solid Waste/Sanitation Fund.

Clay County issued revenue anticipation notes from the General Fund in advance of loan proceeds and deposited the proceeds into the Solid Waste/Sanitation Fund. These notes were necessary because funds were not available to purchase solid waste equipment that was received prior to the loan proceeds becoming available. A portion of these notes remained unpaid at June 30, 2006, and therefore has been reflected in the financial

statements of this report as a current notes receivable in the General Fund and a revenue anticipation notes payable in the Solid Waste/Sanitation Fund.

Short-term debt activity for the year ended June 30, 2006, was as follows:

	Balance 7-1-05	Issued	Redeemed	Balance 6-30-06
Tax Anticipation	\$ 0	\$ 60,000	\$ 0	\$ 60,000
Revenue Anticipation	0	208,250	(203,330)	4,920
Total	<u>\$ 0</u>	<u>\$ 268,250</u>	<u>\$ (203,330)</u>	<u>\$ 64,920</u>

#### IV. OTHER INFORMATION

##### A. Risk Management

The county is exposed to various risks related to general liability, property, casualty, and workers' compensation losses. The county's risk of loss relating to general liability, property, casualty, and workers' compensation is covered by participation in the Local Government Property and Casualty Fund (LGPCF) and the Local Government Workers' Compensation Fund, which are public entity risk pools established by the Tennessee County Services Association, an association of member counties. The county pays annual premiums to these pools for their general liability, property, casualty, and workers' compensation insurance coverage. The creation of these pools provides for it to be self-sustaining through member premiums. The LGPCF reinsures through commercial insurance companies for claims exceeding \$100,000 for each insured event.

##### B. Accounting Changes

The provisions of Governmental Accounting Standards Board (GASB) Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries became effective for the year ended June 30, 2006. GASB Statement No. 42 requires governments to report the effects of capital asset impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital asset. In addition, GASB Statement No. 42 clarifies and establishes accounting requirements for insurance recoveries. GASB Statement No. 42 had no effect on the financial statements for the year ended June 30, 2006, since no capital asset impairment and insurance recoveries occurred. However, it is reasonably expected that capital asset impairment and insurance recoveries may occur in subsequent years that will be subject to the provisions of Statement No. 42.

The provisions of GASB Statement No. 44, Economic Condition Reporting: The Statistical Section (an amendment of NCGA Statement 1) became effective for the year ended June 30, 2006. GASB Statement No. 44 applies to the preparation of the statistical section. State and local governments may, but are not required to, prepare a statistical section to accompany basic financial statements. However, a statistical section is required to accompany a comprehensive annual financial report. Since Clay County is not presenting a comprehensive annual financial report, it has elected not to prepare a statistical section. A limited statistical section was presented in the prior year's report. GASB Statement No. 44 amends guidance related to the preparation of the statistical section. This statement improves the understandability and usefulness of statistical information by addressing the comparability problems that have developed in practice and by adding information from the new financial reporting model for state and local governments required by GASB Statement No. 34. GASB Statement No. 44 establishes the objectives of the statistical section and the five categories it contains: financial trends, revenue capacity, debt capacity, demographic and economic, and operating. It is reasonably expected that Clay County will prepare and present a statistical section in subsequent years that follows the requirements of GASB Statement No. 44.

The provisions of GASB Statement No. 46, Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34 became effective for the year ended June 30, 2006. GASB Statement No. 46 provides guidance to determine when net assets have been restricted to a particular use by the passage of enabling legislation and specifies how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation. The statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation as of the end of the reporting period. Clay County had no net assets restricted by enabling legislation to disclose as of June 30, 2006. But it is reasonably expected that Clay County will be required to disclose net assets restricted by enabling legislation in subsequent years.

The provisions of GASB Statement No. 47, Accounting for Termination Benefits became effective for the year ended June 30, 2006. GASB Statement No. 47 provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees who are involuntarily terminated. Statement No. 47 specifies when governments should recognize the cost of termination benefits they offer in accrual basis financial statements. Clay County was not offering any termination benefits to employees as of June 30, 2006. But it is reasonably expected that Clay County will offer termination benefits in subsequent years subject to the accounting and reporting requirements of GASB Statement No. 47.

**C. Subsequent Events**

On August 31, 2006, Luke Collins left the Office of County Mayor and was succeeded by Dale Reagan, Peggy Ballard left the Office of Circuit and General Sessions Courts Clerk and was succeeded by Susan Birdwell, and Jerry Rhoton left the Office of Sheriff and was succeeded by James Story.

The county approved a resolution to amend the payment schedule for the \$2,000,000 loan from the Montgomery County Public Building Authority. The first principal payment on the loan was due on May 25, 2007; however, this payment will be extended to May 25, 2008. The final principal payment on the loan will remain May 25, 2033.

**D. Contingent Liabilities**

Subsequent to June 30, 2006, Clay County terminated a construction management contract dated May 5, 2005, and requested a final itemized invoice from the contractor because the project had not materialized. The contractor submitted an invoice to the county for \$89,994; however, because the services on the invoice were not itemized, the county is disputing the amount. According to the county attorney, an offer to settle for less than the amount has been given to the county, but the county will not consider the offer without an itemized invoice. This matter is in the negotiation stage.

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

**E. Joint Ventures**

The Tri-County Vocational School Board operates the Cooperative Vocational School, which is jointly owned by Clay, Jackson, and Macon Counties. The board comprises 17 members, 11 of whom are the three directors of schools, three county mayors, and five high school principals from Clay, Jackson, and Macon counties. The remaining six members are each appointed by the three county school boards and county commissions. Clay, Jackson, and Macon counties have control over budgeting and financing the joint venture only to the extent of representation by the six board members appointed. The counties are responsible for funding operations and any deficits from operations based on their participation in the joint venture, which is 24 percent (Clay), 30 percent (Jackson), and 46 percent (Macon); however, the counties do not retain an equity interest in the joint venture. Clay County contributed \$53,152 to the operations of the board during the year. Complete financial statements for the Tri-County Vocational School can be obtained from its administrative office at the following address:

Administrative Office:

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

**F. Jointly Governed Organization**

The Board of County Commissioners is responsible for appointing five of the nine board members of the Industrial Development Board of Clay County and Celina, Tennessee. The remaining four members are appointed by the City of Celina Board of Aldermen. However, the county's accountability for this organization does not extend beyond making the appointments.

**G. Retirement Commitments**

**Plan Description**

Employees of Clay 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 Clay 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](http://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

Clay 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, 2006, was 6.29 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Clay County is established and may be amended by the TCRS Board of Trustees.

## Annual Pension Cost

For the year ended June 30, 2006, Clay County's annual pension cost of \$145,763 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. Clay 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, 2005, was 19 years. An actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 2006.

## Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6-30-06	\$145,763	100%	\$0
6-30-05	131,689	100	0
6-30-04	106,141	100	0

## Schedule of Funding Progress

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/c)
6-30-05	\$3,564	\$3,826	\$262	93.15%	\$2,011	13.03%
6-30-03	3,078	3,352	274	91.83	1,684	16.27
6-30-01	2,693	3,005	312	89.62	1,566	19.92

### **H. Purchasing Laws**

#### Office of County Mayor

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

#### Office of Highway Superintendent

Chapter 565, Private Acts of 1951, as amended, and Section 54-7-113, TCA (Uniform Road Law), govern purchasing procedures for the Highway Department. Provisions of the Uniform Road Law require all purchases exceeding \$10,000 to be made on the basis of publicly advertised competitive bids.

---

---

**REQUIRED SUPPLEMENTARY  
INFORMATION**

---

---

Exhibit D-1

Clay County, Tennessee  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual and Budget  
General Fund  
For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 1,686,338	\$ 1,588,467	\$ 1,588,467	\$ 97,871
Licenses and Permits	3,342	1,700	1,700	1,642
Fines, Forfeitures, and Penalties	32,624	24,340	24,340	8,284
Charges for Current Services	7,736	3,700	3,700	4,036
Other Local Revenues	56,861	18,500	18,500	38,361
Fees Received from County Officials	168,093	134,700	134,700	33,393
State of Tennessee	409,556	273,820	308,128	101,428
Federal Government	974,729	20,070	901,960	72,769
Other Governments and Citizens Groups	5,000	0	0	5,000
Total Revenues	\$ 3,344,279	\$ 2,065,297	\$ 2,981,495	\$ 362,784
<u>Expenditures</u>				
<u>General Government</u>				
County Commission	\$ 30,596	\$ 32,906	\$ 34,906	\$ 4,310
Board of Equalization	1,010	1,050	1,050	40
Beer Board	273	275	1,350	1,077
County Mayor/Executive	115,874	110,428	118,091	2,217
County Attorney	3,600	3,600	3,600	0
Election Commission	59,675	79,518	79,518	19,843
Register of Deeds	54,616	54,926	54,926	310
County Buildings	209,626	71,129	213,845	4,219
<u>Finance</u>				
Property Assessor's Office	83,412	83,650	83,650	238
County Trustee's Office	10,228	10,280	10,280	52
County Clerk's Office	17,725	17,507	17,507	(218)
<u>Administration of Justice</u>				
Circuit Court	132,203	131,567	134,611	2,408
General Sessions Court	49,762	49,763	49,763	1
Chancery Court	48,978	48,901	48,901	(77)
Juvenile Court	10,894	11,258	11,258	364
Judicial Commissioners	10,386	9,557	10,386	0
<u>Public Safety</u>				
Sheriff's Department	661,095	480,267	667,223	6,128
Drug Enforcement	3,000	0	0	(3,000)
Jail	70,344	50,329	80,529	10,185
Correctional Incentive Program Improvements	1,600	7,200	7,200	5,600
Fire Prevention and Control	28,173	20,000	40,098	11,925
Rescue Squad	10,500	2,500	10,500	0
Other Emergency Management	20,453	10,900	21,497	1,044
County Coroner/Medical Examiner	8,254	12,000	12,000	3,746
<u>Public Health and Welfare</u>				
Local Health Center	25,498	28,000	38,000	12,502
Ambulance/Emergency Medical Services	253,500	198,000	270,000	16,500

(Continued)

## Exhibit D-1

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Expenditures (Cont.)</u>				
<u>Public Health and Welfare (Cont.)</u>				
Crippled Children Services	\$ 700	\$ 700	\$ 700	\$ 0
Other Local Health Services	3,197	0	1,800	(1,397)
Appropriation to State	10,600	10,600	10,600	0
<u>Social, Cultural, and Recreational Services</u>				
Senior Citizens Assistance	44,945	42,850	45,650	705
Libraries	62,333	62,444	62,444	111
Other Social, Cultural, and Recreational	31,701	8,510	31,960	259
<u>Agriculture &amp; Natural Resources</u>				
Agriculture Extension Service	54,677	64,345	64,345	9,668
Forest Service	1,000	1,000	1,000	0
Soil Conservation	24,724	37,278	38,028	13,304
<u>Other Operations</u>				
Tourism	6,708	6,799	6,924	216
Industrial Development	26,295	29,500	29,500	3,205
Other Economic and Community Development	889,176	3,000	893,528	4,352
Other Charges	102,245	99,500	111,908	9,663
Contributions to Other Agencies	53,252	54,652	54,652	1,400
Employee Benefits	187,265	256,500	281,280	94,015
<u>Highways</u>				
Litter and Trash Collection	46,050	47,954	47,954	1,904
<u>Principal on Debt</u>				
General Government	4,286	0	4,286	0
<u>Interest on Debt</u>				
General Government	4,737	0	4,737	0
<u>Other Debt Service</u>				
General Government	193	0	193	0
Total Expenditures	\$ 3,475,359	\$ 2,251,143	\$ 3,712,178	\$ 236,819
Excess (Deficiency) of Revenues				
Over Expenditures	\$ (131,080)	\$ (185,846)	\$ (730,683)	\$ 599,603
<u>Other Financing Sources (Uses)</u>				
Capital Leases Issued	\$ 72,727	\$ 0	\$ 72,727	\$ 0
Other Loans Issued	9,803	0	9,803	0
Total Other Financing Sources (Uses)	\$ 82,530	\$ 0	\$ 82,530	\$ 0
Net Change in Fund Balance				
Fund Balance, July 1, 2005	\$ 982,567	\$ 1,039,109	\$ 1,039,109	\$ (56,542)
Fund Balance, June 30, 2006	\$ 934,017	\$ 853,263	\$ 390,956	\$ 543,061

Exhibit D-2

Clay County, Tennessee  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual and Budget  
Solid Waste/Sanitation Fund  
For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 325,743	\$ 332,702	\$ 332,702	\$ (6,959)
Charges for Current Services	95,402	60,000	60,000	35,402
Other Local Revenues	12,324	13,000	13,000	(676)
State of Tennessee	28,282	0	35,500	(7,218)
Total Revenues	<u>\$ 461,751</u>	<u>\$ 405,702</u>	<u>\$ 441,202</u>	<u>\$ 20,549</u>
<u>Expenditures</u>				
<u>Public Health and Welfare</u>				
Waste Pickup	\$ 690,497	\$ 416,681	\$ 672,961	\$ (17,536)
<u>Other Operations</u>				
Other Charges	7,627	7,000	7,000	(627)
Total Expenditures	<u>\$ 698,124</u>	<u>\$ 423,681</u>	<u>\$ 679,961</u>	<u>\$ (18,163)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (236,373)</u>	<u>\$ (17,979)</u>	<u>\$ (238,759)</u>	<u>\$ 2,386</u>
<u>Other Financing Sources (Uses)</u>				
Other Loans Issued	\$ 217,330	0	\$ 203,330	\$ 14,000
Total Other Financing Sources (Uses)	<u>\$ 217,330</u>	<u>\$ 0</u>	<u>\$ 203,330</u>	<u>\$ 14,000</u>
Net Change in Fund Balance	\$ (19,043)	\$ (17,979)	\$ (35,429)	\$ 16,386
Fund Balance, July 1, 2005	<u>(26,992)</u>	<u>62,557</u>	<u>62,557</u>	<u>(89,549)</u>
Fund Balance, June 30, 2006	<u><u>\$ (46,035)</u></u>	<u><u>\$ 44,578</u></u>	<u><u>\$ 27,128</u></u>	<u><u>\$ (73,163)</u></u>

Exhibit D-3

Clay County, Tennessee  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual and Budget  
Highway/Public Works Fund  
For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 5,588	\$ 15,000	\$ 15,000	\$ (9,412)
Other Local Revenues	51,909	0	28,722	23,187
State of Tennessee	1,425,306	1,492,418	1,492,418	(67,112)
Total Revenues	<u>\$ 1,482,803</u>	<u>\$ 1,507,418</u>	<u>\$ 1,536,140</u>	<u>\$ (53,337)</u>
<u>Expenditures</u>				
<u>Highways</u>				
Administration	\$ 95,405	\$ 96,852	\$ 99,703	\$ 4,298
Highway and Bridge Maintenance	1,128,894	1,238,432	1,352,132	223,238
Operation and Maintenance of Equipment	193,255	169,400	211,900	18,645
Other Charges	98,665	89,050	101,211	2,546
Employee Benefits	59,095	63,440	67,440	8,345
Capital Outlay	144,549	295,000	309,550	165,001
Total Expenditures	<u>\$ 1,719,863</u>	<u>\$ 1,952,174</u>	<u>\$ 2,141,936</u>	<u>\$ 422,073</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (237,060)</u>	<u>\$ (444,756)</u>	<u>\$ (605,796)</u>	<u>\$ 368,736</u>
Net Change in Fund Balance	<u>\$ (237,060)</u>	<u>\$ (444,756)</u>	<u>\$ (605,796)</u>	<u>\$ 368,736</u>
Fund Balance, July 1, 2005	<u>713,258</u>	<u>693,237</u>	<u>693,237</u>	<u>20,021</u>
Fund Balance, June 30, 2006	<u>\$ 476,198</u>	<u>\$ 248,481</u>	<u>\$ 87,441</u>	<u>\$ 388,757</u>

**CLAY COUNTY, TENNESSEE**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**For the Year Ended June 30, 2006**

**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 County Commission may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

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

**B. FUND DEFICIT**

The Solid Waste/Sanitation Fund (special revenue fund) had a fund deficit of \$46,035 as of June 30, 2006. This fund deficit resulted from expenditures exceeding available funds. This deficit was liquidated subsequent to June 30, 2006.

**C. EXPENDITURES EXCEEDED APPROPRIATIONS**

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

<u>Major Appropriation Category</u>	<u>Amount Overspent</u>
County Clerk's Office	\$ 218
Chancery Court	77
Drug Enforcement	3,000
Other Local Health Services	1,397

Also, expenditures exceeded the total appropriations approved by the County Commission in the Solid Waste/Sanitation Fund by \$18,163.

Such overexpenditures are a violation of state statutes. These overexpenditures were funded by available fund balances and 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 purposes.

---

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

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.

