

**ANNUAL FINANCIAL REPORT
OF
JACKSON COUNTY, TENNESSEE
AND
JACKSON 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
JACKSON COUNTY, TENNESSEE
FOR THE YEAR ENDED JUNE 30, 2006

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

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Audit Highlights

Annual Financial Report
Jackson 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 Jackson County as of and for the year ended June 30, 2006.

Results

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

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

Findings

The following are summaries of the audit findings:

JACKSON COUNTY

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

OFFICE OF COUNTY MAYOR

- ◆ Expenditures exceeded appropriations approved by the County Commission in eight major appropriation categories of the General Fund and in two major appropriation categories of the General Debt Service Fund. Also, expenditures exceeded appropriations in the Solid Waste/Sanitation Fund by \$15,349.
- ◆ In several instances, purchase orders were either not issued, were issued after the purchases were made, and/or did not disclose descriptions or dollar amounts of the items ordered. Also, several invoices were paid without documentation that goods had been received and/or services had been rendered. Furthermore, original bid documentation was not available for audit inspection for the purchase of an ambulance remount, and competitive bids were not solicited for the purchase of patrol cars.

OFFICE OF COUNTY MAYOR (CONT.)

- ◆ Bid files and contracts for the jail construction project were maintained by the construction manager, not by the county. Also, amounts withheld from contractor payments on contracts of \$500,000 or more were not deposited into an escrow account as required by state statute.
 - ◆ Receivables and/or payables were not determined and recorded on the accounting records for the General, Solid Waste/Sanitation, and General Capital Projects Funds. Fund balance reserves posted to the General Fund did not have supporting documentation. Also, general ledger payroll liability accounts were not reconciled with payroll reports and payments.
 - ◆ The county mayor entered into a financing agreement with a local insurance agent to pay the county's insurance premiums in installments plus interest; however, this loan was not approved by the County Commission or the state director of Local Finance.
 - ◆ The county paid insurance premiums to a local insurance agent based upon an invoice that had been altered.
 - ◆ Certain assets were not included on the inventory, and some items listed did not include all of the information necessary to identify the assets. Also, inventory records were not verified by personnel independent of maintaining the records.
-

OFFICE OF ROAD SUPERINTENDENT

- ◆ Adequate records of the quantity and use of rock were not maintained.
 - ◆ In several instances, purchase orders were not issued, were issued after the purchases were made, and/or were not dated.
 - ◆ Certain assets were not included on the inventory, and several assets were not tagged or labeled as county property. Also, inventory records were not verified by personnel independent of maintaining the records.
-

OFFICE OF CLERK AND MASTER

- ◆ The clerk did not prepare an execution docket trial balance at June 30, 2006.
-

OFFICE OF SHERIFF

- ◆ Funds were not always deposited within three days of collection.
 - ◆ The office did not complete several forms required to document cash transactions for confidential investigative funds. Several forms documenting confidential drug buys and payments to informants were not signed by two officers.
-

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.
- ◆ The Industrial Development Board of the County of Jackson, Tennessee, a component unit of Jackson County, was not audited as required by state statute.

INTRODUCTORY SECTION

Jackson County Officials

June 30, 2006

Officials

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

Board of County Commissioners

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

FINANCIAL SECTION



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

INDEPENDENT AUDITOR'S REPORT

October 9, 2006

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

To the County Mayor and Board of County Commissioners:

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Jackson County, Tennessee, as of and for the year ended June 30, 2006, as shown on pages 17 through 41, which collectively comprise a portion of the county's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Jackson County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

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

In our opinion, because of the effects of the matters discussed in the two preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Jackson County, Tennessee, as of June 30, 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 Jackson 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 October 9, 2006, on our consideration of Jackson County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The budgetary comparison information on pages 45 through 51 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Jackson County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the General Debt Service Fund, 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/rc

BASIC FINANCIAL STATEMENTS

Exhibit A

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

	Major Funds					Nonmajor	Total
	General	Solid Waste/ Sanitation	Highway/ Public Works	General Debt Service	General Capital Projects	Other Govern- mental Funds	
<u>ASSETS</u>							
Cash	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 9,625	\$ 9,625
Equity in Pooled Cash and Investments	630,762	90,311	247,878	1,905,737	113,743	179,772	3,168,203
Accounts Receivable	118,512	0	4,638	0	0	96	123,246
Allowance for Uncollectibles	(41,479)	0	0	0	0	0	(41,479)
Due from Other Governments	48,457	24,090	253,030	0	0	0	325,577
Due from Other Funds	9,721	0	3,932	0	8,557	0	22,210
Property Taxes Receivable	1,604,795	334,721	153,828	125,234	0	0	2,218,578
Allowance for Uncollectible Property Taxes	(58,337)	(12,114)	(5,683)	(4,453)	0	0	(80,587)
Total Assets	\$ 2,312,431	\$ 437,008	\$ 657,623	\$ 2,026,518	\$ 122,300	\$ 189,493	\$ 5,745,373
<u>LIABILITIES AND FUND BALANCES</u>							
<u>Liabilities</u>							
Accounts Payable	\$ 38,046	\$ 17,800	\$ 845	\$ 0	\$ 0	\$ 0	\$ 56,691
Payroll Deductions Payable	13,727	280	0	0	0	212	14,219
Contracts Payable	0	0	0	0	212,544	0	212,544
Retainage Payable	0	0	0	0	209,910	0	209,910
Due to Other Funds	3,224	0	0	8,557	0	9,721	21,502
Deferred Revenue - Current Property Taxes	1,483,065	309,509	141,858	116,066	0	0	2,050,498
Deferred Revenue - Delinquent Property Taxes	58,440	12,064	5,899	4,242	0	0	80,645
Other Deferred Revenues	86,329	0	120,736	0	0	0	207,065
Total Liabilities	\$ 1,682,831	\$ 339,653	\$ 269,338	\$ 128,865	\$ 422,454	\$ 9,933	\$ 2,853,074
<u>Fund Balances</u>							
Reserved for Encumbrances	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,398,161	\$ 0	\$ 1,398,161
Reserved for Litigation Tax - Jail, Workhouse, or Courthouse	71,266	0	0	0	0	0	71,266
Reserved for Sexual Offender Registration	720	0	0	0	0	0	720
Reserved for Courtroom Security	89	0	0	0	0	0	89
Reserved for Computer System - Register	8,798	0	0	0	0	0	8,798
Reserved for Automation Purposes - Circuit Court	217	0	0	0	0	0	217
Reserved for Automation Purposes - General Sessions Court	2,423	0	0	0	0	0	2,423

(Continued)

Exhibit A

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

	Major Funds					Nonmajor	Total
	General	Solid Waste/ Sanitation	Highway/ Public Works	General Debt Service	General Capital Projects	Other Govern- mental Funds	
<u>LIABILITIES AND FUND BALANCES (Cont.)</u>							
<u>Fund Balances (Cont.)</u>							
Reserved for Automation Purposes - Chancery Court	\$ 188	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 188
Reserved for Automation Purposes - Sheriff	6	0	0	0	0	0	6
Unreserved, Reported In:							
General Fund	545,893	0	0	0	0	0	545,893
Special Revenue Funds	0	97,355	388,285	0	0	49,638	535,278
Debt Service Funds	0	0	0	1,897,653	0	0	1,897,653
Capital Projects Funds (Deficit)	0	0	0	0	(1,698,315)	129,922	(1,568,393)
Total Fund Balances	<u>\$ 629,600</u>	<u>\$ 97,355</u>	<u>\$ 388,285</u>	<u>\$ 1,897,653</u>	<u>\$ (300,154)</u>	<u>\$ 179,560</u>	<u>\$ 2,892,299</u>
Total Liabilities and Fund Balances	<u>\$ 2,312,431</u>	<u>\$ 437,008</u>	<u>\$ 657,623</u>	<u>\$ 2,026,518</u>	<u>\$ 122,300</u>	<u>\$ 189,493</u>	<u>\$ 5,745,373</u>

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

Exhibit B

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

	Major Funds					Nonmajor Funds	Total Governmental Funds
	General	Solid Waste/ Sanitation	Highway/ Public Works	General Debt Service	General Capital Projects	Other Govern- mental Funds	
<u>Revenues</u>							
Local Taxes	\$ 1,801,900	\$ 316,949	\$ 172,196	\$ 118,664	\$ 0	\$ 0	\$ 2,409,709
Licenses and Permits	1,758	0	0	0	0	0	1,758
Fines, Forfeitures, and Penalties	42,834	0	0	0	0	70,293	113,127
Charges for Current Services	597,770	0	0	0	0	766	598,536
Other Local Revenues	281,223	2,297	126,678	7,346	13,200	11,367	442,111
Fees Received from County Officials	389,809	0	0	0	0	0	389,809
State of Tennessee	534,315	31,061	1,564,440	0	0	519	2,130,335
Federal Government	58,974	0	673,289	0	0	3,124	735,387
Other Governments and Citizens Groups	33,600	0	0	297,630	0	7,125	338,355
Total Revenues	\$ 3,742,183	\$ 350,307	\$ 2,536,603	\$ 423,640	\$ 13,200	\$ 93,194	\$ 7,159,127
<u>Expenditures</u>							
Current:							
General Government	\$ 448,308	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 448,308
Finance	236,027	0	0	0	0	677	236,704
Administration of Justice	396,494	0	0	0	0	89	396,583
Public Safety	1,158,380	0	0	0	0	52,428	1,210,808
Public Health and Welfare	628,190	368,033	0	0	0	5,780	1,002,003
Social, Cultural, and Recreational Services	75,224	0	0	0	0	0	75,224
Agricultural and Natural Resources	59,780	0	0	0	0	0	59,780
Other Operations	586,546	6,336	0	2,362	0	36,273	631,517
Highways	30,012	0	2,510,788	0	0	0	2,540,800
Debt Service:							
Principal on Debt	0	0	46,000	450,781	0	0	496,781
Interest on Debt	0	0	9,864	203,973	0	0	213,837
Other Debt Service	0	0	0	7,189	0	0	7,189
Capital Projects	0	0	0	0	2,715,391	0	2,715,391
Total Expenditures	\$ 3,618,961	\$ 374,369	\$ 2,566,652	\$ 664,305	\$ 2,715,391	\$ 95,247	\$ 10,034,925
Excess (Deficiency) of Revenues							
Over Expenditures	\$ 123,222	\$ (24,062)	\$ (30,049)	\$ (240,665)	\$ (2,702,191)	\$ (2,053)	\$ (2,875,798)

(Continued)

Exhibit B

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

	Major Funds					Nonmajor	Total
	General	Solid Waste/ Sanitation	Highway/ Public Works	General Debt Service	General Capital Projects	Other Govern- mental Funds	
<u>Other Financing Sources (Uses)</u>							
Notes Issued	\$ 60,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 60,000
Other Loans Issued	0	0	0	0	2,319,456	0	2,319,456
Total Other Financing Sources (Uses)	<u>\$ 60,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,319,456</u>	<u>\$ 0</u>	<u>\$ 2,379,456</u>
Net Change in Fund Balances	\$ 183,222	\$ (24,062)	\$ (30,049)	\$ (240,665)	\$ (382,735)	\$ (2,053)	\$ (496,342)
Fund Balance, July 1, 2005	446,378	121,417	418,334	2,138,318	82,581	181,613	3,388,641
Fund Balance, June 30, 2006	<u>\$ 629,600</u>	<u>\$ 97,355</u>	<u>\$ 388,285</u>	<u>\$ 1,897,653</u>	<u>\$ (300,154)</u>	<u>\$ 179,560</u>	<u>\$ 2,892,299</u>

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

Exhibit C

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

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash	\$ 476,165
Investments	181,565
Accounts Receivable	8,212
Due from Other Governments	<u>50,161</u>
Total Assets	<u>\$ 716,103</u>
<u>LIABILITIES</u>	
Due to Other Taxing Units	\$ 50,161
Due to Litigants, Heirs, and Others	<u>665,942</u>
Total Liabilities	<u>\$ 716,103</u>

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

A. Reporting Entity

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

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

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

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

The Jackson County Emergency Communications District provides a simplified means of securing emergency services through a uniform emergency number for the residents of Jackson County, and the Jackson County Commission appoints its governing body. The district is funded primarily through a service charge levied on telephone services. Before the issuance of most debt instruments, the district must obtain the County Commission's approval.

The Industrial Development Board of the County of Jackson, Tennessee, promotes industrial development in the county to provide employment for its citizens. The County Commission appoints all seven members of the board. The county also services debt on behalf of the board. The primary funding for the board is lease payments for industrial buildings. An annual audit has not been performed on the board for the year ended June 30, 2006.

The Jackson County School Department and the Jackson County Emergency Communications District issue separate financial statements from those of the county. The Industrial Development Board of the County of Jackson, Tennessee, has not published audited financial statements for the year. The School Department's financial statements are published as a separate report but under the same cover as the county's financial statements. The Jackson County Emergency Communications District's financial statements are published as a separate report. Complete financial statements of the Jackson County Emergency Communications District can be obtained from its administrative office at the following address:

Administrative Office:

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

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

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

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

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

Jackson County reports the following major governmental funds:

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

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

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

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

General Capital Projects Fund – This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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

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

1. **Deposits and Investments**

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

The county trustee maintains a cash and internal investment pool that is used by all Jackson County and Jackson County School Department funds. Each fund’s portion of this pool is displayed on the balance sheets or statements of net assets as Equity in Pooled Cash and Investments. Most income from these pooled investments is assigned to the General Fund. Jackson County and the Jackson County School Department have adopted a policy of reporting U.S.

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

2. Receivables and Payables

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 ambulance and property taxes receivable are shown with an allowance for uncollectibles. Ambulance receivables allowance for uncollectibles is based on historical collection date. The allowance for uncollectible property taxes is equal to 1.94 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.

Retainage payable in the General Capital Projects Fund represents amounts withheld from payments made on construction contracts pending completion of the projects. These amounts are held by the county trustee as Equity in Pooled Cash and Investments.

3. Capital Assets

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

4. Compensated Absences

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

5. Long-term Obligations

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

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

6. Fund Equity

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. 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 was 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 General Capital Projects Fund had a deficit fund balance of \$1,698,315 as of June 30, 2006. This fund deficit resulted from the recognition of the

unperformed portion of construction contracts totaling \$1,398,161 being reserved as encumbrances in the financial statements of this report and liabilities of \$212,544 and \$209,910 for contracts and retainage payable due to contractors for work already performed. Funding for these future expenditures should be received from other loans subsequent to year-end.

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 Overspent
General	County Buildings	\$ 1,203
"	Chancery Court	1,098
"	Sheriff's Department	15,471
"	Jail	11,869
"	Other Charges	1,533
"	Employee Benefits	1,789
"	Miscellaneous	14,492
"	Litter and Trash Collection	175
General Debt Service	Principal on Debt - General	
	Government	7,822
"	Other Debt Service - General	
	Government	6,180

Also, expenditures exceeded the total appropriations approved by the County Commission in the Solid Waste/Sanitation Fund by \$15,349.

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

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Jackson County and the Jackson County School Department participate in an internal cash and investment pool through the Office of Trustee. The Jackson County School Department meets the criteria for a discretely presented component unit of Jackson County. Since Jackson County is presenting fund financial statements only, the financial information for the Jackson County School Department is not included in these fund financial statements. The county trustee is the treasurer of the county and in this capacity is responsible for receiving, disbursing, depositing, and investing most county funds. Each fund's portion of this pool is displayed on the

balance sheets or statements of net assets as Equity in Pooled Cash and Investments. Cash reflected in the fund financial statements represents nonpooled amounts held separately by individual funds.

Deposits

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

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

Investments

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

Investment Balances. As of June 30, 2006, Jackson County had the following investments carried at cost or fair value. All of these investments

were made on behalf of litigants at the direction of a court order and are held in the Clerk and Master's Office.

Investment	Maturities	Fair Value or Cost
Ameriprise Money Market Funds	On Demand	\$ 887
Ameriprise Growth FD (B) Fund	On Demand	8,260
Ameriprise Part Select Value (B) Fund	On Demand	11,178
Ameriprise Large Cap Equity (B) Fund	On Demand	19,128
Ameriprise Mutual Funds	On Demand	142,112
Total		\$ 181,565

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

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statutes limit the ratings of certain investments as previously explained. Jackson County has no investment policy that would further limit its investment choices. As of June 30, 2006, Jackson County's investments in American Express Mutual Funds were not rated.

Custodial Credit Risk. Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the county will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Jackson County does not have a formal policy that limits custodial credit risk for investments. Of the \$181,565 in mutual funds, the underlying securities for \$181,565 were uninsured and held by the investment's counterparty, not in the name of the county. However, it should be noted that these amounts are invested on behalf of litigants at the order of the court and the county has no custodial credit risk for these investments.

B. Construction Commitments

At June 30, 2006, the General Capital Projects Fund had uncompleted construction contracts of approximately \$1,398,161 for jail construction and renovation projects. Funding for these future expenditures is expected to be received from other loans subsequent to year-end.

C. Interfund Receivables and Payables

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	Nonmajor governmental	\$ 9,721
Highway/Public Works	General	3,932
General Capital Projects	General Debt Service	8,557

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

The receivable in the Highway Public Works Fund included \$708 that was in transit from the General Fund at June 30, 2006.

D. Capital Lease

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

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

<u>Year Ending June 30</u>	<u>Governmental Funds</u>
2007	\$ 16,038
2008	2,673
Total Minimum Lease Payments	\$ 18,711
Less: Amounts Representing Interest	(4,006)
Present Value of Minimum Lease Payments	<u>\$ 14,705</u>

E. Long-term Debt

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

General Obligation Bonds, Notes, and Other Loans

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

General obligation bonds, capital outlay notes, and other loans are direct obligations and pledge the full faith and credit of the government. General obligation bonds, capital outlay notes, and other loans outstanding were issued for original terms of up to 40 years for bonds, up to six years for notes, and up to 25 years for other loans. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All bonds, notes, and other loans included in long-term debt as of June 30, 2006, will be retired from the General Debt Service Fund and the Highway/Public Works Fund.

General obligation bonds, capital outlay notes, other loans, and the capital lease outstanding as of June 30, 2006, are as follows:

<u>Type</u>	<u>Interest Rate</u>	<u>Original Amount of Issue</u>	<u>Balance 6-30-06</u>
General Obligation Bonds	3.342 to 5.683 %	\$ 3,920,000	\$ 2,865,000
Capital Outlay Notes	3.15 to 4.25	1,025,644	573,041
Other Loan	variable	2,687,607	2,585,607
Capital Lease	9.9	63,023	14,705

In the prior year, Jackson County entered into a loan agreement with the Montgomery County Public Building Authority. This loan agreement provided for the authority to make \$3,500,000 available for loan to Jackson County on an as-needed basis for jail construction. As of June 30, 2006, the county had borrowed \$2,687,607 of the available amount. This loan is repayable at a tax-exempt variable interest rate determined by the remarketing agent daily or weekly, depending on the particular program. In addition, the county pays various other fees (trustee, 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 .2 percent (letter of credit fee), .08 percent (remarketing fee) of the outstanding loan principal, and a trustee fee which is charged at \$100 per month.

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

Year Ending June 30	Bonds		Notes	
	Principal	Interest	Principal	Interest
2007	\$ 183,200	\$ 135,240	\$ 344,931	\$ 20,617
2008	189,400	127,438	85,335	8,980
2009	196,700	119,262	88,775	5,419
2010	201,900	109,588	54,000	2,289
2011	212,100	100,594	0	0
2012-2016	1,183,700	347,850	0	0
2017-2019	698,000	64,400	0	0
Total	\$ 2,865,000	\$ 1,004,372	\$ 573,041	\$ 37,305

Year Ending June 30	Other Loan (\$2,687,607)			Total
	Principal	Interest	Other Fees	
2007	\$ 105,000	\$ 125,726	\$ 10,714	\$ 241,440
2008	108,000	121,841	10,420	240,261
2009	111,000	117,845	10,118	238,963
2010	114,000	113,738	9,807	237,545
2011	118,000	109,520	9,488	237,008
2012-2016	645,000	479,520	42,288	1,166,808
2017-2021	747,000	352,758	32,695	1,132,453
2022-2026	637,607	206,090	21,596	865,293
Total	\$ 2,585,607	\$ 1,627,038	\$ 147,126	\$ 4,359,771

There is \$1,897,653 available in the General Debt Service Fund to service long-term debt. Bonded debt per capita amounted to \$261, based on the 2000 federal census. Total debt per capita, including bonds, notes, other loans, and capital leases, amounted to \$550, 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:

	Bonds	Notes	Capital Leases
Balance, July 1, 2005	\$ 3,037,500	\$ 722,718	\$ 27,309
Additions	0	60,000	0
Deductions	(172,500)	(209,677)	(12,604)
Balance, June 30, 2006	\$ 2,865,000	\$ 573,041	\$ 14,705
Balance Due Within One Year	\$ 183,200	\$ 344,931	\$ 12,604

Governmental Activities (Cont.):

	<u>Other Loans</u>
Balance, July 1, 2005	\$ 368,151
Additions	2,319,456
Deductions	<u>(102,000)</u>
Balance, June 30, 2006	<u>\$ 2,585,607</u>
Balance Due Within One Year	<u>\$ 105,000</u>

F. Short-term Debt

Jackson County issued tax anticipation notes in advance of property tax collections and deposited the proceeds in the General Fund. These notes were necessary because funds were not available to meet the county's obligations coming due before current tax collections. The county also entered into a short-term loan agreement with their local insurance agent to finance the county's general liability and worker's compensation insurance premiums. This agreement was not approved by the County Commission or the state director of Local Finance. 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 Notes	\$ 0	\$ 400,000	\$ (400,000)	\$ 0
Loan Agreement for Insurance Premiums	0	226,617	(226,617)	0

IV. OTHER INFORMATION

A. Risk Management

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

Jackson County Highway Department's risk of loss relating to general liability, property, and casualty is covered by participation in the Local Government Property and Casualty Fund (LGPCF), which is a public entity

risk pool established by the Tennessee County Services Association, an association of member counties. The Highway Department pays annual premiums to the pool for the risk coverage noted above. The creation of the pool provides for it to be self-sustaining through member premiums. The LGPCF reinsures through commercial insurance companies for claims exceeding \$100,000 for each insured event.