Exhibit E-1

Clay County, Tennessee  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2006

	<u>Special Revenue Funds</u>			
	Courthouse and Jail Maintenance	Drug Control	Constitu - tional Officers - Fees	Total Nonmajor Governmental Funds
<u>ASSETS</u>				
Cash	\$ 0	\$ 0	\$ 32,306	\$ 32,306
Equity in Pooled Cash and Investments	9,521	22,927	0	32,448
Accounts Receivable	0	0	70	70
Total Assets	<u>\$ 9,521</u>	<u>\$ 22,927</u>	<u>\$ 32,376</u>	<u>\$ 64,824</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities</u>				
Due to Other Funds	\$ 0	\$ 0	\$ 1,635	\$ 1,635
Total Liabilities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,635</u>	<u>\$ 1,635</u>
<u>Fund Balances</u>				
Unreserved	\$ 9,521	\$ 22,927	\$ 30,741	\$ 63,189
Total Fund Balances	<u>\$ 9,521</u>	<u>\$ 22,927</u>	<u>\$ 30,741</u>	<u>\$ 63,189</u>
Total Liabilities and Fund Balances	<u>\$ 9,521</u>	<u>\$ 22,927</u>	<u>\$ 32,376</u>	<u>\$ 64,824</u>

Exhibit E-2

Clay County, Tennessee  
Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2006

	<u>Special Revenue Funds</u>			Total Nonmajor Governmental Funds
	Courthouse and Jail Maintenance	Drug Control	Constitu - tional Officers - Fees	
<u>Revenues</u>				
Local Taxes	\$ 1,280	\$ 0	\$ 0	\$ 1,280
Fines, Forfeitures, and Penalties	0	22,304	0	22,304
Charges for Current Services	0	0	150,097	150,097
Total Revenues	<u>\$ 1,280</u>	<u>\$ 22,304</u>	<u>\$ 150,097</u>	<u>\$ 173,681</u>
<u>Expenditures</u>				
Current:				
General Government	\$ 1,375	\$ 0	\$ 0	\$ 1,375
Finance	0	0	150,103	150,103
Public Safety	0	10,291	0	10,291
Other Operations	11	135	0	146
Total Expenditures	<u>\$ 1,386</u>	<u>\$ 10,426</u>	<u>\$ 150,103</u>	<u>\$ 161,915</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (106)</u>	<u>\$ 11,878</u>	<u>\$ (6)</u>	<u>\$ 11,766</u>
Net Change in Fund Balances	<u>\$ (106)</u>	<u>\$ 11,878</u>	<u>\$ (6)</u>	<u>\$ 11,766</u>
Fund Balance, July 1, 2005	<u>9,627</u>	<u>11,049</u>	<u>30,747</u>	<u>51,423</u>
Fund Balance, June 30, 2006	<u><u>\$ 9,521</u></u>	<u><u>\$ 22,927</u></u>	<u><u>\$ 30,741</u></u>	<u><u>\$ 63,189</u></u>

Exhibit E-3

Clay County, Tennessee  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual and Budget  
Courthouse & Jail Maintenance Fund  
For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 1,280	\$ 1,500	\$ 1,500	\$ (220)
Total Revenues	\$ 1,280	\$ 1,500	\$ 1,500	\$ (220)
<u>Expenditures</u>				
<u>General Government</u>				
County Buildings	\$ 1,375	\$ 1,400	\$ 1,400	\$ 25
<u>Other Operations</u>				
Other Charges	11	20	20	9
Total Expenditures	\$ 1,386	\$ 1,420	\$ 1,420	\$ 34
Excess (Deficiency) of Revenues Over Expenditures	\$ (106)	\$ 80	\$ 80	\$ (186)
Net Change in Fund Balance	\$ (106)	\$ 80	\$ 80	\$ (186)
Fund Balance, July 1, 2005	9,627	9,991	9,991	(364)
Fund Balance, June 30, 2006	\$ 9,521	\$ 10,071	\$ 10,071	\$ (550)

Exhibit E-4

Clay County, Tennessee  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual and Budget  
Drug Control Fund  
For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Fines, Forfeitures, and Penalties	\$ 22,304	\$ 11,500	\$ 11,500	\$ 10,804
Other Local Revenues	0	50	50	(50)
Total Revenues	\$ 22,304	\$ 11,550	\$ 11,550	\$ 10,754
<u>Expenditures</u>				
<u>Public Safety</u>				
Drug Enforcement	\$ 10,291	\$ 17,991	\$ 20,991	\$ 10,700
<u>Other Operations</u>				
Other Charges	135	0	0	(135)
Total Expenditures	\$ 10,426	\$ 17,991	\$ 20,991	\$ 10,565
Excess (Deficiency) of Revenues Over Expenditures	\$ 11,878	\$ (6,441)	\$ (9,441)	\$ 21,319
Net Change in Fund Balance	\$ 11,878	\$ (6,441)	\$ (9,441)	\$ 21,319
Fund Balance, July 1, 2005	11,049	6,441	6,441	4,608
Fund Balance, June 30, 2006	\$ 22,927	\$ 0	\$ (3,000)	\$ 25,927

# **Major Governmental Fund**

## **General Debt Service Fund**

---

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

---

Exhibit F

Clay County, Tennessee  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual and Budget  
General Debt Service Fund  
For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 65,785	\$ 37,574	\$ 37,574	\$ 28,211
Other Local Revenues	91,366	85,000	85,000	6,366
Total Revenues	\$ 157,151	\$ 122,574	\$ 122,574	\$ 34,577
<u>Expenditures</u>				
<u>Principal on Debt</u>				
General Government	\$ 16,818	\$ 16,818	\$ 16,849	\$ 31
<u>Interest on Debt</u>				
General Government	552	506	1,027	475
<u>Other Debt Service</u>				
General Government	1,796	1,000	1,000	(796)
Total Expenditures	\$ 19,166	\$ 18,324	\$ 18,876	\$ (290)
Excess (Deficiency) of Revenues Over Expenditures	\$ 137,985	\$ 104,250	\$ 103,698	\$ 34,287
Net Change in Fund Balance	\$ 137,985	\$ 104,250	\$ 103,698	\$ 34,287
Fund Balance, July 1, 2005	548,526	528,623	528,623	19,903
Fund Balance, June 30, 2006	\$ 686,511	\$ 632,873	\$ 632,321	\$ 54,190

# Fiduciary Funds

---

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

---

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

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

Exhibit G-1

Clay County, Tennessee  
Combining Statement of Fiduciary Assets and Liabilities  
Fiduciary Funds  
June 30, 2006

	<u>Agency Funds</u>		
	Cities - Sales Tax	Constitu- tional Officers - Agency	Total
<u>ASSETS</u>			
Cash	\$ 0	\$ 406,058	\$ 406,058
Due from Other Governments	49,621	0	49,621
Total Assets	<u>\$ 49,621</u>	<u>\$ 406,058</u>	<u>\$ 455,679</u>
<u>LIABILITIES</u>			
Due to Other Taxing Units	\$ 49,621	\$ 0	\$ 49,621
Due to Litigants, Heirs, and Others	0	406,058	406,058
Total Liabilities	<u>\$ 49,621</u>	<u>\$ 406,058</u>	<u>\$ 455,679</u>

Exhibit G-2

Clay County, Tennessee  
Combining Statement of Changes in Assets and Liabilities - All Agency Funds  
For the Year Ended June 30, 2006

	Beginning Balance	Additions	Deductions	Ending Balance
<u>Cities - Sales Tax Fund</u>				
<u>Assets</u>				
Equity in Pooled Cash and Investments	\$ 0	\$ 282,706	\$ 282,706	\$ 0
Due From Other Governments	52,332	49,621	52,332	49,621
Total Assets	\$ 52,332	\$ 332,327	\$ 335,038	\$ 49,621
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 52,332	\$ 332,327	\$ 335,038	\$ 49,621
Total Liabilities	\$ 52,332	\$ 332,327	\$ 335,038	\$ 49,621
<u>Constitutional Officers - Agency Fund</u>				
<u>Assets</u>				
Cash	\$ 454,083	\$ 4,501,359	\$ 4,549,384	\$ 406,058
Total Assets	\$ 454,083	\$ 4,501,359	\$ 4,549,384	\$ 406,058
<u>Liabilities</u>				
Due to Litigants, Heirs, and Others	\$ 454,083	\$ 4,501,359	\$ 4,549,384	\$ 406,058
Total Liabilities	\$ 454,083	\$ 4,501,359	\$ 4,549,384	\$ 406,058
<u>Totals - All Agency Funds</u>				
<u>Assets</u>				
Equity in Pooled Cash and Investments	\$ 0	\$ 282,706	\$ 282,706	\$ 0
Cash	454,083	4,501,359	4,549,384	406,058
Due From Other Governments	52,332	49,621	52,332	49,621
Total Assets	\$ 506,415	\$ 4,833,686	\$ 4,884,422	\$ 455,679
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 52,332	\$ 332,327	\$ 335,038	\$ 49,621
Due to Litigants, Heirs, and Others	454,083	4,501,359	4,549,384	406,058
Total Liabilities	\$ 506,415	\$ 4,833,686	\$ 4,884,422	\$ 455,679

---

---

## MISCELLANEOUS SCHEDULES

---

---

Exhibit H-1

Clay County, Tennessee  
Schedule of Changes in Long-term Notes, Capital Leases, and Other Loans  
For the Year Ended June 30, 2006

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-05	Issued During Period	Paid and/or Matured During Period	Outstanding 6-30-06
<u>NOTES PAYABLE</u>								
<u>Payable through General Debt Service Fund</u>								
Emergency Vehicles	\$ 49,000	3%	12-20-02	12-20-05	\$ 16,818	\$ 0	\$ 16,818	\$ 0
<u>CAPITAL LEASES PAYABLE</u>								
<u>Payable through General Fund</u>								
Geothermal Heating System	72,727	5	9-1-05	9-15-15	\$ 0	\$ 72,727	\$ 4,286	\$ 68,441
<u>Payable through Solid Waste/Sanitation Fund</u>								
Garbage Truck	149,750	6.36	11-13-00	7-6-06	35,472	0	28,152	7,320
Total Capital Leases Payable					\$ 35,472	\$ 72,727	\$ 32,438	\$ 75,761
<u>OTHER LOANS PAYABLE</u>								
<u>Payable through General Debt Service Fund</u>								
Construction Projects and Solid Waste Equipment	(1)	Variable	4-27-06	5-25-33	\$ 0	\$ 227,133	\$ 0	\$ 227,133

(1) Amount available under a loan agreement with the Montgomery County Public Building Authority is \$2,000,000 of which \$227,133 had been received at June 30, 2006.

Exhibit H-2

Clay County, Tennessee  
Schedule of Notes Receivable  
June 30, 2006

<u>Description/Payee</u>	<u>Debtor</u>	<u>Original Amount of Notes</u>	<u>Date of Maturity</u>	<u>Interest Rate</u>	<u>Balance 6-30-06</u>
Revenue Anticipation Notes:					
General Fund	Solid Waste/Sanitation Fund	\$ 60,000	6-30-06	0%	\$ 60,000 (1)
General Fund	Solid Waste/Sanitation Fund	208,250	6-30-06	0%	4,920 (2)

(1) This note was not retired by June 30, 2006, as required by state statutes. The county notified the state director of Local Finance on June 28, 2006, that the note would not be repaid.

(2) This note was not retired by June 30, 2006, as required by state statutes.

Exhibit H-3

Clay County, Tennessee  
Schedule of Salaries and Official Bonds of Principal Officials  
For the Year Ended June 30, 2006

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
County Mayor	Section 8-24-102, <u>TCA</u>	\$ 51,452	\$ 25,000	RLI Insurance Company
Highway Superintendent	Section 8-24-102, <u>TCA</u>	49,002	100,000	"
Trustee	Section 8-24-102, <u>TCA</u>	44,548	313,600	"
Assessor of Property	Section 8-24-102, <u>TCA</u>	44,548	10,000	"
County Clerk	Section 8-24-102, <u>TCA</u>	44,548	35,000	"
Circuit Court Clerk	Section 8-24-102, <u>TCA</u> and Circuit Court Judge	44,848 (1)	35,000	"
Clerk and Master	Section 8-24-102, <u>TCA</u> and Chancery Court Judge	45,238 (2)	40,000	"
Register	Section 8-24-102, <u>TCA</u>	44,548	15,000	"
Sheriff	Section 8-24-102, <u>TCA</u>	49,002	25,000	"
Employee Blanket Bond Coverage:				
General County Employees			150,000	Local Government Insurance Pool

(1) Includes traffic school compensation of \$300.

(2) Includes special commissioner fees of \$690.

Exhibit H-4

Clay County, Tennessee  
 Schedule of Detailed Revenues -  
 All Governmental Fund Types  
 For the Year Ended June 30, 2006

	Special Revenue Funds						Debt Service Fund	Total
	General	Courthouse and Jail Maintenance	Solid Waste / Sanitation	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>Local Taxes</u>								
<u>County Property Taxes</u>								
Current Property Tax	\$ 739,742	\$ 0	\$ 260,881	\$ 0	\$ 0	\$ 0	\$ 27,717	\$ 1,028,340
Trustee's Collections - Prior Year	61,146	0	22,424	0	0	0	1,813	85,383
Circuit/Clerk & Master Collections - Prior Years	19,202	0	7,535	0	0	0	716	27,453
Interest and Penalty	9,989	0	3,920	0	0	0	688	14,597
Payments in-Lieu-of Taxes - T.V.A.	39,631	0	0	0	0	0	0	39,631
Payments in-Lieu-of Taxes - Local Utilities	68,126	0	26,731	0	0	0	2,539	97,396
<u>County Local Option Taxes</u>								
Local Option Sales Tax	273,880	0	0	0	0	0	0	273,880
Wheel Tax	196,325	0	0	0	0	0	0	196,325
Litigation Tax - General	30,430	0	0	0	0	0	0	30,430
Litigation Tax - Special Purpose	0	1,280	0	0	0	0	5,709	6,989
Mineral Severance Tax	0	0	0	0	0	5,588	0	5,588
Other County Local Option Taxes	1,236	0	0	0	0	0	0	1,236
<u>Statutory Local Taxes</u>								
Bank Excise Tax	10,836	0	4,252	0	0	0	404	15,492
Wholesale Beer Tax	235,795	0	0	0	0	0	26,199	261,994
Total Local Taxes	\$ 1,686,338	\$ 1,280	\$ 325,743	\$ 0	\$ 0	\$ 5,588	\$ 65,785	\$ 2,084,734
<u>Licenses and Permits</u>								
<u>Licenses</u>								
Cable TV Franchise	\$ 1,680	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,680
<u>Permits</u>								
Beer Permits	1,662	0	0	0	0	0	0	1,662
Total Licenses and Permits	\$ 3,342	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,342
<u>Fines, Forfeitures, and Penalties</u>								
<u>Circuit Court</u>								
Fines	\$ 6,853	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,853
Officers Costs	937	0	0	0	0	0	0	937
Drug Control Fines	0	0	0	2,869	0	0	0	2,869
Drug Court Fees	14	0	0	0	0	0	0	14
DUI Treatment Fines	95	0	0	0	0	0	0	95

(Continued)

Exhibit H-4

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

	Special Revenue Funds						Debt Service Fund	Total
	General	Courthouse and Jail Maintenance	Solid Waste / Sanitation	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>Fines, Forfeitures, and Penalties (Cont.)</u>								
<u>Circuit Court (Cont.)</u>								
Data Entry Fee - Circuit Court	\$ 188	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	188
<u>General Sessions Court</u>								
Fines	4,272	0	0	0	0	0	0	4,272
Officers Costs	14,037	0	0	0	0	0	0	14,037
Drug Control Fines	0	0	0	6,494	0	0	0	6,494
Drug Court Fees	1,395	0	0	0	0	0	0	1,395
DUI Treatment Fines	3,338	0	0	0	0	0	0	3,338
Data Entry Fee - General Sessions Court	1,123	0	0	0	0	0	0	1,123
<u>Juvenile Court</u>								
Fines	252	0	0	0	0	0	0	252
<u>Chancery Court</u>								
Data Entry Fee - Chancery Court	120	0	0	0	0	0	0	120
<u>Judicial District Drug Program</u>								
Drug Task Force Forfeitures and Seizures	0	0	0	12,941	0	0	0	12,941
Total Fines, Forfeitures, and Penalties	\$ 32,624	\$ 0	\$ 0	\$ 22,304	\$ 0	\$ 0	\$ 0	54,928
<u>Charges for Current Services</u>								
<u>General Service Charges</u>								
Tipping Fees	\$ 0	\$ 0	\$ 95,402	\$ 0	\$ 0	\$ 0	\$ 0	95,402
Work Release Charges for Board	1,700	0	0	0	0	0	0	1,700
<u>Fees</u>								
Constitutional Officers' Fees and Commissions	0	0	0	0	150,097	0	0	150,097
Data Processing Fee - Register	3,976	0	0	0	0	0	0	3,976
Sexual Offender Registration Fees - Sheriff	2,060	0	0	0	0	0	0	2,060
Total Charges for Current Services	\$ 7,736	\$ 0	\$ 95,402	\$ 0	\$ 150,097	\$ 0	\$ 0	253,235
<u>Other Local Revenues</u>								
<u>Recurring Items</u>								
Investment Income	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 91,366	91,366
Lease/Rentals	16,500	0	0	0	0	0	0	16,500
Sale of Recycled Materials	0	0	12,324	0	0	0	0	12,324
Miscellaneous Refunds	31,638	0	0	0	0	42,909	0	74,547

(Continued)

Exhibit H-4

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

	Special Revenue Funds						Debt Service Fund	Total
	General	Courthouse and Jail Maintenance	Solid Waste / Sanitation	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>Other Local Revenues (Cont.)</u>								
<u>Nonrecurring Items</u>								
Sale of Equipment	\$ 8,269	\$ 0	\$ 0	\$ 0	\$ 0	\$ 9,000	\$ 0	\$ 17,269
Sale of Property	10	0	0	0	0	0	0	10
<u>Other Local Revenues</u>								
Other Local Revenues	444	0	0	0	0	0	0	444
Total Other Local Revenues	\$ 56,861	\$ 0	\$ 12,324	\$ 0	\$ 0	\$ 51,909	\$ 91,366	\$ 212,460
<u>Fees Received from County Officials</u>								
<u>Excess Fees</u>								
County Clerk	\$ 23,496	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 23,496
Trustee	32,050	0	0	0	0	0	0	32,050
<u>Fees-In-Lieu of Salary</u>								
Circuit Court Clerk	15,238	0	0	0	0	0	0	15,238
General Sessions Court Clerk	25,426	0	0	0	0	0	0	25,426
Clerk and Master	29,610	0	0	0	0	0	0	29,610
Register	38,830	0	0	0	0	0	0	38,830
Sheriff	3,443	0	0	0	0	0	0	3,443
Total Fees Received from County Officials	\$ 168,093	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 168,093
<u>State of Tennessee</u>								
<u>General Government Grants</u>								
Juvenile Services Program	\$ 9,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 9,000
Aging Programs	12,354	0	0	0	0	0	0	12,354
State Reappraisal Grant	6,769	0	0	0	0	0	0	6,769
<u>Public Safety Grants</u>								
Other Public Safety Grants	3,250	0	0	0	0	0	0	3,250
<u>Public Works Grants</u>								
State Aid Program	0	0	0	0	0	116,262	0	116,262
Litter Program	41,111	0	0	0	0	0	0	41,111
<u>Other State Revenues</u>								
Income Tax	17,118	0	0	0	0	0	0	17,118
Beer Tax	17,212	0	0	0	0	0	0	17,212
Alcoholic Beverage Tax	15,171	0	0	0	0	0	0	15,171

(Continued)