B. Accounting 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 Jackson 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 Jackson 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. Jackson County had no net assets restricted by enabling legislation to disclose as of June 30, 2006. But it is reasonably expected that Jackson 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. Jackson County was not offering any termination benefits to employees as of June 30, 2006. But it is reasonably expected that Jackson County will offer termination benefits in subsequent years subject to the accounting and reporting requirements of GASB Statement No. 47.

C. Subsequent Events

On July 18, 2005, the County Commission approved a second public building authority loan for \$1,200,000 for jail construction. The county is in the process of borrowing these funds.

During the period July 1, 2006, to October 9, 2006, Jackson County received other loans of \$767,082 under a previously approved \$3,500,000 loan agreement with the Montgomery County Public Building Authority.

D. Contingent Liabilities

Garry Jones, Clerk and Master, was indicted on April 17, 2006, on one count of official misconduct, one count of theft of property, one count of worthless checks, and one count of destruction and tampering with governmental records. An order for pretrial diversion in this case was entered on August 24, 2006.

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

E. Change in Administration

Garry Jones, Clerk and Master, resigned on February 21, 2006, and was succeeded by Sherrie Osborne on February 22, 2006.

F. Joint Ventures

The Tri-County Vocational School Board operates the Cooperative Vocational School, which is jointly owned by Clay, Jackson, and Macon Counties. The board comprises 17 members, 11 of whom are the three directors of schools, three county mayors, and five high school principals from Clay, Jackson, and Macon counties. The remaining six members are each appointed by the three county school boards and county commissions. Clay, Jackson, and Macon counties have control over budgeting and financing the joint venture only to the extent of representation by the six board members appointed. The counties are responsible for funding operations and any deficits from operations based on their participation in the joint venture, which is 24 percent (Clay), 30 percent (Jackson), and 46 percent (Macon); however, the counties do not retain an equity interest in the joint venture. Jackson County contributed \$69,327 to the operations of the board during the year. Complete financial statements for the Tri-County Vocational School can be obtained from its administrative office:

Administrative Office:

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

G. Jointly Governed Organization

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

H. Retirement Commitments

Plan Description

Employees of Jackson County are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident

or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service, and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Jackson County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at <http://www.treasury.state.tn.us/tcrs/PS/>.

Funding Policy

Jackson County requires employees to contribute five percent of earnable compensation. The county is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2006, was 6.24 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Jackson County is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2006, Jackson County's annual pension cost of \$172,280 to TCRS was equal to the county's required and actual contributions. The required contribution was determined as part of the July 1, 2003, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post-retirement increases of three percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Jackson County's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2003, was 21 years.

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6-30-06	\$172,280	100%	\$0
6-30-05	164,106	100	0
6-30-04	145,908	100	0

Required Supplementary Information
Schedule of Funding Progress for Jackson County

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/c)
6-30-05	\$3,751	\$3,855	\$104	97.30%	\$2,310	4.50%
6-30-03	3,141	3,249	108	96.68	2,225	4.85
6-30-01	2,600	2,761	161	94.17	2,142	7.52

I. Purchasing Laws

Office of County Mayor

Purchasing procedures for the Jackson County Mayor's Office are governed by the County Purchasing Law of 1983, Section 5-14-201, Tennessee Code Annotated (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 Road Superintendent

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

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit D-1

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 1,801,900	\$ 1,742,530	\$ 1,742,530	\$ 59,370
Licenses and Permits	1,758	1,500	1,500	258
Fines, Forfeitures, and Penalties	42,834	38,900	38,900	3,934
Charges for Current Services	597,770	493,600	495,887	101,883
Other Local Revenues	281,223	121,100	156,415	124,808
Fees Received from County Officials	389,809	342,500	342,500	47,309
State of Tennessee	534,315	410,094	474,551	59,764
Federal Government	58,974	9,300	27,137	31,837
Other Governments and Citizens Groups	33,600	0	33,600	0
Total Revenues	\$ 3,742,183	\$ 3,159,524	\$ 3,313,020	\$ 429,163
<u>Expenditures</u>				
<u>General Government</u>				
County Commission	\$ 36,280	\$ 45,804	\$ 45,318	\$ 9,038
Board of Equalization	300	807	807	507
Beer Board	26	200	200	174
Budget and Finance Committee	323	646	646	323
Other Boards and Committees	917	431	917	0
County Mayor/Executive	120,676	123,245	123,245	2,569
County Attorney	4,949	5,450	5,450	501
Election Commission	66,808	78,089	78,089	11,281
Register of Deeds	79,524	82,740	82,740	3,216
County Buildings	138,505	115,009	137,302	(1,203)
<u>Finance</u>				
Property Assessor's Office	79,072	81,072	81,072	2,000
Reappraisal Program	3,630	7,796	7,796	4,166
County Trustee's Office	69,722	70,312	70,312	590
County Clerk's Office	83,603	94,810	94,810	11,207
<u>Administration of Justice</u>				
Circuit Court	139,322	144,723	144,723	5,401
General Sessions Judge	88,644	94,370	94,370	5,726
Chancery Court	79,420	78,322	78,322	(1,098)
Juvenile Court	51,473	26,255	52,005	532
Judicial Commissioners	33,378	34,584	34,584	1,206
Other Administration of Justice	4,257	4,709	4,709	452
<u>Public Safety</u>				
Sheriff's Department	899,101	718,198	883,630	(15,471)
Administration of the Sexual Offender Registry	509	500	1,150	641
Jail	199,601	155,815	187,732	(11,869)
Fire Prevention and Control	8,280	16,500	16,500	8,220
Other Emergency Management	46,140	47,500	47,500	1,360
Other Public Safety	4,749	5,000	5,000	251

(Continued)

Exhibit D-1

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Expenditures (Cont.)</u>				
<u>Public Health and Welfare</u>				
Local Health Center	\$ 24,390	\$ 37,068	\$ 37,068	\$ 12,678
Ambulance/Emergency Medical Services	579,952	559,619	587,552	7,600
Crippled Children Services	900	900	900	0
Regional Mental Health Center	4,648	4,648	4,648	0
Appropriation to State	15,300	15,300	15,300	0
General Welfare Assistance	1,000	1,000	1,000	0
Other Local Welfare Services	2,000	2,000	2,000	0
<u>Social, Cultural, and Recreational Services</u>				
Adult Activities	16,532	16,032	16,535	3
Senior Citizens Assistance	15,740	16,332	15,829	89
Libraries	42,952	44,780	45,838	2,886
<u>Agriculture & Natural Resources</u>				
Agriculture Extension Service	38,912	40,948	40,948	2,036
Soil Conservation	20,868	20,868	20,868	0
<u>Other Operations</u>				
Industrial Development	3,970	5,000	5,000	1,030
Housing and Urban Development	50,162	0	50,162	0
Other Economic and Community Development	0	500	500	500
Airport	598	5,350	7,714	7,116
Other Charges	292,040	276,900	290,507	(1,533)
Employee Benefits	91,879	95,000	90,090	(1,789)
Miscellaneous	147,897	126,327	133,405	(14,492)
<u>Highways</u>				
Litter and Trash Collection	30,012	29,237	29,837	(175)
Total Expenditures	\$ 3,618,961	\$ 3,330,696	\$ 3,674,630	\$ 55,669
Excess (Deficiency) of Revenues				
Over Expenditures	\$ 123,222	\$ (171,172)	\$ (361,610)	\$ 484,832
<u>Other Financing Sources (Uses)</u>				
Notes Issued	\$ 60,000	\$ 0	\$ 60,000	\$ 0
Transfers In	0	40,000	6,400	(6,400)
Total Other Financing Sources (Uses)	\$ 60,000	\$ 40,000	\$ 66,400	\$ (6,400)
Net Change in Fund Balance	\$ 183,222	\$ (131,172)	\$ (295,210)	\$ 478,432
Fund Balance, July 1, 2005	446,378	439,057	439,057	7,321
Fund Balance, June 30, 2006	\$ 629,600	\$ 307,885	\$ 143,847	\$ 485,753

Exhibit D-2

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 316,949	\$ 300,648	\$ 300,648	\$ 16,301
Other Local Revenues	2,297	2,500	2,500	(203)
State of Tennessee	31,061	8,300	8,300	22,761
Total Revenues	<u>\$ 350,307</u>	<u>\$ 311,448</u>	<u>\$ 311,448</u>	<u>\$ 38,859</u>
<u>Expenditures</u>				
<u>Public Health and Welfare</u>				
Waste Pickup	\$ 213,556	\$ 202,465	\$ 206,965	\$ (6,591)
Convenience Centers	154,477	144,055	144,055	(10,422)
<u>Other Operations</u>				
Other Charges	6,336	8,000	8,000	1,664
Total Expenditures	<u>\$ 374,369</u>	<u>\$ 354,520</u>	<u>\$ 359,020</u>	<u>\$ (15,349)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (24,062)</u>	<u>\$ (43,072)</u>	<u>\$ (47,572)</u>	<u>\$ 23,510</u>
Net Change in Fund Balance	\$ (24,062)	\$ (43,072)	\$ (47,572)	\$ 23,510
Fund Balance, July 1, 2005	121,417	131,851	131,851	(10,434)
Fund Balance, June 30, 2006	<u>\$ 97,355</u>	<u>\$ 88,779</u>	<u>\$ 84,279</u>	<u>\$ 13,076</u>

Exhibit D-3

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Revenues</u>						
Local Taxes	\$ 172,196	\$ 0	\$ 172,196	\$ 147,222	\$ 152,622	\$ 19,574
Other Local Revenues	126,678	0	126,678	44,500	110,401	16,277
State of Tennessee	1,564,440	0	1,564,440	1,381,836	1,529,495	34,945
Federal Government	673,289	0	673,289	334,000	672,676	613
Total Revenues	<u>\$ 2,536,603</u>	<u>\$ 0</u>	<u>\$ 2,536,603</u>	<u>\$ 1,907,558</u>	<u>\$ 2,465,194</u>	<u>\$ 71,409</u>
<u>Expenditures</u>						
<u>Highways</u>						
Administration	\$ 116,645	\$ 0	\$ 116,645	\$ 123,646	\$ 125,160	\$ 8,515
Highway and Bridge Maintenance	1,786,555	(530,607)	1,255,948	1,302,820	1,886,906	630,958
Operation and Maintenance of Equipment	396,614	0	396,614	431,700	425,300	28,686
Other Charges	52,481	0	52,481	81,450	56,920	4,439
Employee Benefits	92,265	0	92,265	87,700	96,755	4,490
Capital Outlay	66,228	(33,240)	32,988	41,000	70,500	37,512
<u>Principal on Debt</u>						
Highways and Streets	46,000	0	46,000	55,865	46,000	0
<u>Interest on Debt</u>						
Highways and Streets	9,864	0	9,864	0	15,165	5,301
Total Expenditures	<u>\$ 2,566,652</u>	<u>\$ (563,847)</u>	<u>\$ 2,002,805</u>	<u>\$ 2,124,181</u>	<u>\$ 2,722,706</u>	<u>\$ 719,901</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (30,049)</u>	<u>\$ 563,847</u>	<u>\$ 533,798</u>	<u>\$ (216,623)</u>	<u>\$ (257,512)</u>	<u>\$ 791,310</u>

(Continued)

Exhibit D-3

Jackson County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Highway/Public Works Fund (Cont.)

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
Net Change in Fund Balance	\$ (30,049)	\$ 563,847	\$ 533,798	\$ (216,623)	\$ (257,512)	\$ 791,310
Fund Balance, July 1, 2005	418,334	(563,847)	(145,513)	270,332	270,332	(415,845)
Fund Balance, June 30, 2006	\$ 388,285	\$ 0	\$ 388,285	\$ 53,709	\$ 12,820	\$ 375,465

JACKSON 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/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 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 County Commission in the following major appropriation categories (the legal level of control) of the General Fund:

<u>Major Appropriation Category</u>	<u>Amount Overspent</u>
County Buildings	\$ 1,203
Chancery Court	1,098
Sheriff's Department	15,471
Jail	11,869
Other Charges	1,533
Employee Benefits	1,789
Miscellaneous	14,492
Litter and Trash Collection	175

Also, expenditures exceeded the total appropriations approved by the County Commission in the Solid Waste/Sanitation Fund by \$15,349.

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

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

Nonmajor Governmental Funds

Special Revenue Funds

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

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

Constitutional Officers - Fees Fund – The Constitutional Officers - Fees Fund is used to account for transactions of the fee and commission accounts of the trustee, clerks, register, and sheriff. Revenues from fees and commissions earned by these officials are remitted to the county's General Fund.

Capital Projects Fund

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

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

Exhibit E-1

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

	<u>Special Revenue Funds</u>			<u>Capital</u>	<u>Total</u>
	<u>Drug</u>	<u>Constitu -</u>	<u>Total</u>	<u>Projects</u>	
	<u>Control</u>	<u>tional</u>		<u>Development/</u>	<u>Nonmajor</u>
		<u>Officers -</u>		<u>Industrial</u>	<u>Governmental</u>
		<u>Fees</u>		<u>Park</u>	<u>Funds</u>
<u>ASSETS</u>					
Cash	\$ 0	\$ 9,625	\$ 9,625	\$ 0	\$ 9,625
Equity in Pooled Cash and Investments	49,850	0	49,850	129,922	179,772
Accounts Receivable	0	96	96	0	96
Total Assets	\$ 49,850	\$ 9,721	\$ 59,571	\$ 129,922	\$ 189,493
<u>LIABILITIES AND FUND BALANCES</u>					
<u>Liabilities</u>					
Payroll Deductions Payable	\$ 212	\$ 0	\$ 212	\$ 0	\$ 212
Due to Other Funds	0	9,721	9,721	0	9,721
Total Liabilities	\$ 212	\$ 9,721	\$ 9,933	\$ 0	\$ 9,933
<u>Fund Balances</u>					
Unreserved	\$ 49,638	\$ 0	\$ 49,638	\$ 129,922	\$ 179,560
Total Fund Balances	\$ 49,638	\$ 0	\$ 49,638	\$ 129,922	\$ 179,560
Total Liabilities and Fund Balances	\$ 49,850	\$ 9,721	\$ 59,571	\$ 129,922	\$ 189,493

Exhibit E-2

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

	Special Revenue Funds			Capital Projects Fund	Total Nonmajor Governmental Funds
	Drug Control	Constitu - tional Officers - Fees	Total	Community Development/ Industrial Park	
<u>Revenues</u>					
Fines, Forfeitures, and Penalties	\$ 70,293	\$ 0	\$ 70,293	\$ 0	\$ 70,293
Charges for Current Services	0	766	766	0	766
Other Local Revenues	0	0	0	11,367	11,367
State of Tennessee	519	0	519	0	519
Federal Government	3,124	0	3,124	0	3,124
Other Governments and Citizens Groups	7,125	0	7,125	0	7,125
Total Revenues	<u>\$ 81,061</u>	<u>\$ 766</u>	<u>\$ 81,827</u>	<u>\$ 11,367</u>	<u>\$ 93,194</u>
<u>Expenditures</u>					
Current:					
Finance	\$ 0	\$ 677	\$ 677	\$ 0	\$ 677
Administration of Justice	0	89	89	0	89
Public Safety	52,428	0	52,428	0	52,428
Public Health and Welfare	5,780	0	5,780	0	5,780
Other Operations	0	0	0	36,273	36,273
Total Expenditures	<u>\$ 58,208</u>	<u>\$ 766</u>	<u>\$ 58,974</u>	<u>\$ 36,273</u>	<u>\$ 95,247</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 22,853</u>	<u>\$ 0</u>	<u>\$ 22,853</u>	<u>\$ (24,906)</u>	<u>\$ (2,053)</u>
Net Change in Fund Balances	\$ 22,853	\$ 0	\$ 22,853	\$ (24,906)	\$ (2,053)
Fund Balance, July 1, 2005	<u>26,785</u>	<u>0</u>	<u>26,785</u>	<u>154,828</u>	<u>181,613</u>
Fund Balance, June 30, 2006	<u>\$ 49,638</u>	<u>\$ 0</u>	<u>\$ 49,638</u>	<u>\$ 129,922</u>	<u>\$ 179,560</u>

Exhibit E-3

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Fines, Forfeitures, and Penalties	\$ 70,293	\$ 33,000	\$ 65,081	\$ 5,212
Other Local Revenues	0	2,000	5,285	(5,285)
State of Tennessee	519	0	519	0
Federal Government	3,124	0	632	2,492
Other Governments and Citizens Groups	7,125	5,000	7,500	(375)
Total Revenues	<u>\$ 81,061</u>	<u>\$ 40,000</u>	<u>\$ 79,017</u>	<u>\$ 2,044</u>
<u>Expenditures</u>				
<u>Public Safety</u>				
Drug Enforcement	\$ 52,428	\$ 10,500	\$ 58,716	\$ 6,288
<u>Public Health and Welfare</u>				
Alcohol and Drug Programs	5,780	2,500	5,802	22
Total Expenditures	<u>\$ 58,208</u>	<u>\$ 13,000</u>	<u>\$ 64,518</u>	<u>\$ 6,310</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 22,853</u>	<u>\$ 27,000</u>	<u>\$ 14,499</u>	<u>\$ 8,354</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 0	\$ 2,500	\$ 0	\$ 0
Total Other Financing Sources (Uses)	<u>\$ 0</u>	<u>\$ 2,500</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Change in Fund Balance	\$ 22,853	\$ 29,500	\$ 14,499	\$ 8,354
Fund Balance, July 1, 2005	<u>26,785</u>	<u>17,778</u>	<u>17,778</u>	<u>9,007</u>
Fund Balance, June 30, 2006	<u>\$ 49,638</u>	<u>\$ 47,278</u>	<u>\$ 32,277</u>	<u>\$ 17,361</u>

Major Governmental Fund

General Debt Service Fund

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

Exhibit F

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 118,664	\$ 110,218	\$ 110,218	\$ 8,446
Other Local Revenues	7,346	7,500	7,500	(154)
Other Governments and Citizens Groups	297,630	0	297,630	0
Total Revenues	<u>\$ 423,640</u>	<u>\$ 117,718</u>	<u>\$ 415,348</u>	<u>\$ 8,292</u>
<u>Expenditures</u>				
<u>Other Operations</u>				
Other Charges	\$ 2,362	\$ 3,000	\$ 3,000	\$ 638
<u>Principal on Debt</u>				
General Government	290,781	180,957	282,957	(7,824)
Education	160,000	160,000	160,000	0
<u>Interest on Debt</u>				
General Government	66,343	95,234	95,234	28,891
Education	137,630	137,630	137,630	0
<u>Other Debt Service</u>				
General Government	6,680	500	500	(6,180)
Education	509	510	510	1
Total Expenditures	<u>\$ 664,305</u>	<u>\$ 577,831</u>	<u>\$ 679,831</u>	<u>\$ 15,526</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (240,665)</u>	<u>\$ (460,113)</u>	<u>\$ (264,483)</u>	<u>\$ 23,818</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 0	\$ 297,630	\$ 0	\$ 0
Total Other Financing Sources (Uses)	<u>\$ 0</u>	<u>\$ 297,630</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Change in Fund Balance	\$ (240,665)	\$ (162,483)	\$ (264,483)	\$ 23,818
Fund Balance, July 1, 2005	<u>2,138,318</u>	<u>2,156,674</u>	<u>2,156,674</u>	<u>(18,356)</u>
Fund Balance, June 30, 2006	<u>\$ 1,897,653</u>	<u>\$ 1,994,191</u>	<u>\$ 1,892,191</u>	<u>\$ 5,462</u>

Fiduciary Funds

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

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

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

Exhibit G-1

Jackson 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	\$ 476,165	\$ 476,165
Investments	0	181,565	181,565
Accounts Receivable	0	8,212	8,212
Due from Other Governments	50,161	0	50,161
Total Assets	\$ 50,161	\$ 665,942	\$ 716,103
<u>LIABILITIES</u>			
Due to Other Taxing Units	\$ 50,161	\$ 0	\$ 50,161
Due to Litigants, Heirs, and Others	0	665,942	665,942
Total Liabilities	\$ 50,161	\$ 665,942	\$ 716,103