Exhibit H-4

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

	Special Revenue Funds						Debt Service Fund	Total
	General	Courthouse and Jail Maintenance	Solid Waste / Sanitation	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>State of Tennessee (Cont.)</u>								
<u>Other State Revenues (Cont.)</u>								
State Revenue Sharing - T.V.A.	\$ 165,364	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 165,364
Contracted Prisoner Boarding	68,944	0	0	0	0	0	0	68,944
Gasoline and Motor Fuel Tax	0	0	0	0	0	1,302,627	0	1,302,627
Petroleum Special Tax	0	0	0	0	0	6,417	0	6,417
Registrar's Salary Supplement	16,380	0	0	0	0	0	0	16,380
Other State Grants	22,508	0	28,282	0	0	0	0	50,790
Other State Revenues	14,375	0	0	0	0	0	0	14,375
Total State of Tennessee	\$ 409,556	\$ 0	\$ 28,282	\$ 0	\$ 0	\$ 1,425,306	\$ 0	\$ 1,863,144
<u>Federal Government</u>								
<u>Federal Through State</u>								
Community Development	\$ 412,397	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 412,397
Homeland Security Grants	32,210	0	0	0	0	0	0	32,210
Other Federal through State	513,772	0	0	0	0	0	0	513,772
<u>Direct Federal Revenue</u>								
Police Service (Lake Area)	16,350	0	0	0	0	0	0	16,350
Total Federal Government	\$ 974,729	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 974,729
<u>Other Governments and Citizens Groups</u>								
<u>Other</u>								
Other	\$ 5,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 5,000
Total Other Governments and Citizens Groups	\$ 5,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 5,000
Total	\$ 3,344,279	\$ 1,280	\$ 461,751	\$ 22,304	\$ 150,097	\$ 1,482,803	\$ 157,151	\$ 5,619,665

Exhibit H-5

Clay County, Tennessee  
Schedule of Detailed Expenditures -  
All Governmental Fund Types  
For the Year Ended June 30, 2006

General Fund

General Government

County Commission

Board and Committee Members Fees	\$	23,408	
Other Per Diem & Fees		1,900	
Audit Services		1,955	
Consultants		500	
Dues and Memberships		950	
Legal Services		1,602	
Travel		281	
Total County Commission			\$ 30,596

Board of Equalization

Board and Committee Members Fees	\$	1,010	
Total Board of Equalization			1,010

Beer Board

Legal Notices, Recording, and Court Costs	\$	273	
Total Beer Board			273

County Mayor/Executive

County Official/Administrative Officer	\$	51,452	
Accountants/Bookkeepers		27,718	
Clerical Personnel		15,930	
Other Salaries & Wages		100	
Communication		2,413	
Data Processing Services		3,751	
Dues and Memberships		1,995	
Legal Notices, Recording, and Court Costs		1,272	
Maintenance Agreements		1,761	
Postal Charges		989	
Printing, Stationery, and Forms		285	
Travel		5,974	
Office Supplies		1,668	
Premiums on Corporate Surety Bonds		75	
Office Equipment		491	
Total County Mayor/Executive			115,874

County Attorney

County Official/Administrative Officer	\$	3,600	
Total County Attorney			3,600

(Continued)

Exhibit H-5

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

General Fund (Cont.)

General Government (Cont.)

Election Commission

County Official/Administrative Officer	\$	35,638	
Other Salaries & Wages		11,279	
Election Commission		2,535	
In-Service Training		1,138	
Communication		1,093	
Legal Notices, Recording, and Court Costs		325	
Maintenance & Repair Services - Buildings		17	
Postal Charges		1,198	
Printing, Stationery, and Forms		24	
Travel		292	
Office Supplies		506	
Office Equipment		<u>5,630</u>	
Total Election Commission	\$		59,675

Register of Deeds

County Official/Administrative Officer	\$	44,548	
Communication		982	
Data Processing Services		3,500	
Dues and Memberships		278	
Maintenance Agreements		1,798	
Postal Charges		301	
Printing, Stationery, and Forms		1,213	
Duplicating Supplies		1,000	
Office Supplies		421	
Premiums on Corporate Surety Bonds		75	
Office Equipment		<u>500</u>	
Total Register of Deeds			54,616

County Buildings

Custodial Personnel	\$	36,606	
Maintenance & Repair Services - Buildings		69,609	
Maintenance & Repair Services - Vehicles		995	
Custodial Supplies		3,015	
Electricity		19,053	
Gasoline		1,600	
Natural Gas		4,000	
Utilities		24	
Water and Sewer		1,997	
Heating and Air Conditioning Equipment		<u>72,727</u>	
Total County Buildings			209,626

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Finance

Property Assessor's Office

County Official/Administrative Officer	\$	44,548	
Deputy(ies)		18,792	
Part-time Personnel		6,105	
In-Service Training		799	
Communication		741	
Contracts with Private Agencies		4,974	
Data Processing Services		1,595	
Dues and Memberships		250	
Legal Notices, Recording, and Court Costs		150	
Postal Charges		1,505	
Printing, Stationery, and Forms		499	
Travel		1,456	
Office Supplies		1,498	
Office Equipment		500	
Total Property Assessor's Office			\$ 83,412

County Trustee's Office

Data Processing Services	\$	3,752	
Dues and Memberships		278	
Legal Notices, Recording, and Court Costs		299	
Postal Charges		1,888	
Printing, Stationery, and Forms		1,000	
Office Supplies		1,811	
Premiums on Corporate Surety Bonds		1,200	
Total County Trustee's Office			10,228

County Clerk's Office

Communication	\$	1,899	
Dues and Memberships		556	
Postal Charges		2,000	
Rentals		7,800	
Electricity		1,721	
Office Supplies		2,599	
Premiums on Corporate Surety Bonds		150	
Office Equipment		1,000	
Total County Clerk's Office			17,725

Administration of Justice

Circuit Court

County Official/Administrative Officer	\$	44,548	
--	----	--------	--

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Administration of Justice (Cont.)

Circuit Court (Cont.)

Deputy(ies)	\$	23,390	
Clerical Personnel		36,762	
Other Salaries & Wages		1,125	
Jury and Witness Fees		8,973	
Communication		2,574	
Data Processing Services		7,080	
Dues and Memberships		278	
Legal Notices, Recording, and Court Costs		402	
Postal Charges		996	
Printing, Stationery, and Forms		1,203	
Office Supplies		1,961	
Premiums on Corporate Surety Bonds		150	
Data Processing Equipment		1,283	
Office Equipment		1,478	
Total Circuit Court			\$ 132,203

General Sessions Court

Judge(s)	\$	49,762	
Total General Sessions Court			49,762

Chancery Court

County Official/Administrative Officer	\$	44,548	
Communication		1,184	
Dues and Memberships		278	
Postal Charges		700	
Office Supplies		2,043	
Premiums on Corporate Surety Bonds		225	
Total Chancery Court			48,978

Juvenile Court

Supervisor/Director	\$	9,200	
Social Security		619	
Unemployment Compensation		175	
Other Contracted Services		900	
Total Juvenile Court			10,894

Judicial Commissioners

County Official/Administrative Officer	\$	9,777	
Other Salaries & Wages		300	
Premiums on Corporate Surety Bonds		75	

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Administration of Justice (Cont.)

Judicial Commissioners (Cont.)

Office Equipment	\$ 234	
Total Judicial Commissioners		\$ 10,386

Public Safety

Sheriff's Department

County Official/Administrative Officer	\$ 49,002	
Assistant(s)	26,896	
Deputy(ies)	298,544	
Accountants/Bookkeepers	15,860	
Salary Supplements	4,668	
Dispatchers/Radio Operators	122,182	
Cafeteria Personnel	33,341	
Other Salaries & Wages	19,752	
In-Service Training	2,319	
Communication	6,279	
Evaluation and Testing	690	
Legal Services	4,296	
Maintenance & Repair Services - Buildings	102	
Maintenance & Repair Services - Equipment	3,998	
Maintenance & Repair Services - Vehicles	14,600	
Postal Charges	589	
Travel	2,730	
Gasoline	43,855	
Office Supplies	3,000	
Tires and Tubes	3,882	
Uniforms	3,887	
Premiums on Corporate Surety Bonds	623	
Total Sheriff's Department		661,095

Drug Enforcement

Motor Vehicles	\$ 3,000	
Total Drug Enforcement		3,000

Jail

Maintenance & Repair Services - Buildings	\$ 2,588	
Custodial Supplies	1,513	
Drugs and Medical Supplies	23,189	
Electricity	11,113	
Food Preparation Supplies	2,000	
Food Supplies	29,063	

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Public Safety (Cont.)

Jail (Cont.)

Water and Sewer	\$	878	
Total Jail			\$ 70,344

Correctional Incentive Program Improvements

Other Equipment	\$	1,600	
Total Correctional Incentive Program Improvements			1,600

Fire Prevention and Control

Disability Insurance	\$	3,030	
Contributions		20,000	
Other Charges		4,830	
Other Capital Outlay		313	
Total Fire Prevention and Control			28,173

Rescue Squad

Contributions	\$	2,500	
Other Capital Outlay		8,000	
Total Rescue Squad			10,500

Other Emergency Management

Maintenance & Repair Services - Equipment	\$	11,485	
Road Signs		3,728	
Other Capital Outlay		5,240	
Total Other Emergency Management			20,453

County Coroner/Medical Examiner

Other Per Diem & Fees	\$	8,254	
Total County Coroner/Medical Examiner			8,254

Public Health and Welfare

Local Health Center

Other Salaries & Wages	\$	3,600	
Communication		3,060	
Maintenance & Repair Services - Buildings		4,200	
Custodial Supplies		993	
Drugs and Medical Supplies		789	
Office Supplies		1,300	
Utilities		11,136	
Other Charges		420	
Total Local Health Center			25,498

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Public Health and Welfare (Cont.)

Ambulance/Emergency Medical Services

Other Contracted Services	\$ 181,500	
Other Capital Outlay	<u>72,000</u>	
Total Ambulance/Emergency Medical Services		\$ 253,500

Crippled Children Services

Other Contracted Services	\$ <u>700</u>	
Total Crippled Children Services		700

Other Local Health Services

Other Salaries & Wages	\$ 2,752	
Unemployment Compensation	55	
Travel	<u>390</u>	
Total Other Local Health Services		3,197

Appropriation to State

Other Contracted Services	\$ <u>10,600</u>	
Total Appropriation to State		10,600

Social, Cultural, and Recreational Services

Senior Citizens Assistance

Supervisor/Director	\$ 16,274	
Social Security	1,245	
Unemployment Compensation	104	
Communication	1,226	
Postal Charges	37	
Travel	322	
Utilities	24,888	
Other Supplies and Materials	<u>849</u>	
Total Senior Citizens Assistance		44,945

Libraries

Supervisor/Director	\$ 18,878	
Other Salaries & Wages	14,212	
In-Service Training	250	
Communication	1,778	
Dues and Memberships	325	
Postal Charges	990	
Travel	390	
Custodial Supplies	1,476	
Electricity	6,494	

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Social, Cultural, and Recreational Services (Cont.)

Libraries (Cont.)

Library Books/Media	\$	6,000	
Office Supplies		4,000	
Water and Sewer		541	
Office Equipment		6,999	
Total Libraries			\$ 62,333

Other Social, Cultural, and Recreational

Contributions	\$	31,701	
Total Other Social, Cultural, and Recreational			31,701

Agriculture & Natural Resources

Agriculture Extension Service

Salary Supplements	\$	35,274	
Social Security		5,686	
Extension Service Medicare		141	
Communication		2,950	
Contributions		2,500	
Travel		1,499	
Data Processing Equipment		6,627	
Total Agriculture Extension Service			54,677

Forest Service

Contributions	\$	1,000	
Total Forest Service			1,000

Soil Conservation

Secretary(ies)	\$	16,704	
Other Salaries & Wages		4,622	
Communication		1,734	
Utilities		1,664	
Total Soil Conservation			24,724

Other Operations

Tourism

Clerical Personnel	\$	4,224	
Communication		2,255	
Postal Charges		229	
Total Tourism			6,708

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Other Operations (Cont.)

Industrial Development

Consultants	\$ 22,000	
Travel	1,397	
Other Charges	2,898	
Total Industrial Development		\$ 26,295

Other Economic and Community Development

Other Charges	\$ 12,446	
Other Construction	2,632	
Other Capital Outlay	874,098	
Total Other Economic and Community Development		889,176

Other Charges

Liability Insurance	\$ 44,917	
Trustee's Commission	26,981	
Workers' Compensation Insurance	29,366	
Other Debt Issuance Charges	981	
Total Other Charges		102,245

Contributions to Other Agencies

Contracts with Government Agencies	\$ 53,152	
Other Charges	100	
Total Contributions to Other Agencies		53,252

Employee Benefits

Social Security	\$ 103,317	
State Retirement	77,539	
Unemployment Compensation	6,409	
Total Employee Benefits		187,265

Highways

Litter and Trash Collection

Supervisor/Director	\$ 23,978	
Laborers	21,027	
Other Charges	1,045	
Total Litter and Trash Collection		46,050

Principal on Debt

General Government

Principal on Capital Leases	\$ 4,286	
Total General Government		4,286

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Interest on Debt

General Government

Interest on Capital Leases	\$ 2,656	
Interest on Other Loans	2,081	
Total General Government		\$ 4,737

Other Debt Service

General Government

Other Debt Service	\$ 193	
Total General Government		193

Total General Fund \$ 3,475,359

Courthouse & Jail Maintenance Fund

General Government

County Buildings

Maintenance & Repair Services - Buildings	\$ 1,375	
Total County Buildings		\$ 1,375

Other Operations

Other Charges

Trustee's Commission	\$ 11	
Total Other Charges		11

Total Courthouse & Jail Maintenance Fund 1,386

Solid Waste/Sanitation Fund

Public Health and Welfare

Waste Pickup

Truck Drivers	\$ 56,474
Laborers	62,795
Social Security	9,763
Unemployment Compensation	1,733
Communication	686
Contracts with Private Agencies	218,227
Maintenance & Repair Services - Buildings	1,465
Maintenance & Repair Services - Vehicles	11,952
Rentals	1,383
Custodial Supplies	750
Electricity	7,676
Gasoline	36,421
Natural Gas	1,001

(Continued)

Exhibit H-5

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

Solid Waste/Sanitation Fund (Cont.)

Public Health and Welfare (Cont.)

Waste Pickup (Cont.)

Tires and Tubes	\$	5,500	
Water and Sewer		742	
Other Charges		1,485	
Other Debt Issuance Charges		14,000	
Principal on Capital Leases		28,152	
Interest on Capital Leases		1,594	
Site Development		12,498	
Solid Waste Equipment		216,200	
Total Waste Pickup			\$ 690,497

Other Operations

Other Charges

Trustee's Commission	\$	7,627	
Total Other Charges			7,627

Total Solid Waste/Sanitation Fund \$ 698,124

Drug Control Fund

Public Safety

Drug Enforcement

Contributions	\$	2,027	
Confidential Drug Enforcement Payments		2,500	
Other Supplies and Materials		2,607	
Other Charges		1,139	
Law Enforcement Equipment		2,018	
Total Drug Enforcement			\$ 10,291

Other Operations

Other Charges

Trustee's Commission	\$	135	
Total Other Charges			135

Total Drug Control Fund 10,426

Constitutional Officers - Fees Fund

Finance

County Trustee's Office

County Official/Administrative Officer	\$	44,548	
Deputy(ies)		25,416	
Constitutional Officers' Operating Expenses		1,295	
Total County Trustee's Office			\$ 71,259

(Continued)

Exhibit H-5

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

Constitutional Officers - Fees Fund (Cont.)

Finance (Cont.)

County Clerk's Office

County Official/Administrative Officer	\$	44,548	
Deputy(ies)		33,822	
Constitutional Officers' Operating Expenses		474	
Total County Clerk's Office			\$ 78,844

Total Constitutional Officers - Fees Fund \$ 150,103

Highway/Public Works Fund

Highways

Administration

County Official/Administrative Officer	\$	49,002	
Accountants/Bookkeepers		27,325	
Advertising		123	
Communication		1,138	
Consultants		620	
Data Processing Services		4,148	
Dues and Memberships		1,827	
Legal Notices, Recording, and Court Costs		36	
Postal Charges		300	
Other Contracted Services		6,858	
Other Charges		3,792	
Data Processing Equipment		236	
Total Administration			\$ 95,405

Highway and Bridge Maintenance

Equipment Operators	\$	99,540
Truck Drivers		117,928
Laborers		132,586
Evaluation and Testing		48,605
Rentals		999
Asphalt - Hot Mix		294,300
Asphalt - Liquid		223,469
Concrete		1,000
Crushed Stone		180,740
General Construction Materials		273
Pipe		21,060
Road Signs		817
Salt		3,603
Wood Products		94
Other Supplies and Materials		1,314

(Continued)

Exhibit H-5

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

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Highway and Bridge Maintenance (Cont.)

Other Charges	\$	124	
Highway Construction		1,142	
Other Construction		1,300	
Total Highway and Bridge Maintenance			\$ 1,128,894

Operation and Maintenance of Equipment

Mechanic(s)	\$	44,964	
Maintenance & Repair Services - Equipment		16,928	
Other Contracted Services		1,454	
Diesel Fuel		69,156	
Equipment and Machinery Parts		21,603	
Gasoline		14,724	
Lubricants		3,988	
Natural Gas		1,602	
Small Tools		134	
Tires and Tubes		16,944	
Other Supplies and Materials		868	
Other Charges		890	
Total Operation and Maintenance of Equipment			193,255

Other Charges

Electricity	\$	3,000	
Water and Sewer		599	
Premiums on Corporate Surety Bonds		289	
Trustee's Commission		13,199	
Vehicle and Equipment Insurance		15,717	
Workers' Compensation Insurance		65,861	
Total Other Charges			98,665

Employee Benefits

Social Security	\$	29,262	
State Retirement		17,299	
Unemployment Compensation		5,690	
Employer Medicare		6,844	
Total Employee Benefits			59,095

Capital Outlay

Highway Equipment	\$	144,549	
Total Capital Outlay			144,549

Total Highway/Public Works Fund \$ 1,719,863

(Continued)

Exhibit H-5

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

<u>General Debt Service Fund</u>		
<u>Principal on Debt</u>		
<u>General Government</u>		
Principal on Notes	\$ 16,818	
Total General Government		\$ 16,818
<u>Interest on Debt</u>		
<u>General Government</u>		
Interest on Notes	\$ 552	
Total General Government		552
<u>Other Debt Service</u>		
<u>General Government</u>		
Trustee's Commission	\$ 1,796	
Total General Government		<u>1,796</u>
Total General Debt Service Fund		<u>\$ 19,166</u>
Total Governmental Funds - Primary Government		<u>\$ 6,074,427</u>

Exhibit H-6

Clay County, Tennessee  
Schedule of Detailed Receipts, Disbursements,  
and Changes in Cash Balance - City Agency Fund  
For the Year Ended June 30, 2006

	Cities - Sales Tax Fund
<hr/>	
<u>Cash Receipts</u>	
Local Option Sales Tax	\$ 282,706
Total Cash Receipts	<u>\$ 282,706</u>
 <u>Cash Disbursements</u>	
Remittance of Revenues Collected	\$ 279,879
Trustee's Commission	2,827
Total Cash Disbursements	<u>\$ 282,706</u>
 Excess of Cash Receipts Over (Under) Cash Disbursements	 \$ 0
Cash Balance, July 1, 2005	<u>0</u>
 Cash Balance, June 30, 2006	 <u><u>\$ 0</u></u>

**ANNUAL FINANCIAL REPORT**  
**CLAY COUNTY SCHOOL DEPARTMENT**  
**A COMPONENT UNIT OF CLAY COUNTY, TENNESSEE**  
**FOR THE YEAR ENDED JUNE 30, 2006**

*DEPARTMENT OF AUDIT*  
*JOHN G. MORGAN*  
*Comptroller of the Treasury*

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

*ARTHUR L. ALEXANDER*  
*Director*

*CARL LOWE, CGFM*  
*Audit Manager*

*ANITA SCARLETT, CPA*  
*Auditor 4*

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

This financial report is available at [www.comptroller.state.tn.us](http://www.comptroller.state.tn.us)

---



---

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

---



---

	Exhibit	Page(s)
Audit Highlights		1
<u>INTRODUCTORY SECTION</u>		3
Clay County School Officials		5
<u>FINANCIAL SECTION</u>		7
Independent Auditor's Report		9-10
BASIC FINANCIAL STATEMENTS:		11
Government-wide Financial Statements:		
Statement of Net Assets	A	13
Statement of Activities	B	14
Fund Financial Statements:		
Governmental Funds:		
Balance Sheet	C-1	15
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	C-2	16
Statement of Revenues, Expenditures, and Changes in Fund Balances	C-3	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	C-4	18
Notes to the Financial Statements		19-35
REQUIRED SUPPLEMENTARY INFORMATION:		37
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Actual and Budget:		
General Purpose School Fund	D	39-40
Notes to the Required Supplementary Information		41
COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES:		43
Nonmajor Governmental Funds:		45
Combining Balance Sheet	E-1	47
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	E-2	48
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Actual and Budget:		
School Federal Projects Fund	E-3	49
Central Cafeteria Fund	E-4	50

	Exhibit	Page(s)
Miscellaneous Schedules:		51
Schedule of Changes in Other Loans	F-1	53
Schedule of Transfers	F-2	54
Schedule of Salaries and Official Bonds of Principal Official	F-3	55
Schedule of Detailed Revenues – All Governmental Fund Types	F-4	56-57
Schedule of Detailed Expenditures – All Governmental Fund Types	F-5	58-68

# ***Audit Highlights***

Annual Financial Report  
Clay County School Department  
For the Year Ended June 30, 2006

## ***Scope***

We have audited the basic financial statements of the Clay County School Department as of and for the year ended June 30, 2006.

## ***Results***

Our report on the Clay County School Department's financial statements is unqualified.

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

## ***Findings***

The following is a summary of the audit findings:

- ◆ The actual fund balance and reserves in the General Purpose School Fund at July 1, 2005, exceeded the estimated fund balance and reserves by \$762,792.
- ◆ School Department officials did not maintain adequate controls over inventory. Assets were not always tagged or marked as school property. Some assets that were tagged were not identified by the tag number on the inventory lists, and no procedures were in place to ensure new assets were added to the inventory lists or that the lists were verified by personnel independent of maintaining inventory records.
- ◆ County officials had not adopted a central system of accounting, budgeting, and purchasing.
- ◆ Duties were not segregated adequately among the official and employees at the School Department.

---

---

# INTRODUCTORY SECTION

---

---

Clay County School Officials  
June 30, 2006

---

**Official**

Dr. Doug Young, Director of Schools

**Board of Education**

John Donaldson, Chairman

Susan Bailey

Elizabeth Boles

Russell Cherry

Robert Cox

Patricia Hatcher

Terry Meadows

David Ogletree

Richard Roberts

Harold Wix

---

---

## FINANCIAL SECTION

---

---



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

**INDEPENDENT AUDITOR'S REPORT**

February 16, 2007

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

To the Director of Schools and Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Clay County School Department, a component unit of Clay County, Tennessee, as of and for the year ended June 30, 2006, which collectively comprise the Clay County School Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Clay County School Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Clay County School Department as of June 30, 2006, and the respective changes in financial position 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 February 16, 2007, on our consideration of the Clay County School Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

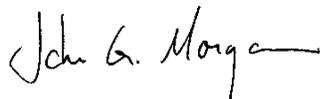
As described in Note V.B., the School Department adopted the provisions of Governmental Accounting Standards Board Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.

The management of the Clay County School Department did not prepare the 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 39 through 41 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Clay County School Department's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds, and miscellaneous schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds, and the miscellaneous schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Very truly yours,



John G. Morgan  
Comptroller of the Treasury

JGM/yu

---

---

# BASIC FINANCIAL STATEMENTS

---

---

Exhibit A

Clay County, Tennessee  
Statement of Net Assets  
Clay County School Department  
June 30, 2006

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Equity in Pooled Cash and Investments	\$ 1,931,282
Cash	1,248
Due from Other Governments	325,982
Property Taxes Receivable	1,148,502
Allowance for Uncollectible Property Taxes	(28,039)
Assets Not Depreciated:	
Land	338,698
Assets Net of Accumulated Depreciation:	
Buildings and Improvements	7,964,758
Infrastructure	532,457
Other Capital Assets	599,983
Total Assets	<u>\$ 12,814,871</u>
<u>LIABILITIES</u>	
Accounts Payable	\$ 9,726
Other Current Liabilities	1,692
Deferred Revenue - Current Property Taxes	1,056,672
Noncurrent Liabilities:	
Due Within One Year	194,479
Due in More Than One Year	7,549,270
Total Liabilities	<u>\$ 8,811,839</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	\$ 1,693,896
Restricted for:	
Capital Projects	24,780
Basic Education Program	1,298,752
Cafeteria	126,633
Other Purposes	60,187
Unrestricted	<u>798,784</u>
Total Net Assets	<u>\$ 4,003,032</u>

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

Exhibit B

Clay County, Tennessee  
Statement of Activities  
Clay County School Department  
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Revenues and Changes in Net Assets
				Total Governmental Activities
Governmental Activities:				
Instruction	\$ 5,437,496	\$ 7,476	\$ 747,421	\$ (4,682,599)
Support Services	2,780,949	13,544	13,114	(2,754,291)
Operation of Non-Instructional Services	834,503	136,844	417,039	(280,620)
Other Debt Service	290,111	0	0	(290,111)
<b>Total Governmental Activities</b>	<b>\$ 9,343,059</b>	<b>\$ 157,864</b>	<b>\$ 1,177,574</b>	<b>\$ (8,007,621)</b>
General Revenues:				
Taxes:				
Property Taxes Levied for General Purposes				\$ 1,122,859
Local Option Sales Tax				553,792
Other Local Taxes				1,378
Grants and Contributions Not Restricted for Specific Programs				6,190,872
Interest Income				2,589
Sale of Land/Equipment				72,379
<b>Total General Revenues</b>				<b>\$ 7,943,869</b>
Change in Net Assets				\$ (63,752)
Net Assets, July 1, 2005				4,066,784
Net Assets, June 30, 2006				<b>\$ 4,003,032</b>

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

Exhibit C-1

Clay County, Tennessee  
 Balance Sheet - Governmental Funds  
 Clay County School Department  
 June 30, 2006

	<u>Major Fund</u>	<u>Nonmajor Funds</u>	
	General Purpose School	Other Govern- mental Funds	Total Govern- mental Funds
<b>ASSETS</b>			
Cash	\$ 0	\$ 1,248	\$ 1,248
Equity in Pooled Cash and Investments	1,738,083	193,199	1,931,282
Due from Other Governments	319,862	6,120	325,982
Due from Other Funds	8,450	0	8,450
Property Taxes Receivable	1,148,502	0	1,148,502
Allowance for Uncollectible Property Taxes	(28,039)	0	(28,039)
<b>Total Assets</b>	<b>\$ 3,186,858</b>	<b>\$ 200,567</b>	<b>\$ 3,387,425</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<u>Liabilities</u>			
Accounts Payable	\$ 350	\$ 9,376	\$ 9,726
Due to Other Funds	0	8,450	8,450
Due to State of Tennessee	1,028	236	1,264
Other Current Liabilities	428	0	428
Deferred Revenue - Current Property Taxes	1,056,672	0	1,056,672
Deferred Revenue - Delinquent Property Taxes	58,710	0	58,710
Other Deferred Revenues	236,179	0	236,179
<b>Total Liabilities</b>	<b>\$ 1,353,367</b>	<b>\$ 18,062</b>	<b>\$ 1,371,429</b>
<u>Fund Balances</u>			
Reserved for Career Ladder - Extended Contract	\$ 26,427	\$ 0	\$ 26,427
Reserved for Career Ladder Program	2,668	0	2,668
Reserved for Basic Education Program	1,298,752	0	1,298,752
Reserved for Title I Grants to Local Education Agencies	0	5,461	5,461
Reserved for Innovative Education Program Strategies	0	15,627	15,627
Reserved for Special Education - Grants to States	0	9,938	9,938
Other Federal Reserves	0	66	66
Unreserved, Reported In:			
General Fund	505,644	0	505,644
Special Revenue Funds	0	126,633	126,633
Capital Projects Funds	0	24,780	24,780
<b>Total Fund Balances</b>	<b>\$ 1,833,491</b>	<b>\$ 182,505</b>	<b>\$ 2,015,996</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,186,858</b>	<b>\$ 200,567</b>	<b>\$ 3,387,425</b>

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

Exhibit C-2

Clay County, Tennessee  
Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Assets  
Clay County School Department  
June 30, 2006

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

Total fund balances - balance sheet - governmental funds (Exhibit C-1)		\$	2,015,996
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Add: land	\$	338,698	
Add: infrastructure net of accumulated depreciation		532,457	
Add: buildings and improvements net of accumulated depreciation		7,964,758	
Add: other capital assets net of accumulated depreciation		<u>599,983</u>	9,435,896
(2) Long-term liabilities are not due in the current period and therefore are not reported in the governmental funds.			
Less: other loans payable	\$	(7,742,000)	
Less: compensated absences payable		<u>(1,749)</u>	(7,743,749)
(3) Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.			<u>294,889</u>
Net assets of governmental activities (Exhibit A)		\$	<u><u>4,003,032</u></u>

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

Exhibit C-3

Clay County, Tennessee  
Statement of Revenues, Expenditures,  
and Changes in Fund Balances -  
Governmental Funds  
Clay County School Department  
For the Year Ended June 30, 2006

	<u>Major Fund</u>	<u>Nonmajor</u> <u>Funds</u>	
	General Purpose School	Other Govern- mental Funds	Total Governmental Funds
<u>Revenues</u>			
Local Taxes	\$ 1,714,848	\$ 0	\$ 1,714,848
Licenses and Permits	1,032	0	1,032
Charges for Current Services	20,318	136,844	157,162
Other Local Revenues	32,331	33,843	66,174
State of Tennessee	5,841,029	0	5,841,029
Federal Government	162,428	1,132,408	1,294,836
Total Revenues	<u>\$ 7,771,986</u>	<u>\$ 1,303,095</u>	<u>\$ 9,075,081</u>
<u>Expenditures</u>			
Current:			
Instruction	\$ 4,587,929	\$ 568,455	\$ 5,156,384
Support Services	2,527,320	202,901	2,730,221
Operation of Non-Instructional Services	314,508	502,443	816,951
Capital Outlay	97,907	0	97,907
Debt Service:			
Principal on Debt	186,000	0	186,000
Interest on Debt	247,001	0	247,001
Other Debt Service	43,110	0	43,110
Total Expenditures	<u>\$ 8,003,775</u>	<u>\$ 1,273,799</u>	<u>\$ 9,277,574</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (231,789)</u>	<u>\$ 29,296</u>	<u>\$ (202,493)</u>
<u>Other Financing Sources (Uses)</u>			
Insurance Recovery	\$ 10,436	\$ 0	\$ 10,436
Transfers In	39,321	0	39,321
Transfers Out	0	(39,321)	(39,321)
Total Other Financing Sources (Uses)	<u>\$ 49,757</u>	<u>\$ (39,321)</u>	<u>\$ 10,436</u>
Net Change in Fund Balances	\$ (182,032)	\$ (10,025)	\$ (192,057)
Fund Balance, July 1, 2005	<u>2,015,523</u>	<u>192,530</u>	<u>2,208,053</u>
Fund Balance, June 30, 2006	<u>\$ 1,833,491</u>	<u>\$ 182,505</u>	<u>\$ 2,015,996</u>

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

Exhibit C-4

Clay County, Tennessee  
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances  
of Governmental Funds to the Statement of Activities  
Clay County School Department  
For the Year Ended June 30, 2006

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)		\$	(192,057)
(1) Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The difference between capital outlays and depreciation is itemized as follows:			
Add: capital assets purchased in the current year	\$	131,924	
Less: current year depreciation expense		<u>(347,318)</u>	(215,394)
(2) Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			
Add: deferred delinquent property taxes and other deferred June 30, 2006	\$	294,889	
Less: deferred delinquent property taxes and other deferred June 30, 2005		<u>(135,441)</u>	159,448
(3) The issuance of long-term debt (e.g., bonds, notes, 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. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:			
Add: principal payments on other loans			186,000
(4) 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 compensated absences			<u>(1,749)</u>
Change in net assets of governmental activities (Exhibit B)		\$	<u><u>(63,752)</u></u>

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

**CLAY COUNTY SCHOOL DEPARTMENT  
A COMPONENT UNIT OF CLAY COUNTY, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2006**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Clay County School Department'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 the School Department:

**A. Reporting Entity**

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

**B. 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 School Department. 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 School Department does not have any business-type activities to report.

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.

The major individual governmental fund is reported as a separate column in the fund financial statements.

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

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

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

The School Department reports the following major governmental fund:

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

Additionally, the School Department reports the following fund types:

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

**Capital Projects Fund** – The Education Capital Projects Fund is used to account for construction projects of the School Department.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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

The county trustee maintains a cash and internal investment pool that is used by all Clay County and Clay County School Department funds. Each fund's portion of this pool is displayed on the balance sheets or statements of net assets as Equity in Pooled Cash and Investments. Most income from these pooled investments is assigned to the Clay County General Debt Service Fund. Clay County and the Clay 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 1.29 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. 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 government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$10,000 or more and an estimated useful life of more than five 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 School Department are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	20-40
Other Capital Assets	5-15
Infrastructure	20-40

**4. Compensated Absences**

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

statements is for accumulated compensatory time for central office personnel.

**5. Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable 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 other loans payable, is recognized as a liability and expenditure in the governmental fund financial statements. Liabilities and expenditures for other long-term obligations, including compensated absences are recognized to the extent that the liabilities have matured (come due for payment) each period.

**6. 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.

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.

## 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**

Exhibit C-2 includes explanations of the nature of individual elements of items required to reconcile the balance sheet of governmental funds with 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**

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

## III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### A. **Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all governmental funds except the capital projects funds, which adopt project length budgets. All annual appropriations lapse at fiscal year end.

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

The budgetary level of control is at the major category level established by the State Uniform Chart of Accounts, as prescribed by the Comptroller of the Treasury of the State of Tennessee. Major categories are at the department level (examples of General Purpose School Fund major categories: Regular Instruction Program, Special Education Program, Board of Education, Director of Schools, etc.). Management may make revisions within major categories, but only the Clay County Commission may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

The School Department's budgetary basis of accounting is consistent with GAAP, except instances in which encumbrances are treated as budgeted expenditures. The difference between the budgetary basis and GAAP basis is presented on the face of each budgetary schedule.

**B. Expenditures Exceeded Appropriations**

Expenditures exceeded appropriations in the Other Debt Service – Education (\$22,710) major appropriation category (the legal level of control) of the General Purpose School Fund. Such overexpenditures are a violation of state statutes. These overexpenditures were funded by available fund balance.

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

The actual fund balance and reserves in the General Purpose School Fund was \$2,015,523 at July 1, 2005; however, the estimated fund balance and reserves reflected in the School Department's budget was \$1,252,731. Therefore, the actual fund balance and reserves was \$762,792 more than the estimated fund balance and reserves presented to the Clay County Commission during the budget approval process.

**IV. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

Clay County and the Clay 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 represents nonpooled amounts held separately by individual funds.

**Deposits**

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

deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

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

**Investments**

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

Clay County had no pooled and nonpooled investments at June 30, 2006.

**B. Capital Assets**

Capital asset activity for the year ended June 30, 2006, was as follows:

**Governmental Activities:**

	Balance 7-1-05	Increases	Decreases	Balance 6-30-06
Capital Assets Not Depreciated:				
Land	\$ 338,698	\$ 0	\$ 0	\$ 338,698
Total Capital Assets Not Depreciated	\$ 338,698	\$ 0	\$ 0	\$ 338,698

**Governmental Activities (Cont.):**

	Balance 7-1-05	Increases	Decreases	Balance 6-30-06
Capital Assets				
Depreciated:				
Buildings and				
Improvements	\$ 10,678,816	\$ 43,553	\$ 0	\$ 10,722,369
Infrastructure	648,860	0	0	648,860
Other Capital Assets	1,154,623	88,371	(115,330)	1,127,664
Total Capital Assets				
Depreciated	\$ 12,482,299	\$ 131,924	\$ (115,330)	\$ 12,498,893
Less Accumulated				
Depreciated For:				
Buildings and				
Improvements	\$ 2,499,254	\$ 258,357	\$ 0	\$ 2,757,611
Infrastructure	94,600	21,803	0	116,403
Other Capital Assets	575,852	67,159	(115,330)	527,681
Total Accumulated				
Depreciation	\$ 3,169,706	\$ 347,319	\$ (115,330)	\$ 3,401,695
Total Capital Assets				
Depreciated, Net	\$ 9,312,593	\$ (215,395)	\$ 0	\$ 9,097,198
Governmental Activities				
Capital Assets, Net	\$ 9,651,291	\$ (215,395)	\$ 0	\$ 9,435,896

Depreciation expense was charged to functions of the School Department as follows:

## Governmental Activities:

Instruction	\$ 232,769
Support Services	111,948
Operation of Non-Instructional Services	<u>2,601</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 347,318</u>

**C. Insurance Recoveries**

During the year, the School Department had some minor lightening and water damage to some of its buildings. Insurance recoveries of \$10,436 were received. The proceeds were used to repair the damage to the buildings.