Exhibit G-2

Jackson 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	\$ 295,346	\$ 295,346	\$ 0
Due From Other Governments	46,957	50,161	46,957	50,161
Total Assets	\$ 46,957	\$ 345,507	\$ 342,303	\$ 50,161
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 46,957	\$ 345,507	\$ 342,303	\$ 50,161
Total Liabilities	\$ 46,957	\$ 345,507	\$ 342,303	\$ 50,161
<u>Constitutional Officers - Agency Fund</u>				
<u>Assets</u>				
Cash	\$ 348,054	\$ 2,421,134	\$ 2,293,023	\$ 476,165
Investments	94,717	181,565	94,717	181,565
Accounts Receivable	5,755	8,212	5,755	8,212
Total Assets	\$ 448,526	\$ 2,610,911	\$ 2,393,495	\$ 665,942
<u>Liabilities</u>				
Due to Litigants, Heirs, and Others	\$ 448,526	\$ 2,610,911	\$ 2,393,495	\$ 665,942
Total Liabilities	\$ 448,526	\$ 2,610,911	\$ 2,393,495	\$ 665,942
<u>Totals - All Agency Funds</u>				
<u>Assets</u>				
Equity in Pooled Cash and Investments	\$ 0	\$ 295,346	\$ 295,346	\$ 0
Cash	348,054	2,421,134	2,293,023	476,165
Investments	94,717	181,565	94,717	181,565
Accounts Receivable	5,755	8,212	5,755	8,212
Due From Other Governments	46,957	50,161	46,957	50,161
Total Assets	\$ 495,483	\$ 2,956,418	\$ 2,735,798	\$ 716,103
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 46,957	\$ 345,507	\$ 342,303	\$ 50,161
Due to Litigants, Heirs, and Others	448,526	2,610,911	2,393,495	665,942
Total Liabilities	\$ 495,483	\$ 2,956,418	\$ 2,735,798	\$ 716,103

MISCELLANEOUS SCHEDULES

Exhibit H-1

Jackson County, Tennessee
Schedule of Changes in Long-term Notes, Capital Leases, Other Loans, and Bonds
For the Year Ended June 30, 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>								
Courthouse Renovation	\$ 340,000	3.5 %	4-9-01	4-9-07	\$ 186,199	\$ 0	\$ 34,836	\$ 151,363
Ambulance Equipment & Fire Equipment	30,000	3.75	2-6-03	2-6-06	10,370	0	10,370	0
Ambulance	67,000	3.75	4-15-03	4-15-06	30,501	0	30,501	0
Garbage Truck and Dumpsters	170,144	4	6-18-04	6-17-09	138,707	0	32,636	106,071
Ambulance	67,500	3.15	2-20-04	2-20-07	40,140	0	22,667	17,473
Patrol Cars	25,000	3.35	4-27-04	2-26-07	16,801	0	8,187	8,614
Freestate Road Repairs	50,000	4.25	6-2-05	6-2-07	50,000	0	24,480	25,520
Patrol Cars	60,000	4.1	8-4-05	8-4-06	0	60,000	0	60,000
Total Payable through General Debt Service Fund					<u>\$ 472,718</u>	<u>\$ 60,000</u>	<u>\$ 163,677</u>	<u>\$ 369,041</u>
<u>Payable through Highway/Public Works Fund</u>								
Street and Road Improvements	250,000	4.24	5-26-05	5-1-10	\$ 250,000	\$ 0	\$ 46,000	\$ 204,000
Total Notes Payable					<u>\$ 722,718</u>	<u>\$ 60,000</u>	<u>\$ 209,677</u>	<u>\$ 573,041</u>
<u>CAPITAL LEASES PAYABLE</u>								
<u>Payable through General Debt Service Fund</u>								
Defibrillator/Monitors	63,023	9.9	6-25-02	9-30-07	\$ 27,309	\$ 0	\$ 12,604	\$ 14,705
<u>OTHER LOANS PAYABLE</u>								
<u>Payable through General Debt Service Fund</u>								
Jail Construction	(1)	Variable	8-9-04	5-25-29	\$ 368,151	\$ 2,319,456	\$ 102,000	\$ 2,585,607

(Continued)

Exhibit H-1

Jackson County, Tennessee

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

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-05	Issued During Period	Paid and/or Matured During Period	Outstanding 6-30-06
<u>BONDS PAYABLE</u>								
<u>Payable through General Debt Service Fund</u>								
Industrial Park (F.H.A.)	\$ 110,000	5 %	8-29-1975	1-1-15	\$ 50,500	\$ 0	\$ 4,000	\$ 46,500
Solid Waste (F.H.A.)	44,000	5.683	3-3-1978	1-1-08	9,000	0	3,000	6,000
Public Works (F.H.A.)	26,000	5	4-28-1978	1-1-18	14,000	0	500	13,500
Recreational Facility (F.H.A.)	115,000	3.342	8-21-1981	1-1-11	34,000	0	5,000	29,000
School	1,200,000	4.2 to 5	3-12-1998	6-1-18	1,045,000	0	60,000	985,000
School	2,425,000	3.6 to 4.9	5-1-1999	4-1-19	1,885,000	0	100,000	1,785,000
Total Bonds Payable					<u>\$ 3,037,500</u>	<u>\$ 0</u>	<u>\$ 172,500</u>	<u>\$ 2,865,000</u>

(1) The county has drawn \$2,687,607 of an authorized \$3,500,000 from the Montgomery County Public Building Authority. There is an additional \$812,393 available for draws as of June 30, 2006.

Exhibit H-2

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

Year Ending June 30	Bond Requirements	Interest Requirements	F.H.A. Bond Requirements	F.H.A. Interest Requirements	Total Requirements
2007	\$ 170,000	\$ 130,930	\$ 13,200	\$ 4,310	\$ 318,440
2008	175,000	123,725	14,400	3,713	316,838
2009	185,000	116,190	11,700	3,072	315,962
2010	190,000	107,003	11,900	2,586	311,489
2011	200,000	98,503	12,100	2,091	312,694
2012	210,000	89,352	6,400	1,585	307,337
2013	215,000	79,572	6,700	1,265	302,537
2014	235,000	69,455	6,900	930	312,285
2015	240,000	58,230	7,200	585	306,015
2016	255,000	46,650	1,500	225	303,375
2017	260,000	34,260	1,500	150	295,910
2018	265,000	21,500	1,500	75	288,075
2019	170,000	8,415	0	0	178,415
Total	\$ 2,770,000	\$ 983,785	\$ 95,000	\$ 20,587	\$ 3,869,372

Exhibit H-3

Jackson 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	Western Surety Company
Road Superintendent	Section 8-24-102, <u>TCA</u> , and Jackson County Commission	52,783 (1)	100,000	"
Trustee	Section 8-24-102, <u>TCA</u>	44,548	375,400	"
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	25,000	"
Circuit Court Clerk	Section 8-24-102, <u>TCA</u>	44,548	25,000	"
Clerk and Master:				
Garry Jones (7-1-05 to 2-21-06)	Section 8-24-102, <u>TCA</u> , and Chancery Court Judge	33,435 (2)	25,000	"
Sherrie Osborne (2-22-06 to 6-30-06)	Section 8-24-102, <u>TCA</u> , and Chancery Court Judge	13,157 (3)	25,000	"
Register	Section 8-24-102, <u>TCA</u>	44,548	15,000	"
Sheriff	Section 8-24-102, <u>TCA</u>	49,521 (4)	25,000	"
Employee Blanket Bond Coverage:				
General County Employees			150,000	Tennessee School Boards Risk Management Trust
Highway Employees			150,000	Local Government Property and Casualty

- (1) Includes an additional appropriation of \$3,781.
- (2) Includes special commissioner fees of \$1,880.
- (3) Includes special commissioner fees of \$164.
- (4) Includes law enforcement training supplement of \$519.

Exhibit H-4

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

	Special Revenue Funds					Debt Service Fund	Capital Projects Funds		Total
	General	Solid Waste/ Sanitation	Drug Control	Constitu - tional - Officers - Fees	Highway/ Public Works	General Debt Service	General Capital Projects	Community Development/ Industrial Park	
<u>Local Taxes</u>									
<u>County Property Taxes</u>									
Current Property Tax	\$ 1,403,170	\$ 292,990	\$ 0	\$ 0	\$ 133,990	\$ 109,957	\$ 0	\$ 0	\$ 1,940,107
Trustee's Collections - Prior Year	66,352	13,703	0	0	6,582	5,015	0	0	91,652
Circuit/Clerk & Master Collections - Prior Years	27,915	5,477	0	0	2,532	2,134	0	0	38,058
Interest and Penalty	11,558	2,700	0	0	1,140	778	0	0	16,176
Payments in-Lieu-of Taxes - Other	25,751	0	0	0	0	0	0	0	25,751
<u>County Local Option Taxes</u>									
Local Option Sales Tax	104,076	0	0	0	0	0	0	0	104,076
Litigation Tax - General	34,578	0	0	0	0	0	0	0	34,578
Litigation Tax - Jail, Workhouse, or Courthouse	12,208	0	0	0	0	0	0	0	12,208
Business Tax	33,795	0	0	0	0	0	0	0	33,795
Mineral Severance Tax	0	0	0	0	27,001	0	0	0	27,001
<u>Statutory Local Taxes</u>									
Bank Excise Tax	9,957	2,079	0	0	951	780	0	0	13,767
Wholesale Beer Tax	70,795	0	0	0	0	0	0	0	70,795
Interstate Telecommunications Tax	1,745	0	0	0	0	0	0	0	1,745
Total Local Taxes	\$ 1,801,900	\$ 316,949	\$ 0	\$ 0	\$ 172,196	\$ 118,664	\$ 0	\$ 0	\$ 2,409,709
<u>Licenses and Permits</u>									
<u>Permits</u>									
Beer Permits	\$ 1,758	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,758
Total Licenses and Permits	\$ 1,758	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,758
<u>Fines, Forfeitures, and Penalties</u>									
<u>Circuit Court</u>									
Fines	\$ 2,639	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,639
Game and Fish Fines	70	0	0	0	0	0	0	0	70
Jail Fees	6	0	0	0	0	0	0	0	6
Data Entry Fee - Circuit Court	712	0	0	0	0	0	0	0	712
<u>General Sessions Court</u>									
Fines	30,908	0	0	0	0	0	0	0	30,908
Game and Fish Fines	215	0	0	0	0	0	0	0	215
Drug Control Fines	0	0	14,819	0	0	0	0	0	14,819

(Continued)

Exhibit H-4

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

	Special Revenue Funds					Debt Service Fund	Capital Projects Funds		Total
	General	Solid Waste/ Sanitation	Drug Control	Constitutional Officers - Fees	Highway/ Public Works	General Debt Service	General Capital Projects	Community Development/ Industrial Park	
<u>Fines, Forfeitures, and Penalties (Cont.)</u>									
<u>General Sessions Court (Cont.)</u>									
Jail Fees	\$ 6	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6
DUI Treatment Fines	5,125	0	0	0	0	0	0	0	5,125
Data Entry Fee - General Sessions Court	2,403	0	0	0	0	0	0	0	2,403
Courtroom Security Fee	131	0	0	0	0	0	0	0	131
<u>Chancery Court</u>									
Officers Costs	397	0	0	0	0	0	0	0	397
Data Entry Fee - Chancery Court	222	0	0	0	0	0	0	0	222
<u>Other Courts - In-county</u>									
Drug Control Fines	0	0	16,650	0	0	0	0	0	16,650
<u>Other Fines, Forfeitures, and Penalties</u>									
Proceeds from Confiscated Property	0	0	38,824	0	0	0	0	0	38,824
Total Fines, Forfeitures, and Penalties	\$ 42,834	\$ 0	\$ 70,293	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 113,127
<u>Charges for Current Services</u>									
<u>General Service Charges</u>									
Patient Charges	\$ 533,716	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 533,716
<u>Fees</u>									
Copy Fees	3,804	0	0	0	0	0	0	0	3,804
Telephone Commissions	6,034	0	0	0	0	0	0	0	6,034
Constitutional Officers' Fees and Commissions	18,846	0	0	766	0	0	0	0	19,612
Data Processing Fee - Register	6,296	0	0	0	0	0	0	0	6,296
Sexual Offender Registration Fees - Sheriff	650	0	0	0	0	0	0	0	650
<u>Education Charges</u>									
Tuition - Other	28,424	0	0	0	0	0	0	0	28,424
Total Charges for Current Services	\$ 597,770	\$ 0	\$ 0	\$ 766	\$ 0	\$ 0	\$ 0	\$ 0	\$ 598,536
<u>Other Local Revenues</u>									
<u>Recurring Items</u>									
Investment Income	\$ 233,922	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 233,922
Lease/Rentals	1,675	0	0	0	0	7,346	0	7,965	16,986
Sale of Materials and Supplies	0	0	0	0	6,816	0	0	0	6,816
Commissary Sales	8,919	0	0	0	0	0	0	0	8,919