**D. Interfund Receivables, Payables, and Transfers**

The composition of interfund balances as of June 30, 2006, is as follows:

**Due to/from other funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Purpose School	Nonmajor governmental	\$ 8,450

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

**Interfund Transfers:**

Interfund transfers for the year ended June 30, 2006, consisted of the following amount:

<u>Transfers Out</u>	<u>Transfers In</u> General Purpose School Fund
Nonmajor governmental fund	\$ 39,321

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 in accordance with budgetary authorizations.

**E. Long-term Debt**

Other Loans

The county issues other loans to provide for the acquisition and construction of major capital facilities.

Other loans are direct obligations and pledge the full faith and credit of the government. Other loans were issued for original terms of up to 29 years. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All other loans included in long-term debt as of June 30, 2006, will be retired from the General Purpose School Fund.

Other loans outstanding as of June 30, 2006, are as follows:

Type	Interest Rate	Original Amount of Issue	Balance 6-30-06
Other Loans	Variable	\$ 8,400,000	\$ 7,742,000

In prior years, Clay County entered into loan agreements with the Montgomery County Public Building Authority. Under these loan agreements, the authority loaned \$6,900,000 and \$1,500,000 to Clay County for construction of the high school and the high school athletic facilities. These loans are repayable at an interest rate that is a tax-exempt variable rate determined by the remarketing agent daily or weekly, depending on the particular program. In addition, the School Department pays various other fees (trustee, letter of credit, and debt remarketing) in connection with these loans. At June 30, 2006, the variable interest rate was 3.7 percent, and other fees amounted to approximately .25 percent (letter of credit), .08 percent (remarketing), and .15 percent (administration), and a trustee fee of \$100 per month.

The annual requirements to amortize all other loans outstanding as of June 30, 2006, including interest payments and other fees, are presented in the following table:

Year Ending June 30	Other Loan (\$6,900,000)			Total
	Principal	Interest	Other Fees	
2007	\$ 157,000	\$ 234,728	\$ 31,651	\$ 423,379
2008	163,000	228,919	30,898	422,817
2009	169,000	222,888	30,115	422,003
2010	175,000	216,635	29,304	420,939
2011	182,000	210,160	28,464	420,624
2012-2016	1,018,000	944,573	128,538	2,091,111
2017-2021	1,226,000	741,480	102,192	2,069,672
2022-2026	1,477,000	496,762	70,445	2,044,207
2027-2031	1,777,000	202,057	32,114	2,011,171
Total	\$ 6,344,000	\$ 3,498,202	\$ 483,721	\$ 10,325,923

Year Ending June 30	Other Loan (\$1,500,000)			
	Principal	Interest	Other Fees	Total
2007	\$ 36,000	\$ 51,726	\$ 7,910	\$ 95,636
2008	38,000	50,394	7,738	96,132
2009	39,000	48,988	7,555	95,543
2010	40,000	47,545	7,368	94,913
2011	42,000	46,065	7,176	95,241
2012-2016	231,000	206,016	32,726	469,742
2017-2021	272,000	160,321	26,799	459,120
2022-2026	321,000	106,560	19,824	447,384
2027-2031	379,000	42,994	11,478	433,472
Total	\$ 1,398,000	\$ 760,609	\$ 128,574	\$ 2,287,183

Debt per capita totaled \$971, based on the 2000 federal census.

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

Governmental Activities:

	Other Loans	Compensated Absences
Balance, July 1, 2005	\$ 7,928,000	\$ 0
Additions	0	2,396
Deductions	(186,000)	(647)
Balance, June 30, 2006	\$ 7,742,000	\$ 1,749
Balance Due Within One Year	\$ 193,000	\$ 1,479

Analysis of Noncurrent Liabilities Presented on Exhibit A:

Total Noncurrent Liabilities, June 30, 2006	\$ 7,743,749
Less: Balance Due Within One Year	(194,479)
Noncurrent Liabilities - Due In More Than One Year - Exhibit A	\$ 7,549,270

V. OTHER INFORMATION

A. Risk Management

The School Department is exposed to various risks related to general liability, property, casualty, and workers' compensation losses. The School

Department decided it was more economically feasible to join a public entity risk pool as opposed to purchasing commercial insurance for general liability, property, casualty, and workers' compensation coverage. The School Department joined the Tennessee School Boards Risk Management Trust (TSB-RMT), which is a public entity risk pool established by an association of member school boards. The School Department pays annual premiums to the TSB-RMT for its general liability, property, casualty, and workers' compensation insurance coverage. The creation of TSB-RMT provides for it to be self-sustaining through member premiums.

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

## **B. Accounting Changes**

For the year ended June 30, 2006, the School Department adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. GASB Statement No. 42 requires governments to report the effects of capital asset impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital assets or upon disposal of the capital assets. In addition, GASB Statement No. 42 clarifies and establishes accounting requirements for insurance recoveries.

The provisions of GASB Statement No. 44, Economic Condition Reporting: The Statistical Section (an amendment of NCGA Statement 1) became effective for the year ended June 30, 2006. GASB Statement No. 44 applies to the preparation of the statistical section. State and local governments may, but are not required to, prepare a statistical section to accompany basic financial statements. However, a statistical section is required to accompany a comprehensive annual financial report. Since Clay County is not presenting a comprehensive annual financial report, it has elected not to prepare a statistical section. A limited statistical section was presented in the prior year's report. GASB Statement No. 44 amends guidance related to the preparation of the statistical section. This statement improves the understandability and usefulness of statistical information by addressing the comparability problems that have developed in practice and by adding information from the new financial reporting model for state and local governments required by GASB Statement No. 34. GASB Statement No. 44

establishes the objectives of the statistical section and the five categories it contains: financial trends, revenue capacity, debt capacity, demographic and economic, and operating. It is reasonably expected that Clay County will prepare and present a statistical section in subsequent years that follows the requirements of GASB Statement No. 44.

The provisions of GASB Statement No. 46, Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34 became effective for the year ended June 30, 2006. GASB Statement No. 46 provides guidance to determine when net assets have been restricted to a particular use by the passage of enabling legislation and specifies how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation. The statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation as of the end of the reporting period. Clay County School Department had no net assets restricted by enabling legislation to disclose as of June 30, 2006. But it is reasonably expected that Clay County School Department will be required to disclose net assets restricted by enabling legislation in subsequent years.

The provisions of GASB Statement No. 47, Accounting for Termination Benefits became effective for the year ended June 30, 2006. GASB Statement No. 47 provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees who are involuntarily terminated. Statement No. 47 specifies when governments should recognize the cost of termination benefits they offer in accrual basis financial statements. Clay County School Department was not offering any termination benefits to employees as of June 30, 2006. But it is reasonably expected that Clay County School Department will offer termination benefits in subsequent years subject to the accounting and reporting requirements of GASB Statement No. 47.

**C. Contingent Liabilities**

A citizens group filed suit against the Board of Education challenging the authority of the Board to consolidate Hermitage Springs and Clay County High Schools. If the court were to find that the Board is required to operate two high schools instead of one consolidated high school, the financial impact would be the operating costs of two schools instead of one. This is not a complaint for monetary damages and would not be covered by insurance.

The School Department attorney advised that the School Department is not involved in any other lawsuits.

## **D. Retirement Commitments**

### **Plan Description**

Employees of Clay County, including the School Department, are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service, and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Clay 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](http://www.treasury.state.tn.us). Copies of footnotes in PDF format can be accessed at <http://www.treasury.state.tn.us/tcrs/PS/>.

Since the School Department participates in Clay County's plan, retirement information for the School Department is not available separately from the retirement information provided for the county. Complete disclosure for the county's participation in the TCRS is described in footnote IV.G. of the Annual Financial Report of Clay County, Tennessee.

## **SCHOOL TEACHERS**

### **Plan Description**

The School Department contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides

retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979, are vested after five years of service. Members joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. A cost of living adjustment (COLA) is provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEPP. 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](http://www.treasury.state.tn.us). Copies of footnotes in PDF format can be accessed at <http://www.treasury.state.tn.us/tcrs/Schools/>.

### **Funding Policy**

Most teachers are required by state statute to contribute five percent of their salaries to the plan. The employer contribution rate for the School Department is established at an actuarially determined rate. The employer rate for the fiscal year ended June 30, 2006, was 5.5 percent of annual covered payroll. The employer contribution requirement for the School Department is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ended June 30, 2006, 2005, and 2004 were \$247,357, \$236,829, and \$138,058, respectively, equal to the required contributions for each year.

### **E. Purchasing Law**

Purchasing procedures for the School Department are governed by purchasing laws applicable to schools as set forth in Section 49-2-203, Tennessee Code Annotated, which provides for the county Board of Education, through its executive committee (director of schools and chairman of the Board of Education), to make all purchases. This statute also requires competitive bids to be solicited through newspaper advertisement on all purchases exceeding \$10,000.

---

---

**REQUIRED SUPPLEMENTARY  
INFORMATION**

---

---

Exhibit D

Clay County, Tennessee  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual and Budget  
Clay County School Department  
General Purpose School Fund  
For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 1,714,848	\$ 1,615,041	\$ 1,632,812	\$ 82,036
Licenses and Permits	1,032	1,075	1,075	(43)
Charges for Current Services	20,318	22,080	22,080	(1,762)
Other Local Revenues	32,331	21,610	30,729	1,602
State of Tennessee	5,841,029	5,808,820	6,018,571	(177,542)
Federal Government	162,428	115,838	160,198	2,230
Total Revenues	<u>\$ 7,771,986</u>	<u>\$ 7,584,464</u>	<u>\$ 7,865,465</u>	<u>\$ (93,479)</u>
<u>Expenditures</u>				
<u>Instruction</u>				
Regular Instruction Program	\$ 3,552,844	\$ 3,733,447	\$ 3,733,447	\$ 180,603
Alternative Instruction Program	91,874	95,675	95,675	3,801
Special Education Program	574,124	636,540	636,540	62,416
Vocational Education Program	330,552	326,577	336,927	6,375
Adult Education Program	38,535	40,000	42,315	3,780
<u>Support Services</u>				
Attendance	69,710	69,473	76,783	7,073
Health Services	41,652	42,640	42,640	988
Other Student Support	148,810	149,985	156,985	8,175
Regular Instruction Program	338,470	394,610	412,431	73,961
Special Education Program	86,239	130,989	131,239	45,000
Board of Education	137,213	152,141	154,141	16,928
Director of Schools	116,552	120,530	123,630	7,078
Office of the Principal	244,457	250,627	250,627	6,170
Fiscal Services	51,309	51,586	51,586	277
Operation of Plant	712,104	707,500	735,620	23,516
Maintenance of Plant	85,944	102,602	103,185	17,241
Transportation	494,860	477,580	509,152	14,292
<u>Operation of Non-Instructional Services</u>				
Food Service	61,532	61,538	61,538	6
Community Services	71,960	72,463	72,463	503
Early Childhood Education	181,016	0	181,016	0
<u>Capital Outlay</u>				
Regular Capital Outlay	97,907	150,000	150,000	52,093
<u>Principal on Debt</u>				
Education	186,000	211,000	211,000	25,000
<u>Interest on Debt</u>				
Education	247,001	378,115	378,115	131,114
<u>Other Debt Service</u>				
Education	43,110	20,400	20,400	(22,710)
Total Expenditures	<u>\$ 8,003,775</u>	<u>\$ 8,376,018</u>	<u>\$ 8,667,455</u>	<u>\$ 663,680</u>

(Continued)

Exhibit D

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
Excess (Deficiency) of Revenues Over Expenditures	\$ (231,789)	\$ (791,554)	\$ (801,990)	\$ 570,201
<u>Other Financing Sources (Uses)</u>				
Insurance Recovery	\$ 10,436	\$ 0	\$ 10,436	\$ 0
Transfers In	39,321	193,816	193,816	(154,495)
Total Other Financing Sources (Uses)	\$ 49,757	\$ 193,816	\$ 204,252	\$ (154,495)
Net Change in Fund Balance	\$ (182,032)	\$ (597,738)	\$ (597,738)	\$ 415,706
Fund Balance, July 1, 2005	2,015,523	1,252,731	1,252,731	762,792
Fund Balance, June 30, 2006	\$ 1,833,491	\$ 654,993	\$ 654,993	\$ 1,178,498

**CLAY COUNTY SCHOOL DEPARTMENT  
A COMPONENT UNIT OF CLAY COUNTY, TENNESSEE  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2006**

**A. BUDGETARY INFORMATION**

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

The budgetary level of control is at the major category level established by the State Uniform Chart of Accounts, as prescribed by the Comptroller of the Treasury of the State of Tennessee. Major categories are at the department level (examples of General Purpose School Fund major categories: Regular Instruction Program, Special Education Program, Board of Education, Director of Schools, etc.). Management may make revisions within major categories, but only the Clay County Commission may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

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

**B. EXPENDITURES EXCEEDED APPROPRIATIONS**

Expenditures exceeded appropriations approved by the Clay County Commission in the Other Debt Service - Education (\$22,710) major appropriation category (the legal level of control) of the General Purpose School Fund. Such overexpenditures are a violation of state statutes. These overexpenditures were funded by available fund balance.

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

The actual fund balance and reserves in the General Purpose School Fund was \$2,015,523 at July 1, 2005; however, the estimated fund balance and reserves reflected in the county's budget was \$1,252,731. Therefore, the actual fund balance and reserves were \$762,792 more than the estimated fund balance and reserves presented to the Clay County Commission during the budget approval process.

---

---

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

---

---

# Nonmajor Governmental Funds

## Special Revenue Funds

---

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

---

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

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

## Capital Projects Fund

---

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

---

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

Exhibit E-1

Clay County, Tennessee  
Combining Balance Sheet - Nonmajor Governmental Funds  
Clay County School Department  
June 30, 2006

	<u>Special Revenue Funds</u>			<u>Capital</u>	<u>Total</u>
	<u>School</u>	<u>Central</u>	<u>Total</u>	<u>Projects</u>	
	<u>Federal</u>	<u>Cafeteria</u>		<u>Education</u>	<u>Nonmajor</u>
	<u>Projects</u>			<u>Capital</u>	<u>Governmental</u>
				<u>Projects</u>	<u>Funds</u>
<u>ASSETS</u>					
Cash	\$ 0	\$ 1,248	\$ 1,248	\$ 0	\$ 1,248
Equity in Pooled Cash and Investments	43,034	125,385	168,419	24,780	193,199
Due from Other Governments	6,120	0	6,120	0	6,120
<b>Total Assets</b>	<b>\$ 49,154</b>	<b>\$ 126,633</b>	<b>\$ 175,787</b>	<b>\$ 24,780</b>	<b>\$ 200,567</b>
<u>LIABILITIES AND FUND BALANCES</u>					
<u>Liabilities</u>					
Accounts Payable	\$ 9,376	\$ 0	\$ 9,376	\$ 0	\$ 9,376
Due to Other Funds	8,450	0	8,450	0	8,450
Due to State of Tennessee	236	0	236	0	236
<b>Total Liabilities</b>	<b>\$ 18,062</b>	<b>\$ 0</b>	<b>\$ 18,062</b>	<b>\$ 0</b>	<b>\$ 18,062</b>
<u>Fund Balances</u>					
Reserved for Title I Grants to Local Education Agencies	\$ 5,461	\$ 0	\$ 5,461	\$ 0	\$ 5,461
Reserved for Innovative Education Program Strategies	15,627	0	15,627	0	15,627
Reserved for Special Education - Grants to States	9,938	0	9,938	0	9,938
Other Federal Reserves	66	0	66	0	66
Unreserved	0	126,633	126,633	24,780	151,413
<b>Total Fund Balances</b>	<b>\$ 31,092</b>	<b>\$ 126,633</b>	<b>\$ 157,725</b>	<b>\$ 24,780</b>	<b>\$ 182,505</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 49,154</b>	<b>\$ 126,633</b>	<b>\$ 175,787</b>	<b>\$ 24,780</b>	<b>\$ 200,567</b>

Exhibit E-2

Clay County, Tennessee  
Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances -  
Nonmajor Governmental Funds  
Clay County School Department  
For the Year Ended June 30, 2006

	<u>Special Revenue Funds</u>			<u>Capital</u> <u>Projects</u> <u>Fund</u>	<u>Total</u> <u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>
	<u>School</u> <u>Federal</u> <u>Projects</u>	<u>Central</u> <u>Cafeteria</u>	<u>Total</u>	<u>Education</u> <u>Capital</u> <u>Projects</u>	
<u>Revenues</u>					
Charges for Current Services	\$ 0	\$ 136,844	\$ 136,844	\$ 0	\$ 136,844
Other Local Revenues	1	9,062	9,063	24,780	33,843
Federal Government	758,488	373,920	1,132,408	0	1,132,408
Total Revenues	<u>\$ 758,489</u>	<u>\$ 519,826</u>	<u>\$ 1,278,315</u>	<u>\$ 24,780</u>	<u>\$ 1,303,095</u>
<u>Expenditures</u>					
Current:					
Instruction	\$ 568,455	\$ 0	\$ 568,455	\$ 0	\$ 568,455
Support Services	202,901	0	202,901	0	202,901
Operation of Non-Instructional Services	0	502,443	502,443	0	502,443
Total Expenditures	<u>\$ 771,356</u>	<u>\$ 502,443</u>	<u>\$ 1,273,799</u>	<u>\$ 0</u>	<u>\$ 1,273,799</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (12,867)</u>	<u>\$ 17,383</u>	<u>\$ 4,516</u>	<u>\$ 24,780</u>	<u>\$ 29,296</u>
<u>Other Financing Sources (Uses)</u>					
Transfers Out	\$ (8,450)	\$ (30,871)	\$ (39,321)	\$ 0	\$ (39,321)
Total Other Financing Sources (Uses)	<u>\$ (8,450)</u>	<u>\$ (30,871)</u>	<u>\$ (39,321)</u>	<u>\$ 0</u>	<u>\$ (39,321)</u>
Net Change in Fund Balances	\$ (21,317)	\$ (13,488)	\$ (34,805)	\$ 24,780	\$ (10,025)
Fund Balance, July 1, 2005	52,409	140,121	192,530	0	192,530
Fund Balance, June 30, 2006	<u>\$ 31,092</u>	<u>\$ 126,633</u>	<u>\$ 157,725</u>	<u>\$ 24,780</u>	<u>\$ 182,505</u>

Exhibit E-3

Clay County, Tennessee  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual and Budget  
Clay County School Department  
School Federal Projects Fund  
For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Other Local Revenues	\$ 1	\$ 0	\$ 0	\$ 1
Federal Government	758,488	1,040,273	1,040,273	(281,785)
Total Revenues	<u>\$ 758,489</u>	<u>\$ 1,040,273</u>	<u>\$ 1,040,273</u>	<u>\$ (281,784)</u>
<u>Expenditures</u>				
<u>Instruction</u>				
Regular Instruction Program	\$ 364,279	\$ 479,039	\$ 479,039	\$ 114,760
Special Education Program	162,105	198,388	197,488	35,383
Vocational Education Program	42,071	40,393	42,088	17
<u>Support Services</u>				
Regular Instruction Program	116,420	212,797	212,797	96,377
Special Education Program	74,623	81,844	81,844	7,221
Vocational Education Program	645	2,300	1,529	884
Transportation	11,213	13,566	13,566	2,353
Total Expenditures	<u>\$ 771,356</u>	<u>\$ 1,028,327</u>	<u>\$ 1,028,351</u>	<u>\$ 256,995</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (12,867)</u>	<u>\$ 11,946</u>	<u>\$ 11,922</u>	<u>\$ (24,789)</u>
<u>Other Financing Sources (Uses)</u>				
Transfers Out	\$ (8,450)	\$ (11,945)	\$ (11,921)	\$ 3,471
Total Other Financing Sources (Uses)	<u>\$ (8,450)</u>	<u>\$ (11,945)</u>	<u>\$ (11,921)</u>	<u>\$ 3,471</u>
Net Change in Fund Balance	\$ (21,317)	\$ 1	\$ 1	\$ (21,318)
Fund Balance, July 1, 2005	<u>52,409</u>	<u>0</u>	<u>0</u>	<u>52,409</u>
Fund Balance, June 30, 2006	<u>\$ 31,092</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 31,091</u>

Exhibit E-4

Clay County, Tennessee  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual and Budget  
Clay County School Department  
Central Cafeteria Fund  
For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Charges for Current Services	\$ 136,844	\$ 135,400	\$ 135,400	\$ 1,444
Other Local Revenues	9,062	10,230	10,230	(1,168)
Federal Government	373,920	373,000	373,000	920
Total Revenues	<u>\$ 519,826</u>	<u>\$ 518,630</u>	<u>\$ 518,630</u>	<u>\$ 1,196</u>
<u>Expenditures</u>				
<u>Operation of Non-Instructional Services</u>				
Food Service	\$ 502,443	\$ 533,105	\$ 543,205	\$ 40,762
Total Expenditures	<u>\$ 502,443</u>	<u>\$ 533,105</u>	<u>\$ 543,205</u>	<u>\$ 40,762</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 17,383	\$ (14,475)	\$ (24,575)	\$ 41,958
<u>Other Financing Sources (Uses)</u>				
Transfers Out	\$ (30,871)	\$ (30,848)	\$ (30,883)	\$ 12
Total Other Financing Sources (Uses)	<u>\$ (30,871)</u>	<u>\$ (30,848)</u>	<u>\$ (30,883)</u>	<u>\$ 12</u>
Net Change in Fund Balance	\$ (13,488)	\$ (45,323)	\$ (55,458)	\$ 41,970
Fund Balance, July 1, 2005	<u>140,121</u>	<u>124,672</u>	<u>124,672</u>	<u>15,449</u>
Fund Balance, June 30, 2006	<u><u>\$ 126,633</u></u>	<u><u>\$ 79,349</u></u>	<u><u>\$ 69,214</u></u>	<u><u>\$ 57,419</u></u>

---

---

## MISCELLANEOUS SCHEDULES

---

---

Exhibit F-1

Clay County, Tennessee  
Schedule of Changes in Other Loans  
Clay County School Department  
For the Year Ended June 30, 2006

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-05	Paid and/or Matured During Period	Outstanding 6-30-06
<u>OTHER LOANS PAYABLE</u>							
<u>Public Building Authority Loan Agreement</u>							
<u>Payable through General Purpose School Fund</u>							
School Construction	\$ 6,900,000	variable	6-28-02	5-25-31	\$ 6,495,000	\$ 151,000	\$ 6,344,000
Athletic Facility	1,500,000	variable	9-29-03	5-25-31	1,433,000	35,000	1,398,000
Total Other Loans Payable					<u>\$ 7,928,000</u>	<u>\$ 186,000</u>	<u>\$ 7,742,000</u>

Exhibit F-2

Clay County, Tennessee  
Schedule of Transfers  
Clay County School Department  
For the Year Ended June 30, 2006

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
School Federal Projects	General Purpose School	Indirect costs	\$ 8,450
Central Cafeteria	General Purpose School	Supervisor's salary reimbursement	<u>30,871</u>
Total Transfers			<u>\$ 39,321</u>

Exhibit F-3

Clay County, Tennessee  
Schedule of Salaries and Official Bonds of Principal Officials  
Clay County School Department  
For the Year Ended June 30, 2006

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
Director of Schools	State Board of Education and Clay County Board of Education	\$ 76,660 (1)	\$ 50,000	RLI Insurance Company
Employee Blanket Bond Coverage: School Department Employees			150,000	Tennessee School Boards Risk Management Trust

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

Exhibit F-4

Clay County, Tennessee  
Schedule of Detailed Revenues -  
All Governmental Fund Types  
Clay County School Department  
For the Year Ended June 30, 2006

	General Purpose School	School Federal Projects	Central Cafeteria	Education Capital Projects	Total
<u>Local Taxes</u>					
<u>County Property Taxes</u>					
Current Property Tax	\$ 1,022,899	\$ 0	\$ 0	\$ 0	\$ 1,022,899
Trustee's Collections - Prior Year	81,497	0	0	0	81,497
Circuit/Clerk & Master Collections - Prior Years	22,995	0	0	0	22,995
Interest and Penalty	12,695	0	0	0	12,695
<u>County Local Option Taxes</u>					
Local Option Sales Tax	559,614	0	0	0	559,614
<u>Statutory Local Taxes</u>					
Bank Excise Tax	13,771	0	0	0	13,771
Interstate Telecommunications Tax	1,377	0	0	0	1,377
Total Local Taxes	\$ 1,714,848	\$ 0	\$ 0	\$ 0	\$ 1,714,848
<u>Licenses and Permits</u>					
<u>Licenses</u>					
Marriage Licenses	\$ 722	\$ 0	\$ 0	\$ 0	\$ 722
<u>Permits</u>					
Other Permits	310	0	0	0	310
Total Licenses and Permits	\$ 1,032	\$ 0	\$ 0	\$ 0	\$ 1,032
<u>Charges for Current Services</u>					
<u>Education Charges</u>					
Lunch Payments - Children	\$ 0	\$ 0	\$ 84,332	\$ 0	\$ 84,332
Lunch Payments - Adults	0	0	28,095	0	28,095
Income from Breakfast	0	0	529	0	529
A la carte Sales	0	0	23,888	0	23,888
Receipts from Individual Schools	17,294	0	0	0	17,294
TBI Criminal Background Fees	2,736	0	0	0	2,736
<u>Other Charges for Services</u>					
Other Charges for Services	288	0	0	0	288
Total Charges for Current Services	\$ 20,318	\$ 0	\$ 136,844	\$ 0	\$ 157,162
<u>Other Local Revenues</u>					
<u>Recurring Items</u>					
Investment Income	\$ 0	\$ 0	\$ 2,589	\$ 0	\$ 2,589
Sale of Materials and Supplies	392	0	0	0	392
Miscellaneous Refunds	21,188	1	6,473	24,780	52,442
<u>Nonrecurring Items</u>					
Sale of Equipment	8,839	0	0	0	8,839
Damages Recovered from Individuals	129	0	0	0	129
Contributions & Gifts	1,250	0	0	0	1,250
<u>Other Local Revenues</u>					
Other Local Revenues	533	0	0	0	533
Total Other Local Revenues	\$ 32,331	\$ 1	\$ 9,062	\$ 24,780	\$ 66,174
<u>State of Tennessee</u>					
<u>State Education Funds</u>					
Basic Education Program	\$ 5,499,801	\$ 0	\$ 0	\$ 0	\$ 5,499,801
School Food Service	7,466	0	0	0	7,466
Driver Education	3,753	0	0	0	3,753

(Continued)

Exhibit F-4

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

	General Purpose School	School Federal Projects	Central Cafeteria	Education Capital Projects	Total
<u>State of Tennessee (Cont.)</u>					
<u>State Education Funds (Cont.)</u>					
Other State Education Funds	\$ 54,181	\$ 0	\$ 0	\$ 0	\$ 54,181
Career Ladder Program	80,150	0	0	0	80,150
Career Ladder - Extended Contract	50,989	0	0	0	50,989
<u>Other State Revenues</u>					
Flood Control	136,294	0	0	0	136,294
Other State Grants	8,395	0	0	0	8,395
Total State of Tennessee	\$ 5,841,029	\$ 0	\$ 0	\$ 0	\$ 5,841,029
<u>Federal Government</u>					
<u>Federal Through State</u>					
USDA School Lunch Program	\$ 0	\$ 0	\$ 268,599	\$ 0	\$ 268,599
Breakfast	0	0	105,321	0	105,321
Adult Education State Grant Program	28,794	0	0	0	28,794
Vocational Education - Basic Grants to States	0	42,888	0	0	42,888
Title I Grants to Local Education Agencies	0	331,122	0	0	331,122
Innovative Education Program Strategies	0	48,296	0	0	48,296
Special Education - Grants to States	1,620	236,751	0	0	238,371
Special Education Preschool Grants	0	10,670	0	0	10,670
Eisenhower Professional Development State Grants	0	79,835	0	0	79,835
Job Training Partnership Act	18,600	0	0	0	18,600
Other Federal through State	0	8,926	0	0	8,926
<u>Direct Federal Revenue</u>					
Public Law 874 - Maintenance and Operation	113,414	0	0	0	113,414
Total Federal Government	\$ 162,428	\$ 758,488	\$ 373,920	\$ 0	\$ 1,294,836
Total	\$ 7,771,986	\$ 758,489	\$ 519,826	\$ 24,780	\$ 9,075,081

Exhibit F-5

Clay County, Tennessee  
Schedule of Detailed Expenditures -  
All Governmental Fund Types  
Clay County School Department  
For the Year Ended June 30, 2006

General Purpose School Fund

Instruction

Regular Instruction Program

Teachers	\$ 2,491,389	
Career Ladder Program	49,978	
Career Ladder Extended Contracts	32,410	
Educational Assistants	125,764	
Certified Substitute Teachers	29,677	
Non-certified Substitute Teachers	39,508	
Social Security	159,009	
State Retirement	146,511	
Medical Insurance	156,218	
Unemployment Compensation	3,983	
Employer Medicare	37,186	
Maintenance & Repair Services - Equipment	2,674	
Other Contracted Services	41,998	
Instructional Supplies and Materials	72,824	
Textbooks	110,000	
In Service/Staff Development	2,585	
Other Charges	2,489	
Regular Instruction Equipment	48,641	
Total Regular Instruction Program		\$ 3,552,844

Alternative Instruction Program

Teachers	\$ 76,699	
Career Ladder Program	500	
Certified Substitute Teachers	425	
Non-certified Substitute Teachers	250	
Social Security	4,358	
State Retirement	4,246	
Medical Insurance	4,237	
Unemployment Compensation	88	
Employer Medicare	1,019	
Instructional Supplies and Materials	52	
Total Alternative Instruction Program		91,874

Special Education Program

Teachers	\$ 384,749
Career Ladder Program	7,000
Homebound Teachers	37,121
Educational Assistants	3,323
Social Security	25,543

(Continued)

Exhibit F-5

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

General Purpose School Fund (Cont.)

Instruction (Cont.)

Special Education Program (Cont.)

State Retirement	\$	24,772	
Medical Insurance		35,053	
Unemployment Compensation		675	
Employer Medicare		5,974	
Contracts with Private Agencies		180	
Other Contracted Services		49,734	
Total Special Education Program			\$ 574,124

Vocational Education Program

Teachers	\$	169,880	
Career Ladder Program		2,000	
Clerical Personnel		6,635	
Certified Substitute Teachers		2,475	
Non-certified Substitute Teachers		300	
Social Security		10,036	
State Retirement		9,453	
Medical Insurance		15,266	
Unemployment Compensation		217	
Employer Medicare		2,347	
Maintenance & Repair Services - Equipment		350	
Other Contracted Services		105,302	
Instructional Supplies and Materials		5,444	
Vocational Instruction Equipment		847	
Total Vocational Education Program			330,552

Adult Education Program

Teachers	\$	12,000	
Other Salaries & Wages		18,480	
Social Security		1,725	
State Retirement		1,821	
Unemployment Compensation		42	
Employer Medicare		403	
Instructional Supplies and Materials		2,449	
In Service/Staff Development		1,565	
Other Charges		50	
Total Adult Education Program			38,535

(Continued)

Exhibit F-5

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

General Purpose School Fund (Cont.)

Support Services

Attendance

Supervisor/Director	\$	56,538	
Career Ladder Program		1,000	
Social Security		3,406	
State Retirement		3,165	
Unemployment Compensation		42	
Employer Medicare		797	
Travel		1,550	
Other Supplies and Materials		307	
Other Charges		2,905	
Total Attendance			\$ 69,710

Health Services

Medical Personnel	\$	32,525	
Social Security		1,863	
State Retirement		1,789	
Medical Insurance		2,026	
Unemployment Compensation		42	
Employer Medicare		436	
Travel		1,179	
Other Contracted Services		100	
Drugs and Medical Supplies		192	
Other Supplies and Materials		1,500	
Total Health Services			41,652

Other Student Support

Career Ladder Program	\$	1,000	
Guidance Personnel		113,477	
Social Security		6,273	
State Retirement		6,296	
Medical Insurance		10,575	
Unemployment Compensation		105	
Employer Medicare		1,467	
Evaluation and Testing		8,472	
Travel		240	
Other Charges		905	
Total Other Student Support			148,810

Regular Instruction Program

Supervisor/Director	\$	11,550	
---------------------	----	--------	--

(Continued)

Exhibit F-5

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

General Purpose School Fund (Cont.)  
Support Services (Cont.)

Regular Instruction Program (Cont.)

Career Ladder Program	\$	2,000	
Librarians		127,795	
Education Media Personnel		14,916	
Instructional Computer Personnel		62,407	
Other Salaries & Wages		54,277	
Social Security		15,234	
State Retirement		14,081	
Medical Insurance		16,620	
Unemployment Compensation		312	
Employer Medicare		3,566	
Travel		7,430	
Library Books/Media		6,642	
Other Supplies and Materials		1,640	
Total Regular Instruction Program			\$ 338,470

Special Education Program

Supervisor/Director	\$	51,479	
Career Ladder Program		1,000	
Psychological Personnel		17,564	
Other Salaries & Wages		3,565	
Social Security		3,324	
State Retirement		3,461	
Medical Insurance		5,069	
Employer Medicare		777	
Total Special Education Program			86,239

Board of Education

Board and Committee Members Fees	\$	11,600	
In-Service Training		290	
Social Security		719	
Unemployment Compensation		70	
Employer Medicare		168	
Audit Services		2,240	
Dues and Memberships		6,125	
Legal Services		1,195	
Trustee's Commission		51,620	
Workers' Compensation Insurance		52,632	
Criminal Investigation of Applicants - TBI		2,832	
Refund to Applicant for Criminal Investigation		1,584	

(Continued)

Exhibit F-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Board of Education (Cont.)

Other Charges	\$ 6,138	
Total Board of Education		\$ 137,213

Director of Schools

County Official/Administrative Officer	\$ 75,660	
Career Ladder Program	1,000	
Social Security	4,561	
State Retirement	4,216	
Medical Insurance	2,538	
Unemployment Compensation	84	
Employer Medicare	1,067	
Communication	16,393	
Postal Charges	1,228	
Travel	2,862	
Other Contracted Services	6,062	
Office Supplies	131	
Other Charges	750	
Total Director of Schools		116,552

Office of the Principal

Principals	\$ 158,154	
Career Ladder Program	3,000	
Secretary(ies)	45,291	
Social Security	11,926	
State Retirement	10,815	
Medical Insurance	11,128	
Unemployment Compensation	354	
Employer Medicare	2,789	
Communication	500	
Other Supplies and Materials	500	
Total Office of the Principal		244,457

Fiscal Services

Accountants/Bookkeepers	\$ 33,366
Secretary(ies)	7,684
Social Security	2,450
State Retirement	2,532
Medical Insurance	970
Unemployment Compensation	61

(Continued)

Exhibit F-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Fiscal Services (Cont.)