(Continued)

Exhibit H-4

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

	Special Revenue Funds					Debt Service Fund	Capital Projects Funds		Total
	General	Solid Waste/ Sanitation	Drug Control	Constitu - tional - Officers - Fees	Highway/ Public Works	General Debt Service	General Capital Projects	Community Development/ Industrial Park	
<u>Other Local Revenues (Cont.)</u>									
<u>Recurring Items (Cont.)</u>									
Sale of Gasoline	\$ 486	\$ 0	\$ 0	\$ 0	\$ 79,449	\$ 0	\$ 0	\$ 0	\$ 79,935
Miscellaneous Refunds	12,039	0	0	0	9,604	0	13,200	3,402	38,245
<u>Nonrecurring Items</u>									
Insurance Recovery	9,299	0	0	0	2,327	0	0	0	11,626
Sale of Equipment	0	0	0	0	28,482	0	0	0	28,482
Contributions & Gifts	1,329	0	0	0	0	0	0	0	1,329
<u>Other Local Revenues</u>									
Other Local Revenues	13,554	2,297	0	0	0	0	0	0	15,851
Total Other Local Revenues	\$ 281,223	\$ 2,297	\$ 0	\$ 0	\$ 126,678	\$ 7,346	\$ 13,200	\$ 11,367	\$ 442,111
<u>Fees Received from County Officials</u>									
<u>Fees-In-Lieu of Salary</u>									
County Clerk	\$ 80,765	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 80,765
Circuit Court Clerk	26,988	0	0	0	0	0	0	0	26,988
General Sessions Court Clerk	55,895	0	0	0	0	0	0	0	55,895
Clerk and Master	28,077	0	0	0	0	0	0	0	28,077
Register	65,961	0	0	0	0	0	0	0	65,961
Sheriff	4,311	0	0	0	0	0	0	0	4,311
Trustee	127,812	0	0	0	0	0	0	0	127,812
Total Fees Received from County Officials	\$ 389,809	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 389,809
<u>State of Tennessee</u>									
<u>General Government Grants</u>									
Juvenile Services Program	\$ 9,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 9,000
Aging Programs	11,631	0	0	0	0	0	0	0	11,631
Solid Waste Grants	0	31,061	0	0	0	0	0	0	31,061
<u>Public Safety Grants</u>									
Law Enforcement Training Programs	5,706	0	519	0	0	0	0	0	6,225
<u>Health and Welfare Grants</u>									
Other Health and Welfare Grants	2,900	0	0	0	0	0	0	0	2,900
<u>Public Works Grants</u>									
State Aid Program	0	0	0	0	147,659	0	0	0	147,659

(Continued)

Exhibit H-4

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

	Special Revenue Funds					Debt Service Fund	Capital Projects Funds		Total
	General	Solid Waste/ Sanitation	Drug Control	Constitu - tional Officers - Fees	Highway/ Public Works	General Debt Service	General Capital Projects	Community Development/ Industrial Park	
<u>State of Tennessee (Cont.)</u>									
<u>Public Works Grants (Cont.)</u>									
Litter Program	\$ 33,952	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 33,952
<u>Other State Revenues</u>									
Flood Control	2,698	0	0	0	0	0	0	0	2,698
Income Tax	14,756	0	0	0	0	0	0	0	14,756
Beer Tax	17,212	0	0	0	0	0	0	0	17,212
Alcoholic Beverage Tax	20,299	0	0	0	0	0	0	0	20,299
State Revenue Sharing - T.V.A.	225,206	0	0	0	0	0	0	0	225,206
Contracted Prisoner Boarding	116,509	0	0	0	0	0	0	0	116,509
Gasoline and Motor Fuel Tax	0	0	0	0	1,407,945	0	0	0	1,407,945
Petroleum Special Tax	0	0	0	0	8,836	0	0	0	8,836
Reappraisal Program Reimbursement	5,313	0	0	0	0	0	0	0	5,313
Registrar's Salary Supplement	20,475	0	0	0	0	0	0	0	20,475
Other State Revenues	48,658	0	0	0	0	0	0	0	48,658
Total State of Tennessee	\$ 534,315	\$ 31,061	\$ 519	\$ 0	\$ 1,564,440	\$ 0	\$ 0	\$ 0	\$ 2,130,335
<u>Federal Government</u>									
<u>Federal Through State</u>									
Disaster Relief	\$ 0	\$ 0	\$ 0	\$ 0	\$ 629,076	\$ 0	\$ 0	\$ 0	\$ 629,076
Homeland Security Grants	22,818	0	0	0	0	0	0	0	22,818
Other Federal through State	17,563	0	3,124	0	44,213	0	0	0	64,900
<u>Direct Federal Revenue</u>									
Police Service (Lake Area)	14,389	0	0	0	0	0	0	0	14,389
Public Safety Partnership and Community Policing - COPS	4,204	0	0	0	0	0	0	0	4,204
Total Federal Government	\$ 58,974	\$ 0	\$ 3,124	\$ 0	\$ 673,289	\$ 0	\$ 0	\$ 0	\$ 735,387
<u>Other Governments and Citizens Groups</u>									
<u>Other Governments</u>									
Contributions	\$ 33,600	\$ 0	\$ 7,125	\$ 0	\$ 0	\$ 297,630	\$ 0	\$ 0	\$ 338,355
Total Other Governments and Citizens Groups	\$ 33,600	\$ 0	\$ 7,125	\$ 0	\$ 0	\$ 297,630	\$ 0	\$ 0	\$ 338,355
Total	\$ 3,742,183	\$ 350,307	\$ 81,061	\$ 766	\$ 2,536,603	\$ 423,640	\$ 13,200	\$ 11,367	\$ 7,159,127

Exhibit H-5

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

General Fund

General Government

County Commission

Other Per Diem & Fees	\$	20,633	
Social Security		1,712	
Audit Services		9,457	
Dues and Memberships		2,120	
Other Contracted Services		2,358	
Total County Commission			\$ 36,280

Board of Equalization

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

Beer Board

Legal Notices, Recording, and Court Costs	\$	26	
Total Beer Board			26

Budget and Finance Committee

Board and Committee Members Fees	\$	300	
Social Security		23	
Total Budget and Finance Committee			323

Other Boards and Committees

Board and Committee Members Fees	\$	850	
Social Security		67	
Total Other Boards and Committees			917

County Mayor/Executive

County Official/Administrative Officer	\$	51,452	
Accountants/Bookkeepers		31,605	
Clerical Personnel		18,425	
Social Security		7,763	
Communication		2,313	
Dues and Memberships		1,000	
Maintenance & Repair Services - Office Equipment		80	
Travel		1,430	
Office Supplies		1,733	
Data Processing Equipment		4,875	
Total County Mayor/Executive			120,676

County Attorney

County Official/Administrative Officer	\$	4,597	
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(Continued)

Exhibit H-5

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

General Fund (Cont.)

General Government (Cont.)

County Attorney (Cont.)

Social Security	\$ 352	
Total County Attorney		\$ 4,949

Election Commission

County Official/Administrative Officer	\$ 37,866	
Election Commission	12,390	
Social Security	3,845	
Communication	881	
Legal Notices, Recording, and Court Costs	91	
Printing, Stationery, and Forms	4,837	
Travel	631	
Other Contracted Services	4,123	
Office Supplies	887	
Data Processing Equipment	1,257	
Total Election Commission		66,808

Register of Deeds

County Official/Administrative Officer	\$ 44,548	
Clerical Personnel	18,425	
Social Security	4,817	
Communication	1,386	
Data Processing Services	7,634	
Dues and Memberships	293	
Maintenance & Repair Services - Office Equipment	328	
Travel	331	
Office Supplies	1,566	
Office Equipment	196	
Total Register of Deeds		79,524

County Buildings

Custodial Personnel	\$ 14,237
Other Salaries & Wages	20,083
Social Security	2,565
Communication	418
Maintenance & Repair Services - Buildings	48,500
Pest Control	960
Travel	94
Custodial Supplies	4,973
Electricity	36,524
Natural Gas	9,184

(Continued)

Exhibit H-5

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

General Fund (Cont.)

General Government (Cont.)

County Buildings (Cont.)

Other Supplies and Materials	\$ 967	
Total County Buildings		\$ 138,505

Finance

Property Assessor's Office

County Official/Administrative Officer	\$ 44,548	
Clerical Personnel	18,425	
Social Security	4,867	
Audit Services	3,443	
Communication	669	
Data Processing Services	2,540	
Dues and Memberships	874	
Travel	2,333	
Office Supplies	1,373	
Total Property Assessor's Office		79,072

Reappraisal Program

Clerical Personnel	\$ 2,518	
Social Security	193	
Data Processing Services	567	
Office Supplies	352	
Total Reappraisal Program		3,630

County Trustee's Office

County Official/Administrative Officer	\$ 44,548	
Deputy(ies)	18,425	
Social Security	4,817	
Communication	540	
Dues and Memberships	288	
Travel	32	
Office Supplies	1,072	
Total County Trustee's Office		69,722

County Clerk's Office

County Official/Administrative Officer	\$ 44,548
Deputy(ies)	18,425
Social Security	4,817
Communication	1,257
Data Processing Services	389
Maintenance & Repair Services - Office Equipment	175

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Finance (Cont.)

County Clerk's Office (Cont.)