Employer Medicare	\$	573	
Travel		438	
Office Supplies		2,136	
Other Charges		1,099	
Total Fiscal Services			\$ 51,309

Operation of Plant

Custodial Personnel	\$	148,884	
Other Salaries & Wages		6,084	
Social Security		9,578	
State Retirement		8,539	
Unemployment Compensation		522	
Employer Medicare		2,240	
Maintenance & Repair Services - Equipment		6,925	
Other Contracted Services		82,000	
Custodial Supplies		36,234	
Electricity		302,462	
Fuel Oil		27,086	
Water and Sewer		27,152	
Other Supplies and Materials		289	
Building and Contents Insurance		51,555	
Other Charges		862	
Plant Operation Equipment		1,692	
Total Operation of Plant			712,104

Maintenance of Plant

Supervisor/Director	\$	22,422	
Other Salaries & Wages		30,925	
Social Security		3,308	
State Retirement		3,355	
Unemployment Compensation		84	
Employer Medicare		774	
Maintenance & Repair Services - Buildings		2,181	
Maintenance & Repair Services - Equipment		1,007	
Other Supplies and Materials		20,122	
Other Charges		266	
Maintenance Equipment		1,500	
Total Maintenance of Plant			85,944

(Continued)

Exhibit F-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Transportation

Bus Drivers	\$	181,138	
Other Salaries & Wages		589	
Social Security		11,264	
State Retirement		9,650	
Unemployment Compensation		725	
Employer Medicare		2,634	
Communication		4,490	
Maintenance & Repair Services - Vehicles		3,444	
Medical and Dental Services		2,707	
Other Contracted Services		42,170	
Diesel Fuel		50,847	
Gasoline		43,831	
Lubricants		4,018	
Tires and Tubes		16,058	
Vehicle Parts		27,933	
Other Supplies and Materials		828	
Vehicle and Equipment Insurance		14,500	
Other Charges		1,962	
Transportation Equipment		76,072	
Total Transportation			\$ 494,860

Operation of Non-Instructional Services

Food Service

Supervisor/Director	\$	51,258	
Career Ladder Program		1,000	
Social Security		3,240	
State Retirement		2,874	
Unemployment Compensation		42	
Employer Medicare		758	
Communication		995	
Travel		1,365	
Total Food Service			61,532

Community Services

Supervisor/Director	\$	51,258	
Other Salaries & Wages		6,044	
Social Security		3,152	
State Retirement		3,152	
Medical Insurance		5,143	

(Continued)

Exhibit F-5

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

General Purpose School Fund (Cont.)

Operation of Non-Instructional Services (Cont.)

Community Services (Cont.)

Unemployment Compensation	\$	45	
Employer Medicare		737	
Travel		329	
Other Contracted Services		1,000	
Other Charges		1,100	
Total Community Services			\$ 71,960

Early Childhood Education

Teachers	\$	66,274	
Educational Assistants		22,700	
Social Security		5,516	
State Retirement		4,668	
Unemployment Compensation		250	
Employer Medicare		1,290	
Travel		319	
General Construction Materials		31,445	
Instructional Supplies and Materials		27,524	
In Service/Staff Development		280	
Regular Instruction Equipment		20,750	
Total Early Childhood Education			181,016

Capital Outlay

Regular Capital Outlay

Building Improvements	\$	53,498	
Site Development		27,421	
Other Capital Outlay		16,988	
Total Regular Capital Outlay			97,907

Principal on Debt

Education

Principal on Other Loans	\$	186,000	
Total Education			186,000

Interest on Debt

Education

Interest on Other Loans	\$	247,001	
Total Education			247,001

(Continued)

Exhibit F-5

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

General Purpose School Fund (Cont.)

Other Debt Service

Education

Other Debt Service	\$ 43,110	
Total Education		\$ 43,110

Total General Purpose School Fund \$ 8,003,775

School Federal Projects Fund

Instruction

Regular Instruction Program

Teachers	\$ 222,510	
Educational Assistants	28,833	
Other Salaries & Wages	4,876	
Certified Substitute Teachers	1,290	
Non-certified Substitute Teachers	1,500	
Social Security	15,285	
State Retirement	14,349	
Medical Insurance	15,168	
Unemployment Compensation	562	
Employer Medicare	3,577	
Other Contracted Services	525	
Instructional Supplies and Materials	35,047	
Regular Instruction Equipment	20,757	
Total Regular Instruction Program		\$ 364,279

Special Education Program

Educational Assistants	\$ 88,407	
Other Salaries & Wages	16,717	
Social Security	6,438	
State Retirement	5,233	
Unemployment Compensation	376	
Employer Medicare	1,506	
Contracts with Private Agencies	11,959	
Other Contracted Services	405	
Instructional Supplies and Materials	17,978	
Other Supplies and Materials	8,081	
Other Charges	4,340	
Special Education Equipment	665	
Total Special Education Program		162,105

(Continued)

Exhibit F-5

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

School Federal Projects Fund (Cont.)

Instruction (Cont.)

Vocational Education Program

Travel	\$	4,949	
Other Contracted Services		4,974	
Instructional Supplies and Materials		2,909	
Vocational Instruction Equipment		29,239	
Total Vocational Education Program			\$ 42,071

Support Services

Regular Instruction Program

Supervisor/Director	\$	40,708	
Secretary(ies)		8,597	
Social Security		3,057	
State Retirement		2,780	
Medical Insurance		5,057	
Unemployment Compensation		68	
Employer Medicare		715	
Travel		7,510	
Other Contracted Services		5,198	
Library Books/Media		5,807	
Other Supplies and Materials		3,453	
In Service/Staff Development		20,938	
Other Charges		9,053	
Other Equipment		3,479	
Total Regular Instruction Program			116,420

Special Education Program

Psychological Personnel	\$	20,625	
Assessment Personnel		22,230	
Clerical Personnel		6,260	
Other Salaries & Wages		6,082	
Social Security		3,422	
State Retirement		3,072	
Unemployment Compensation		185	
Employer Medicare		800	
Maintenance & Repair Services - Equipment		240	
Travel		5,057	
Other Supplies and Materials		3,598	
In Service/Staff Development		2,252	
Other Charges		800	
Total Special Education Program			74,623

(Continued)

Exhibit F-5

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

School Federal Projects Fund (Cont.)  
Support Services (Cont.)

Vocational Education Program

Travel	\$ 288	
In Service/Staff Development	357	
Total Vocational Education Program		\$ 645

Transportation

Bus Drivers	\$ 5,205	
Other Salaries & Wages	4,851	
Social Security	624	
State Retirement	327	
Unemployment Compensation	60	
Employer Medicare	146	
Total Transportation		<u>11,213</u>

Total School Federal Projects Fund \$ 771,356

Central Cafeteria Fund

Operation of Non-Instructional Services

Food Service

Cafeteria Personnel	\$ 188,547	
In-Service Training	290	
Social Security	14,665	
State Retirement	11,211	
Medical Insurance	507	
Unemployment Compensation	886	
Communication	1,169	
Maintenance & Repair Services - Equipment	5,773	
Postal Charges	180	
Transportation - Other than Students	3,662	
Other Contracted Services	1,006	
Food Preparation Supplies	7,923	
Food Supplies	206,559	
Office Supplies	9,911	
Other Supplies and Materials	10,452	
Workers' Compensation Insurance	6,000	
In Service/Staff Development	50	
Food Service Equipment	33,652	
Total Food Service		<u>\$ 502,443</u>

Total Central Cafeteria Fund 502,443

Total Governmental Funds - Clay County School Department \$ 9,277,574

**SINGLE AUDIT REPORT**  
**CLAY COUNTY, TENNESSEE**  
**AND**  
**CLAY COUNTY SCHOOL DEPARTMENT**  
**FOR THE YEAR ENDED JUNE 30, 2006**

*DEPARTMENT OF AUDIT*  
*JOHN G. MORGAN*  
*Comptroller of the Treasury*

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

*ARTHUR L. ALEXANDER*  
*Director*

*CARL LOWE, CGFM*  
*Audit Manager*

*ANITA SCARLETT, CPA*  
*Auditor 4*

*CHRISTY N. TENNANT, CPA*  
*TIM BRASHEARS*  
*KELLEY McNEAL, CPA, CGFM*  
*State Auditors*

This report is available at [www.comptroller.state.tn.us](http://www.comptroller.state.tn.us)

---

---

## SINGLE AUDIT REPORT TABLE OF CONTENTS

---

---

	Page(s)
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>	1-2
Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With <u>OMB Circular A-133</u>	3-5
Schedule of Expenditures of Federal Awards and State Grants	7-8
Schedule of Audit Findings Not Corrected	9-10
Schedule of Findings and Questioned Costs	11-24
Auditee Reporting Responsibilities	25



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

February 16, 2007

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

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

We have audited the financial statements of each major fund and the aggregate remaining fund information of Clay County, Tennessee, and the governmental activities, the major fund, and the aggregate remaining fund information of the Clay County School Department, as of and for the year ended June 30, 2006, which collectively comprise a portion of Clay County's and the Clay County School Department's basic financial statements and have issued our reports thereon dated February 16, 2007. Our report on the financial statements of Clay County, Tennessee, expresses an adverse opinion because the government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34. Our report on the financial statements of the Clay County School Department expresses an unqualified opinion. 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 Clay County's and the Clay County School Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we

noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Clay County's and the Clay County School Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06.02, 06.04, 06.05, 06.09(A,B), 06.11, 06.12, 06.13(A,B,C,D,E,F), 06.15, 06.16, and 06.17.

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 noted above, we consider item 06.11 to be a material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clay County's and the Clay County School Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and are described in the accompanying Schedule of Findings and Questioned Costs as items 06.01, 06.03, 06.06, 06.07, 06.08, 06.09(C), 06.10, 06.13(G), and 06.14.

We also noted certain matters that we reported to the management of Clay County and the Clay County School Department in separate communications.

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

Very truly yours,



John G. Morgan  
Comptroller of the Treasury

JGM/yu



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

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

February 16, 2007

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

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

Compliance

We have audited the compliance of Clay County and the Clay County School Department with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of their major federal programs for the year ended June 30, 2006. Clay County's and the Clay County School Department's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of their major federal programs is the responsibility of Clay County's and the Clay County School Department's management. Our responsibility is to express an opinion on Clay County's and the Clay County School Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Clay County's and the Clay County School Department's compliance with

those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Clay County's and the Clay County School Department's compliance with those requirements.

As described in items 06.06 and 06.18 in the accompanying Schedule of Findings and Questioned Costs, the Clay County Mayor's Office did not reflect proceeds from the Community Development Block Grant and the related expenditures in the county's financial statements. Also, grant proceeds were not deposited with the county trustee and disbursed with a warrant as required by state statute. Compliance with such requirements is necessary, in our opinion, for the Clay County Mayor's Office to comply with the requirements applicable to that program.

As described in items 06.08 and 06.19 in the accompanying Schedule of Findings and Questioned Costs, the Clay County Mayor's Office did not document a subrecipient's compliance with the Davis-Bacon Act for an Appalachian Regional Development grant. Compliance with such requirements is necessary, in our opinion, for the Clay County Mayor's Office to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding two paragraphs, Clay County and the Clay County School Department complied, in all material respects, with the requirements referred to above that are applicable to each of their major federal programs for the year ended June 30, 2006.

#### Internal Control Over Compliance

The management of Clay County and the Clay County School Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Clay County's and the Clay County School Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect Clay County's and the Clay County School Department's ability to administer major federal programs in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06.17 and 06.20.

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 the applicable requirements of laws, regulations, contracts, and grants 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

#### Schedule of Federal Awards

We have audited the financial statements of each major fund and the aggregate remaining fund information of Clay County, Tennessee, and the governmental activities, the major fund, and the aggregate remaining fund information of the Clay County School Department as of and for the year ended June 30, 2006, and have issued our reports thereon dated February 16, 2007. Our report on the financial statements of Clay County, Tennessee, expresses an adverse opinion because the government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34. Our report on the financial statements of the Clay County School Department was unqualified. Our audit was performed for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and State Grants is presented for purposes of additional analysis, as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Very truly yours,



John G. Morgan  
Comptroller of the Treasury

JGM/yu

Clay County, Tennessee, and the Clay County School Department  
Schedule of Expenditures of Federal Awards and State Grants (1)  
For the Year Ended June 30, 2006

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Passed-through Entity Identifying Number	Expenditures
U.S. Department of Agriculture:			
Passed-through State Department of Agriculture:			
Food Donation (Noncash Assistance)	10.550	N/A	\$ 34,342
Passed-through State Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	105,321
National School Lunch Program	10.555	N/A	268,599
Total U.S. Department of Agriculture			<u>\$ 408,262</u>
U.S. Department of Housing and Urban Development:			
Passed-through State Department of Economic and Community Development:			
Community Development Block Grant/State's Program	14.228	GG-05-12027-00	\$ 496,748
Passed-through State Department of Housing Development:			
HOME Investment Partnership Program	14.239	HM-03-17	35,047
Total U.S. Department of Housing and Urban Development			<u>\$ 531,795</u>
U.S. Department of Justice:			
Pass-through Appalachia HIDTA:			
Appalachia High Intensity Drug Trafficking Area	16.13PAPP501	N/A	\$ 17,024
U.S. Department of Labor:			
Passed-through Upper Cumberland Human Resource Agency:			
Workforce Investment Act	17.250	N/A	\$ 18,600
Appalachian Regional Commission:			
Passed-through State Department of Economic and Community Development:			
Appalachian Regional Development	23.001	(2)	<u>\$ 377,350</u>
U.S. Department of Education:			
Direct Programs:			
Impact Aid	84.041	N/A	\$ 113,414
Passed-through State Department of Education:			
Adult Education - State Grant Programs	84.002	Z-06-027762-00	28,794
Title I Grants to Local Educational Agencies	84.010	N/A	352,822
Special Education Cluster:			
Special Education - Grants to States - IDEA	84.027	N/A	242,501
Special Education - Grants to States - Preschool	84.173	N/A	9,560
Vocational Education - Basic Grants to States	84.048	N/A	42,888
Safe and Drug Free Schools and Communities - State Grants	84.186	(2)	9,107
State Grants for Innovative Programs	84.298	N/A	5,880
Education Technology State Grants	84.318	(2)	11,234
Rural Education	84.358	N/A	44,381
Improving Teacher Quality State Grants	84.367	N/A	63,053
Total U.S. Department of Education			<u>\$ 923,634</u>
U.S. Department of Homeland Security:			
Passed-through State Department of Military:			
State Domestic Preparedness Equipment Support Program	97.004	(3)	\$ 26,512
Homeland Security Grant Program	97.067	Z-05-025143-00	5,698
Total U.S. Department of Homeland Security			<u>\$ 32,210</u>
Total Expenditures of Federal Awards			<u>\$ 2,308,875</u>

(Continued)

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

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Contract Number	Expenditures
<u>State Grants</u>			
State Reappraisal Program - Comptroller of the Treasury	N/A	(2)	\$ 6,769
Aging Program - State Commission on Aging	N/A	(2)	12,354
Juvenile Services Program - State Commission on Children and Youth	N/A	Z-06-002580-00	9,000
Litter Program - State Department of Transportation	N/A	(4)	41,111
Waste Tire Grant - State Department of Environment and Conservation	N/A	(2)	3,282
Recycling Equipment Grant - State Department of Environment and Conservation	N/A	Z-05-02-886-00	25,000
Local Health Services - State Department of Health	N/A	Z-06-025949-00	3,250
Emergency Dispatchers Grant - State Department of Commerce and Insurance	N/A	Z-04-020019-00	22,508
Adult Basic Education - State Department of Education	N/A	Z-06-027762-00	13,901
Family Preservation and Support Service - State Department of Education	N/A	(2)	33,300
Touching the Lives of Children - State Department of Education	N/A	(2)	6,980
Safe Schools Act - State Department of Education	N/A	(2)	8,395
Total State Grants			<u>\$ 185,850</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) Z-03-017735-00: \$7,586; Z-05-020080-00: \$7,727; Z-04-022428-00: \$11,199

(4) Z-05-021483-00: \$11,890; Z-06-027944-00: \$29,221

Clay County, Tennessee, and the Clay County School Department  
Schedule of Audit Findings Not Corrected  
June 30, 2006

Government Auditing Standards require auditors to report the status of uncorrected findings from prior audits. Presented below are findings from the Annual Financial Report of Clay County, Tennessee, and the Clay County School Department for the year ended June 30, 2005, which have not been corrected.

**CLAY COUNTY**

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
05.01	12	Government-wide financial statements were not presented in accordance with generally accepted accounting principles

**OFFICE OF COUNTY MAYOR**

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
05.02	13	The Solid Waste/Sanitation Fund had a fund deficit
05.04	14	The office had deficiencies in purchasing procedures
05.05(A)	14	Expenditures exceeded appropriations
05.06	15	Inventory records were not maintained

**OFFICE OF ROAD SUPERINTENDENT**

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
05.07	15	The office had deficiencies in purchasing procedures

**OFFICE OF DIRECTOR OF SCHOOLS**

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
05.09	17	Actual fund balance and reserves of the General Purpose School Fund exceeded the estimated beginning fund balance and reserves by a material amount
05.10	17	The School Department had inadequate controls over inventory

**OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK**

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
05.11	18	Accounting records were not maintained properly for Circuit and General Sessions Courts
05.12	19	Execution docket trial balances did not reconcile with general ledger accounts for Circuit and General Sessions Courts
05.13(A)	19	Short-term accounts were not reconciled with the general ledger

**OTHER FINDINGS**

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
05.14	20	A central system of accounting, budgeting, and purchasing had not been adopted
05.15	21	Duties were not segregated adequately in the Offices of County Mayor, Road Superintendent, Director of Schools, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff

---

---

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For the Year Ended June 30, 2006**

---

---

**PART I, SUMMARY OF AUDITOR'S RESULTS**

1. An adverse opinion was issued on the financial statements of Clay County, and an unqualified opinion was issued on the financial statements of the Clay County School Department.
2. The audit of the financial statements of Clay County and the Clay County School Department disclosed reportable conditions in internal control. One of these conditions was also considered to be a material weakness in Clay County.
3. The audit disclosed three instances of noncompliance that were material to the financial statements of Clay County. The audit did not disclose any instances of noncompliance that are material to the financial statements of the Clay County School Department.
4. The audit disclosed one reportable condition in internal control over major programs.
5. A qualified opinion was issued on compliance for major programs.
6. The audit revealed three findings that are required to be reported under Section 510(a) of OMB Circular A-133.
7. The Community Development Block Grant/State's Program (CFDA No. 14.228), the Appalachian Regional Development grant (CFDA No. 23.001), and the Title I Grants to Local Educational Agencies (CFDA No. 84.010) 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. Clay County and the Clay County School Department did not qualify as low-risk auditees.

## PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

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

### CLAY COUNTY

FINDING 06.01      **GOVERNMENT-WIDE FINANCIAL STATEMENTS WERE NOT PRESENTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**  
(Material Noncompliance Under Government Auditing Standards)

Clay County did not identify and determine the historical value of its capital assets and the related depreciation amounts of these assets. Therefore, Clay County was unable to provide the information necessary to prepare government-wide financial statements for all of its activities, as required by Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. GASB is the standard-setting body for accounting principles that state and local governments are required to follow. As a result of this omission, Clay County’s financial statements are not presented in accordance with generally accepted accounting principles; thus, we have issued adverse opinions on its financial statements.