Printing, Stationery, and Forms	\$	1,906	
Travel		461	
Office Supplies		2,961	
Data Processing Equipment		8,664	
Total County Clerk's Office			\$ 83,603

Administration of Justice

Circuit Court

County Official/Administrative Officer	\$	44,548	
Deputy(ies)		58,213	
Jury and Witness Fees		8,854	
Other Per Diem & Fees		278	
Social Security		7,861	
Communication		3,647	
Printing, Stationery, and Forms		6,128	
Office Supplies		2,602	
Data Processing Equipment		7,191	
Total Circuit Court			139,322

General Sessions Judge

Judge(s)	\$	66,062	
Secretary(ies)		13,473	
Social Security		6,084	
Communication		647	
Travel		1,400	
Office Supplies		978	
Total General Sessions Judge			88,644

Chancery Court

County Official/Administrative Officer	\$	44,548	
Deputy(ies)		18,425	
Jury and Witness Fees		120	
Social Security		4,817	
Communication		994	
Data Processing Services		7,912	
Dues and Memberships		358	
Printing, Stationery, and Forms		700	
Travel		508	
Office Supplies		700	
Data Processing Equipment		338	
Total Chancery Court			79,420

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Administration of Justice (Cont.)

Juvenile Court

Youth Service Officer(s)	\$	18,425	
Social Security		1,409	
Communication		539	
Other Contracted Services		30,900	
Office Supplies		200	
Total Juvenile Court			\$ 51,473

Judicial Commissioners

County Official/Administrative Officer	\$	30,500	
In-Service Training		285	
Social Security		2,333	
Travel		260	
Total Judicial Commissioners			33,378

Other Administration of Justice

County Official/Administrative Officer	\$	1,800	
Clerical Personnel		600	
Social Security		184	
Maintenance & Repair Services - Vehicles		36	
Gasoline		569	
Lubricants		39	
Small Tools		355	
Other Supplies and Materials		74	
Vehicle and Equipment Insurance		600	
Total Other Administration of Justice			4,257

Public Safety

Sheriff's Department

County Official/Administrative Officer	\$	49,002	
Deputy(ies)		260,932	
Guards		250,065	
Secretary(ies)		19,585	
School Resource Officer		52,949	
In-Service Training		5,675	
Social Security		48,908	
Communication		13,208	
Contracts with Government Agencies		810	
Dues and Memberships		1,400	
Maintenance & Repair Services - Equipment		1,348	
Maintenance & Repair Services - Vehicles		25,560	

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Public Safety (Cont.)

Sheriff's Department (Cont.)

Printing, Stationery, and Forms	\$	218	
Travel		2,775	
Equipment Parts - Light		22,079	
Gasoline		65,056	
Office Supplies		4,632	
Tires and Tubes		6,598	
Uniforms		2,053	
Motor Vehicles		60,014	
Other Equipment		6,234	
Total Sheriff's Department			\$ 899,101

Administration of the Sexual Offender Registry

Other Charges	\$	509	
Total Administration of the Sexual Offender Registry			509

Jail

Cafeteria Personnel	\$	23,722	
Social Security		1,815	
Medical and Dental Services		107,328	
Pest Control		120	
Custodial Supplies		7,318	
Electricity		13,876	
Food Preparation Supplies		2,905	
Food Supplies		33,736	
Prisoners Clothing		1,076	
Water and Sewer		7,705	
Total Jail			199,601

Fire Prevention and Control

Contracts with Government Agencies	\$	1,500	
Matching Share		6,780	
Total Fire Prevention and Control			8,280

Other Emergency Management

Communication	\$	541	
Contributions		45,000	
Office Supplies		554	
Other Equipment		45	
Total Other Emergency Management			46,140

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Public Safety (Cont.)

Other Public Safety

Other Supplies and Materials	\$ 4,749	
Total Other Public Safety		\$ 4,749

Public Health and Welfare

Local Health Center

Custodial Personnel	\$ 3,600	
Other Salaries & Wages	3,650	
In-Service Training	100	
Social Security	279	
Communication	2,676	
Maintenance & Repair Services - Buildings	2,178	
Postal Charges	18	
Travel	303	
Custodial Supplies	549	
Drugs and Medical Supplies	1,363	
Electricity	7,335	
Office Supplies	1,372	
Water and Sewer	967	
Total Local Health Center		24,390

Ambulance/Emergency Medical Services

Supervisor/Director	\$ 37,319	
Medical Personnel	334,122	
Clerical Personnel	8,770	
In-Service Training	5,767	
Social Security	29,086	
Communication	5,722	
Laundry Service	3,254	
Licenses	1,538	
Maintenance & Repair Services - Equipment	4,158	
Maintenance & Repair Services - Vehicles	17,639	
Other Contracted Services	8,250	
Custodial Supplies	1,927	
Diesel Fuel	19,946	
Drugs and Medical Supplies	23,637	
Electricity	8,298	
Natural Gas	3,863	
Office Supplies	2,931	
Uniforms	2,830	
Data Processing Equipment	1,963	

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Public Health and Welfare (Cont.)

Ambulance/Emergency Medical Services (Cont.)

Motor Vehicles	\$	48,097	
Other Equipment		<u>10,835</u>	
Total Ambulance/Emergency Medical Services	\$		579,952

Crippled Children Services

Contracts with Government Agencies	\$	<u>900</u>	
Total Crippled Children Services			900

Regional Mental Health Center

Contributions	\$	<u>4,648</u>	
Total Regional Mental Health Center			4,648

Appropriation to State

Contributions	\$	<u>15,300</u>	
Total Appropriation to State			15,300

General Welfare Assistance

Contributions	\$	<u>1,000</u>	
Total General Welfare Assistance			1,000

Other Local Welfare Services

Contributions	\$	<u>2,000</u>	
Total Other Local Welfare Services			2,000

Social, Cultural, and Recreational Services

Adult Activities

Supervisor/Director	\$	9,581	
Social Security		733	
Communication		369	
Maintenance & Repair Services - Buildings		185	
Office Supplies		126	
Utilities		<u>5,538</u>	
Total Adult Activities			16,532

Senior Citizens Assistance

Supervisor/Director	\$	10,015	
Social Security		766	
Communication		406	
Maintenance & Repair Services - Buildings		75	
Office Supplies		20	

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Social, Cultural, and Recreational Services (Cont.)

Senior Citizens Assistance (Cont.)

Utilities	\$ 4,458	
Total Senior Citizens Assistance		\$ 15,740

Libraries

Assistant(s)	\$ 7,234	
Supervisor/Director	18,425	
Part-time Personnel	5,529	
Social Security	2,386	
Communication	1,777	
Library Books/Media	6,215	
Office Supplies	961	
Data Processing Equipment	425	
Total Libraries		42,952

Agriculture & Natural Resources

Agriculture Extension Service

Salary Supplements	\$ 17,582	
Secretary(ies)	4,459	
Social Security	796	
Extension Service Medicare	166	
State Retirement	1,880	
Communication	2,068	
Contracts with Private Agencies	10,161	
Data Processing Equipment	1,800	
Total Agriculture Extension Service		38,912

Soil Conservation

Salary Supplements	\$ 14,740	
Social Security	1,128	
Matching Share	5,000	
Total Soil Conservation		20,868

Other Operations

Industrial Development

Advertising	\$ 3,970	
Total Industrial Development		3,970

Housing and Urban Development

Other Contracted Services	\$ 50,162	
Total Housing and Urban Development		50,162

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Other Operations (Cont.)

Airport

Maintenance & Repair Services - Buildings	\$	244	
Electricity		354	
Total Airport			\$ 598

Other Charges

Liability Insurance	\$	168,133	
Premiums on Corporate Surety Bonds		4,269	
Trustee's Commission		46,138	
Workers' Compensation Insurance		73,500	
Total Other Charges			292,040

Employee Benefits

State Retirement	\$	77,251	
Unemployment Compensation		14,628	
Total Employee Benefits			91,879

Miscellaneous

Contributions	\$	69,327	
Legal Services		13,172	
Legal Notices, Recording, and Court Costs		1,682	
Postal Charges		15,769	
Other Contracted Services		6,000	
Other Charges		41,947	
Total Miscellaneous			147,897

Highways

Litter and Trash Collection

Guards	\$	18,729	
Clerical Personnel		3,200	
Social Security		1,678	
Maintenance & Repair Services - Vehicles		398	
Gasoline		1,796	
Instructional Supplies and Materials		4,211	
Total Litter and Trash Collection			30,012

Total General Fund \$ 3,618,961

(Continued)

Exhibit H-5

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

Solid Waste/Sanitation Fund

Public Health and Welfare

Waste Pickup

Truck Drivers	\$	29,807	
Social Security		530	
Communication		499	
Maintenance & Repair Services - Equipment		1,498	
Maintenance & Repair Services - Vehicles		14,785	
Contracts for Landfill Facilities		132,087	
Diesel Fuel		17,504	
Gasoline		3,566	
Tires and Tubes		6,377	
Other Supplies and Materials		2,509	
Solid Waste Equipment		4,394	
Total Waste Pickup			\$ 213,556

Convenience Centers

Guards	\$	112,747	
Social Security		8,800	
Communication		2,532	
Electricity		5,448	
Water and Sewer		1,540	
Solid Waste Equipment		23,410	
Total Convenience Centers			154,477

Other Operations

Other Charges

Trustee's Commission	\$	6,336	
Total Other Charges			6,336

Total Solid Waste/Sanitation Fund \$ 374,369

Drug Control Fund

Public Safety

Drug Enforcement

Deputy(ies)	\$	26,734	
In-Service Training		460	
Social Security		2,630	
State Retirement		1,404	
Confidential Drug Enforcement Payments		14,000	
Maintenance & Repair Services - Vehicles		1,419	
Other Contracted Services		900	
Animal Food and Supplies		3,640	

(Continued)

Exhibit H-5

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

Drug Control Fund (Cont.)

Public Safety (Cont.)

Drug Enforcement (Cont.)

Gasoline	\$	472	
Trustee's Commission		<u>769</u>	
Total Drug Enforcement	\$		52,428

Public Health and Welfare

Alcohol and Drug Programs

Instructional Supplies and Materials	\$	2,197	
Other Supplies and Materials		<u>3,583</u>	
Total Alcohol and Drug Programs			<u>5,780</u>

Total Drug Control Fund \$ 58,208

Constitutional Officers - Fees Fund

Finance

County Trustee's Office

Constitutional Officers' Operating Expenses	\$	<u>220</u>	
Total County Trustee's Office	\$		220

County Clerk's Office

Constitutional Officers' Operating Expenses	\$	<u>457</u>	
Total County Clerk's Office			457

Administration of Justice

General Sessions Court Clerk

Constitutional Officers' Operating Expenses	\$	<u>23</u>	
Total General Sessions Court Clerk			23

Chancery Court

Constitutional Officers' Operating Expenses	\$	<u>66</u>	
Total Chancery Court			<u>66</u>

Total Constitutional Officers - Fees Fund 766

Highway/Public Works Fund

Highways

Administration

County Official/Administrative Officer	\$	52,783	
Accountants/Bookkeepers		37,512	
State Retirement		5,634	
Dues and Memberships		2,002	

(Continued)

Exhibit H-5

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

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Administration (Cont.)