The Office of the Comptroller of the Treasury, State of Tennessee, requires governments that do not implement GASB Statement 34 to issue a financial report in compliance with Financial Reporting Standards for County Governments, Component Units of County Governments, and Special School Districts That Do Not Implement Governmental Accounting Standards Board Statement 34, established by the Comptroller of the Treasury. Clay County’s financial statements are presented in compliance with these requirements.

### RECOMMENDATION

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

**OFFICE OF COUNTY MAYOR**

**FINDING 06.02      THE SOLID WASTE/SANITATION FUND HAD A FUND DEFICIT**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Solid Waste/Sanitation Fund had a fund deficit of \$46,035 at June 30, 2006. This fund deficit resulted from expenditures exceeding available funding.

**RECOMMENDATION**

Officials should monitor the financial activity of their funds to ensure that adequate funding is available to prevent the recurrence of a fund deficit.

---

**FINDING 06.03      EXPENDITURES EXCEEDED APPROPRIATIONS IN THE SOLID WASTE/SANITATION FUND**  
(Noncompliance Under Government Auditing Standards)

Expenditures exceeded total appropriations approved by the County Commission in the Solid Waste/Sanitation Fund by \$18,163. Such overexpenditures are a violation of state statute.

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

**RECOMMENDATION**

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

---

**FINDING 06.04      THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination of purchasing procedures revealed the following deficiencies:

- A. The office had not established a formal purchase order system. Purchase orders are necessary to control who has purchasing authority for the office and to document purchasing commitments.

- B. Several invoices were paid without documentation that goods had been received and/or services had been rendered. This practice could result in the county paying for items not received or paying invoices more than once. We extended our audit procedures and determined that these goods and services were received.
- C. Invoices were not on file to support some purchases, and invoices did not always adequately describe the purchases. We extended our audit procedures and determined that these expenditures were for the benefit of the county.

**RECOMMENDATION**

The office should establish a formal purchase order system to improve internal controls over the purchasing process and to document purchasing commitments. Documentation should be obtained indicating that goods have been received and/or services have been rendered before invoices are paid. Detailed invoices should be on file to support all purchases.

---

**FINDING 06.05**      **INVENTORY RECORDS WERE NOT MAINTAINED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Inventory records were not maintained for assets owned by the general county government. Generally accepted accounting principles require accountability for all county-owned assets, such as equipment, furniture, and vehicles.

**RECOMMENDATION**

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

---

**FINDING 06.06**      **GRANT PROCEEDS AND RELATED EXPENDITURES WERE NOT REFLECTED ON THE COUNTY'S FINANCIAL STATEMENTS**  
(Material Noncompliance Under Government Auditing Standards and OMB Circular A-133)

During the year, the county received a \$330,600 Community Development Block Grant from the State Department of Economic and Community Development to purchase an industrial building. The proceeds and related expenditures for the grant were not reflected on the county's financial statements. Instead, the grant proceeds were given to the county

attorney who deposited the funds into his office bank account. The county attorney then obtained a cashier's check for the purchase of the industrial building. Section 5-8-207, Tennessee Code Annotated, requires county funds be disbursed by warrants drawn on the county trustee. The failure to channel these funds through the department and to record these transactions on the accounting records materially misstated the department's financial statements and the Schedule of Expenditures of Federal Awards and State Grants. We have properly reflected these transactions in the financial statements of this report.

RECOMMENDATION

County officials should properly record all revenues and expenditures in the financial statements as required by generally accepted accounting principles, and warrants drawn on the county trustee should be issued for all disbursements as required by state statute.

MANAGEMENT'S RESPONSE – CURRENT COUNTY MAYOR – DALE REAGAN (DIRECT QUOTE)

On future loans and/or grant projects, the funds will be disbursed through the Clay County Trustee's Office, with warrants written through the Clay County Mayor's Office.

---

FINDING 06.07      **THE OFFICE DID NOT FILE A REPORT ON DEBT OBLIGATIONS WITH THE STATE DIRECTOR OF LOCAL FINANCE**  
(Noncompliance Under Government Auditing Standards)

Clay County officials entered into a \$72,727 capital lease to purchase a geothermal heating system for the Clay County Senior Center. County officials did not file a Report on Debt Obligations with the state director of Local Finance for the capital lease. Section 9-21-151, Tennessee Code Annotated, requires that within 45 days following the issuance of debt, a county must provide to the state director of Local Finance certain information, such as a brief description of the purpose or purposes for which the debt was issued and an itemized description of the costs of issuance of the debt.

RECOMMENDATION

County officials should file a Report on Debt Obligations with the state director of Local Finance for all debt issues as required by state statutes.

FINDING 06.08

**THE OFFICE DID NOT DOCUMENT A SUBRECIPIENT'S COMPLIANCE WITH THE DAVIS-BACON ACT**

(Material Noncompliance Under Government Auditing Standards and OMB Circular A-133)

The office did not document a subrecipient's compliance with the Davis-Bacon Act for an Appalachian Regional Development grant totaling \$337,350 passed through to a local utility district for a water-line extension project. Federal regulations require contractors to pay prevailing wages on any construction contract that exceeds \$2,000 and is financed either wholly or partially by federal funds. As a result of the failure to document the subrecipient's compliance with the Davis-Bacon Act, we were unable to determine whether contractors paid their employees prevailing wage rates on this construction project. Since the county did not comply with monitoring requirements of OMB Circular A-133, the amount paid to contractors of \$299,079 is listed as a questioned cost for this project.

RECOMMENDATION

The office should implement procedures to comply with provisions of the Davis-Bacon Act by monitoring and reviewing contractors' payrolls for compliance with prevailing wage rate requirements.

MANAGEMENT'S RESPONSE – CURRENT COUNTY MAYOR – DALE REAGAN (DIRECT QUOTE)

We will, to the best of our ability, monitor future projects.

---

OFFICE OF ROAD SUPERINTENDENT

FINDING 06.09

**THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES**

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

Our examination of purchasing procedures revealed the following deficiencies:

- A. The office had not established a formal purchase order system. Purchase orders are necessary to control who has purchasing authority for the office and to document purchasing commitments.
- B. Several invoices were paid without documentation that goods had been received and/or services had been rendered. This practice could result in the office paying for items not received or paying invoices more than once. We extended our audit procedures and determined that these goods and services were received.

- C. Competitive bids were not solicited for a chipper (\$20,000) that was purchased jointly by the Clay County Highway Department (\$10,000) and the City of Celina (\$10,000). Section 54-7-113, Tennessee Code Annotated, requires purchases exceeding \$10,000 to be made after public advertisement and solicitation of competitive bids.

RECOMMENDATION

The office should establish a formal purchase order system to improve internal controls over the purchasing process and to document purchasing commitments. Documentation should be obtained indicating goods were received and/or services were rendered before invoices are paid. Competitive bids should be solicited for all purchases exceeding \$10,000.

---

FINDING 06.10      **A LIST OF COUNTY ROADS WAS NOT SUBMITTED TO THE COUNTY COMMISSION**  
(Noncompliance Under Government Auditing Standards)

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

RECOMMENDATION

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

**OFFICE OF DIRECTOR OF SCHOOLS**

**FINDING 06.11**      **THE ACTUAL FUND BALANCE AND RESERVES OF THE GENERAL PURPOSE SCHOOL FUND EXCEEDED THE ESTIMATED BEGINNING FUND BALANCE AND RESERVES BY A MATERIAL AMOUNT**  
(Internal Control – Material Weakness Under Government Auditing Standards)

The General Purpose School Fund’s actual fund balance and reserves at July 1, 2005, was \$2,015,523; however, the estimated fund balance and reserves reflected in the county’s budget was \$1,252,731. Therefore, the actual fund balance and reserves exceeded the estimated fund balance and reserves presented to the County Commission during the budget process by \$762,792.

**RECOMMENDATION**

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

**MANAGEMENT’S RESPONSE – DIRECTOR OF SCHOOLS (DIRECT QUOTE)**

We are working on giving a more accurate account of our fund balance.

---

**FINDING 06.12**      **THE SCHOOL DEPARTMENT HAD INADEQUATE CONTROLS OVER INVENTORY**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

School Department officials did not maintain adequate controls over inventory. We noted several assets that were not tagged or clearly marked as school property, and some assets that were tagged were not identified by the tag number on the inventory lists. Also, no procedures were in place to ensure that newly acquired assets were added to the inventory lists, and that personnel independent of maintaining inventory records verified the lists periodically. Generally accepted accounting principles require accountability for all department-owned assets.

**RECOMMENDATION**

To improve controls over inventory, School Department officials should tag all assets and ensure that inventory lists include property tags and serial numbers. Also, officials should implement procedures for adding assets to inventory records and ensure that personnel independent of the recordkeeping process periodically verify inventory records.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS (DIRECT QUOTE)

Steps are being taken to control inventory within the system.

---

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

FINDING 06.13      **ACCOUNTING RECORDS WERE NOT MAINTAINED PROPERLY FOR CIRCUIT AND GENERAL SESSIONS COURTS**

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

Our examination of the offices' records revealed the following deficiencies:

- A. The accounting records did not accurately reflect the account balances in either Circuit or General Sessions Courts. Year-end balances were determined by substantive testing and alternative auditing procedures.
- B. Bank transactions for Circuit Court were not reconciled with general ledger accounts. When auditors began work in this office in January 2007, bank statements had not been reconciled since September 2005, and the general ledger reflected a negative bank balance of \$3,916. At the request of auditors, the office attempted to reconcile the bank statements with the general ledger; however, the reconciliations prepared by the clerk did not agree with the general ledger on June 30, 2006, by \$14,317, of which \$13,720 was an investment posted incorrectly.
- C. Bank transactions for General Sessions Court were not reconciled with general ledger accounts. When auditors began work in this office in January 2007, bank statements had not been reconciled since September 2005. The bank balance at June 30, 2006, was determined from substantive testing and alternative auditing procedures. We noted the following errors in the general ledger that were not detected by the office because the bank statements were not reconciled:
  - 1. Collections of \$27,325 were deposited to the General Sessions bank account without being receipted or posted to the general ledger. The clerk's office could not provide us with documentation about who made these payments or what cases they were for.
  - 2. Entries for voided checks totaling \$25,595 were not posted to the general ledger.
  - 3. Prior year differences between the bank reconciliation and the general ledger of \$11,720 were not corrected in the current year. These

differences included posting errors, voided checks not posted properly, and checks issued that were not posted to the general ledger.

4. Checks totaling \$2,220 cleared the office bank account but were not posted to the general ledger.
- D. The clerk did not reconcile the cash balances on the general ledgers with the cash in the office. At June 30, 2006, Circuit Court reflected a cash balance of \$1,244 on the general ledger, and General Sessions Court reflected a cash balance of \$9,240. After substantive testing and alternative auditing procedures, year-end balances were determined to be \$3,140 in Circuit Court and \$3,476 in General Session Court.
- E. The short-term account balance posted to the general ledger for Circuit Court did not agree with the total for all short-term accounts by \$8,190 at June 30, 2006, and the clerk's office had not attempted to reconcile the short-term accounts with the general ledger. The balance presented for short-term accounts for report presentation was determined from bank confirmations.
- F. Several receipts were voided without explanations and/or without the original receipts on file. Also, during the clerk's month-end closing process, handwritten receipts were issued for collections using the computer receipt stock. Subsequently, these handwritten receipts were voided and duplicate receipts were issued electronically; however, the original handwritten receipts were not retained, so we could not determine if all handwritten receipts were actually rewritten electronically.
- G. Routinely, funds were not deposited to the office bank account within three days of collection, and receipts were not deposited intact. Section 5-8-207, Tennessee Code Annotated, requires county officials to deposit all public funds to the office bank account within three days of collection. By not depositing collections in a timely manner, the clerk exposed the office to additional security risks from theft, robbery, or fraud.

## RECOMMENDATION

The accounting records for Circuit and General Sessions Courts should accurately reflect the operations of the office. Bank statements should be reconciled with the cash journals monthly. Cash on hand in the general ledgers should be reconciled with the cash in the offices daily. Short-term account balances should accurately reflect the deposits held for litigants and should be reconciled with the general ledger. All voided receipts should have adequate explanations and/or original receipts attached to support the transactions. Electronic receipts issued to replace handwritten receipts should have the handwritten receipt attached. Collections should be deposited to the office bank account intact within three days of collection.

**FINDING 06.14 EXECUTION DOCKET TRIAL BALANCES DID NOT RECONCILE WITH GENERAL LEDGER ACCOUNTS FOR CIRCUIT AND GENERAL SESSIONS COURTS**  
(Noncompliance Under Government Auditing Standards)

At June 30, 2006, the clerk prepared trial balances of execution docket cause balances for Circuit and General Sessions Courts as required by Section 18-2-104, Tennessee Code Annotated (TCA). However, these trial balances did not reconcile with the general ledger accounts by \$16,944 in Circuit Court and by \$33,957 in General Sessions Court. We also noted that there were several negative accounts on the docket trial balances totaling \$1,618 for Circuit Court and \$2,133 for General Sessions Court which indicate cases have been overpaid or improperly posted. Therefore, we were unable to determine if the clerk had complied with provisions of the Unclaimed Property Act, Section 66-29-101, TCA. This statute provides that any funds held by the courts for more than 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.

**RECOMMENDATION**

The clerk should reconcile the trial balances of execution docket cause balances with general ledger accounts as required by state statute and should determine the disposition of the cases with negative balances. To 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.

---

**OFFICE OF CLERK AND MASTER**

**FINDING 06.15 THE CLERK DID NOT POST SHORT-TERM ACCOUNT ACTIVITY TO THE ACCOUNTING RECORDS**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Short-term accounts held on behalf of litigants were not reflected in the office's accounting records. At June 30, 2006, the clerk was holding short-term accounts for litigants of \$45,991; however, these accounts were not recorded on the office's cash journal. The clerk also did not maintain subsidiary records for the short-term accounts. The cash journal is the official cash control record of the office and should reflect all financial activity. These short-term accounts have been reflected in the financial statements of this report.

**RECOMMENDATION**

The clerk should include short-term accounts held on behalf of litigants on the office's accounting records. This includes posting the accounts to the cash journal and maintaining a subsidiary ledger of short-term accounts that is reconciled with the cash journal monthly.

## OTHER FINDINGS AND RECOMMENDATIONS

**FINDING 06.16      A CENTRAL SYSTEM OF ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

### RECOMMENDATION

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

---

**FINDING 06.17      DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF COUNTY MAYOR, ROAD SUPERINTENDENT, DIRECTOR OF SCHOOLS, TRUSTEE, COUNTY CLERK, CIRCUIT AND GENERAL SESSIONS COURTS CLERK, CLERK AND MASTER, REGISTER, AND SHERIFF**  
(Internal Control – Reportable Condition Under Government Auditing Standards and OMB Circular A-133)

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

### MANAGEMENT'S RESPONSE – CURRENT COUNTY MAYOR – DALE REAGAN (DIRECT QUOTE)

Due to the budget situation, this office is not budgeted for extra personnel.

### MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS (DIRECT QUOTE)

Responsibilities and duties have been distributed more efficiently among employees, and we are continuing to look for ways to better segregate duties. However, a lack of funding keeps us from hiring additional personnel.

REBUTTAL TO MANAGEMENT'S RESPONSES FROM THE CURRENT COUNTY  
MAYOR AND THE DIRECTOR OF SCHOOLS

We have not recommended hiring additional employees. We realize that due to limited resources and personnel, management may not be able to fully segregate duties among employees. However, as noted above, our professional standards require that we bring this matter to your attention.

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

Federal/Pass-through Agencies	Finding Number	Federal CFDA Number	Criteria	Explanation	Amount Questioned
U.S. Department of Housing and Urban Development: Passed-through State Department of Economic and Community Development: Community Development Block Grant/State's Program	06.18	14.228	Circular A-133, Section 300(d)	Noncompliance. See Finding 06.06. Grant proceeds and related expenditures were not reflected on the county's financial statements.	\$ 0
Appalachian Regional Commission: Passed-through State Department of Economic and Community Development: Appalachian Regional Development	06.19	23.001	Circular A-133, Section 400(d)(3)	Noncompliance. See Finding 06.08. The office did not document a subrecipient's compliance with the Davis-Bacon Act.	299,079
U.S. Department of Housing and Urban Development: Passed-through State Department of Economic and Community Development: Community Development Block Grant/State's Program	06.20	14.228	Circular A-133, Section 500(e)(3)	Reportable Condition in Internal Control. See Finding 06.17 - Duties were not adequately segregated in the Offices of County Mayor and Director of Schools	0
Appalachian Regional Commission: Passed-through State Department of Economic and Community Development: Appalachian Regional Development		23.001			
U.S. Department of Education: Passed-through State Department of Education: Title 1 Grant to Local Educational Agencies		84.010			

**CLAY COUNTY, TENNESSEE, AND THE  
CLAY COUNTY SCHOOL DEPARTMENT  
AUDITEE REPORTING RESPONSIBILITIES  
For the Year Ended June 30, 2006**

There were findings relative to federal awards presented in the current year's Schedule of Findings and Questioned Costs. There were no findings relative to federal awards presented in the prior year's Schedule of Findings and Questioned Costs.

**County Mayor – Corrective Action Plan for Current Year's Findings**

**FINDINGS 06.06 AND 06.18**

Contact Person: Dale Reagan, Current County Mayor

Corrective action planned: On future loans and/or grant projects, the funds will be disbursed through the Clay County Trustee's Office with warrants written through the Clay County Mayor's Office.

Anticipated completion date: June 30, 2007

**FINDINGS 06.08 AND 06.19**

Contact Person: Dale Reagan, Current County Mayor

Corrective action planned: We will, to the best of our ability, monitor future projects.

Anticipated completion date: June 30, 2007

**FINDINGS 06.17 AND 06.20**

Contact Person: Dale Reagan, Current County Mayor

Corrective action planned: Due to the budget situation, this office is not budgeted for extra personnel.

Anticipated completion date: None

**Director of Schools – Corrective Action Plan for Current Year's Findings**

**FINDINGS 06.17 AND 06.20**

Contact Person: Dr. Doug Young, Director of Schools

Corrective action planned: Responsibilities and duties have been distributed more efficiently among employees, and we are continuing to look for ways to better segregate duties. However, a lack of funding keeps us from hiring additional personnel.

Anticipated completion date: None