Maintenance & Repair Services - Office Equipment	\$	6,334	
Postal Charges		495	
Printing, Stationery, and Forms		2,386	
Travel		1,408	
Office Supplies		1,798	
Other Charges		5,317	
Office Equipment		976	
Total Administration			\$ 116,645

Highway and Bridge Maintenance

Foremen	\$	40,320	
Equipment Operators		119,885	
Truck Drivers		45,177	
Laborers		151,664	
State Retirement		12,343	
Other Contracted Services		549,513	
Asphalt - Cold Mix		7,883	
Asphalt - Hot Mix		274,815	
Asphalt - Liquid		195,225	
Concrete		5,076	
Crushed Stone		314,365	
General Construction Materials		520	
Other Road Supplies		4,284	
Pipe		28,779	
Pipe - Concrete		18,344	
Road Signs		9,763	
Small Tools		340	
Structural Steel		1,906	
Wood Products		3,444	
Other Supplies and Materials		2,909	
Total Highway and Bridge Maintenance			1,786,555

Operation and Maintenance of Equipment

Mechanic(s)	\$	99,403	
Nightwatchmen		36,948	
State Retirement		7,297	
Diesel Fuel		88,477	
Equipment and Machinery Parts		43,304	
Garage Supplies		813	
Gasoline		95,865	

(Continued)

Exhibit H-5

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

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Operation and Maintenance of Equipment (Cont.)

Lubricants	\$	4,722	
Small Tools		1,020	
Tires and Tubes		14,832	
Uniforms		2,233	
Other Supplies and Materials		1,700	
Total Operation and Maintenance of Equipment			\$ 396,614

Other Charges

Communication	\$	3,321	
Electricity		2,742	
Natural Gas		6,800	
Water and Sewer		345	
Building and Contents Insurance		219	
Premiums on Corporate Surety Bonds		400	
Trustee's Commission		17,391	
Vehicle and Equipment Insurance		21,263	
Total Other Charges			52,481

Employee Benefits

Social Security	\$	44,653	
Unemployment Compensation		5,558	
Workers' Compensation Insurance		42,054	
Total Employee Benefits			92,265

Capital Outlay

Engineering Services	\$	49,128	
Highway Equipment		2,000	
Motor Vehicles		15,100	
Total Capital Outlay			66,228

Principal on Debt

Highways and Streets

Principal on Notes	\$	46,000	
Total Highways and Streets			46,000

Interest on Debt

Highways and Streets

Interest on Notes	\$	9,864	
Total Highways and Streets			9,864

Total Highway/Public Works Fund \$ 2,566,652

(Continued)

Exhibit H-5

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

General Debt Service Fund

Other Operations

Other Charges

Trustee's Commission	\$ 2,362	
Total Other Charges		\$ 2,362

Principal on Debt

General Government

Principal on Bonds	\$ 12,500	
Principal on Notes	163,677	
Principal on Capital Leases	12,604	
Principal on Other Loans	<u>102,000</u>	
Total General Government		290,781

Education

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

Interest on Debt

General Government

Interest on Bonds	\$ 4,873	
Interest on Notes	16,082	
Interest on Capital Leases	5,148	
Interest on Other Loans	<u>40,240</u>	
Total General Government		66,343

Education

Interest on Bonds	\$ 137,630	
Total Education		137,630

Other Debt Service

General Government

Other Debt Service	\$ 6,680	
Total General Government		6,680

Education

Other Debt Service	\$ 509	
Total Education		<u>509</u>

Total General Debt Service Fund		\$ 664,305
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(Continued)

Exhibit H-5

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

<u>General Capital Projects Fund</u>		
<u>Capital Projects</u>		
<u>Administration of Justice Projects</u>		
Other Debt Issuance Charges	\$ 17,533	
Building Construction	<u>2,697,858</u>	
Total Administration of Justice Projects		<u>\$ 2,715,391</u>
Total General Capital Projects Fund		\$ 2,715,391
<u>Community Development/Industrial Park Fund</u>		
<u>Other Operations</u>		
<u>Industrial Development</u>		
Utilities	\$ 4,840	
Total Industrial Development		\$ 4,840
<u>Other Charges</u>		
Contributions	\$ 31,353	
Trustee's Commission	<u>80</u>	
Total Other Charges		<u>31,433</u>
Total Community Development/Industrial Park Fund		<u>36,273</u>
Total Governmental Funds - Primary Government		<u>\$ 10,034,925</u>

Exhibit H-6

Jackson 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	\$ 295,346
Total Cash Receipts	<u>\$ 295,346</u>
 <u>Cash Disbursements</u>	
Remittance of Revenues Collected	\$ 292,393
Trustee's Commission	2,953
Total Cash Disbursements	<u>\$ 295,346</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
JACKSON COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF JACKSON 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

GARY D. RAMSEY, CPA
STEPHEN ALRED
KELLEY J. McNEAL, CPA, CGFM
State Auditors

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

**JACKSON COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF JACKSON COUNTY, TENNESSEE
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Audit Highlights
Annual Financial Report
Jackson County School Department
For the Year Ended June 30, 2006

Scope

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

Results

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

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

Findings

The following are summaries of the audit findings:

JACKSON COUNTY SCHOOL DEPARTMENT

- ◆ Government-wide financial statements were not presented in accordance with generally accepted accounting principles, resulting in an adverse opinion.
- ◆ Certain assets were not included on the inventory, and some items listed did not include all of the information necessary to identify the assets. Inventory records were not verified by personnel independent of maintaining the records. Also, some inventory records had not been updated for two years.
- ◆ 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

Jackson County School Officials
June 30, 2006

Official

Joe Barlow, Director of Schools

Board of Education

Jeff Lynn, Chairman
Tim Bowman
Mark Brown

James Robert Childress
Stanley Hensley
Dewey Mabery

FINANCIAL SECTION



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

INDEPENDENT AUDITOR'S REPORT

October 9, 2006

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

To the Director of Schools and Board of Education:

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Jackson County School Department, a component unit of Jackson County, Tennessee, as of and for the year ended June 30, 2006, as shown on pages 15 through 28, which collectively comprise a portion of the Jackson County School Department's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Jackson County School Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

in government-wide financial statements for the School Department's governmental activities are not reasonably determinable.

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

In our opinion, because of the effects of the matters discussed in the two preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Jackson County School Department 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 the Jackson County School Department 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 October 9, 2006, on our consideration of the Jackson County School Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not 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 31 through 37 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Jackson County School Department's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and miscellaneous schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor

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

Very truly yours,

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

John G. Morgan
Comptroller of the Treasury

JGM/rc

BASIC FINANCIAL STATEMENTS

Exhibit A

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

	Major Funds		Nonmajor Fund	Total Governmental Funds
	General Purpose School	School Federal Projects	Central Cafeteria Fund	
<u>ASSETS</u>				
Equity in Pooled Cash and Investments	\$ 4,035,899	\$ 0	\$ 256,920	\$ 4,292,819
Inventories	0	0	22,437	22,437
Accounts Receivable	2,298	0	0	2,298
Due from Other Governments	180,006	247,035	0	427,041
Due from Other Funds	19,587	1,843	0	21,430
Property Taxes Receivable	1,423,136	0	0	1,423,136
Allowance for Uncollectible Property Taxes	(51,665)	0	0	(51,665)
Total Assets	\$ 5,609,261	\$ 248,878	\$ 279,357	\$ 6,137,496
<u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 4,801	\$ 110	\$ 0	\$ 4,911
Cash Overdraft	0	328	0	328
Due to Other Funds	1,843	19,587	0	21,430
Deferred Revenue - Current Property Taxes	1,315,413	0	0	1,315,413
Deferred Revenue - Delinquent Property Taxes	51,665	0	0	51,665
Other Deferred Revenues	48,557	0	0	48,557
Total Liabilities	\$ 1,422,279	\$ 20,025	\$ 0	\$ 1,442,304
<u>Fund Balances</u>				
Reserved for Encumbrances	\$ 254,656	\$ 151,585	\$ 0	\$ 406,241
Reserved for Inventory	0	0	22,437	22,437
Other Local Education Reserves	601,912	0	0	601,912
Reserved for Career Ladder - Extended Contract	7,739	0	0	7,739
Reserved for Basic Education Program	2,194,271	0	0	2,194,271
Reserved for Title I Grants to Local Education Agencies	0	1,713	0	1,713
Reserved for Innovative Education Program Strategies	0	25,614	0	25,614
Reserved for Special Education - Grants to States	0	47,068	0	47,068
Other Federal Reserves	0	2,873	0	2,873
Unreserved, Reported In:				
General Fund	1,128,404	0	0	1,128,404
Special Revenue Funds	0	0	256,920	256,920
Total Fund Balances	\$ 4,186,982	\$ 228,853	\$ 279,357	\$ 4,695,192
Total Liabilities and Fund Balances	\$ 5,609,261	\$ 248,878	\$ 279,357	\$ 6,137,496

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

Exhibit B

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

	Major Funds		Nonmajor	Total Governmental Funds
	General Purpose School	School Federal Projects	Central Cafeteria Fund	
<u>Revenues</u>				
Local Taxes	\$ 1,994,289	\$ 0	\$ 0	\$ 1,994,289
Licenses and Permits	1,405	0	0	1,405
Charges for Current Services	16,331	0	277,959	294,290
Other Local Revenues	100,060	0	1,373	101,433
State of Tennessee	7,850,035	0	0	7,850,035
Federal Government	93,888	1,413,910	539,607	2,047,405
Total Revenues	<u>\$ 10,056,008</u>	<u>\$ 1,413,910</u>	<u>\$ 818,939</u>	<u>\$ 12,288,857</u>
<u>Expenditures</u>				
Current:				
Instruction	\$ 5,373,980	\$ 1,075,849	\$ 0	\$ 6,449,829
Support Services	3,356,205	362,653	0	3,718,858
Operation of Non-Instructional Services	252,656	0	739,605	992,261
Capital Outlay	84,403	0	0	84,403
Debt Service:				
Principal on Debt	100,207	0	0	100,207
Interest on Debt	187,742	0	0	187,742
Other Debt Service	315,689	0	0	315,689
Total Expenditures	<u>\$ 9,670,882</u>	<u>\$ 1,438,502</u>	<u>\$ 739,605</u>	<u>\$ 11,848,989</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 385,126</u>	<u>\$ (24,592)</u>	<u>\$ 79,334</u>	<u>\$ 439,868</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 74,844	\$ 0	\$ 0	\$ 74,844
Transfers Out	0	(23,589)	(51,255)	(74,844)
Total Other Financing Sources (Uses)	<u>\$ 74,844</u>	<u>\$ (23,589)</u>	<u>\$ (51,255)</u>	<u>\$ 0</u>
Net Change in Fund Balances	\$ 459,970	\$ (48,181)	\$ 28,079	\$ 439,868
Fund Balance, July 1, 2005	3,727,012	277,034	251,278	4,255,324
Fund Balance, June 30, 2006	<u>\$ 4,186,982</u>	<u>\$ 228,853</u>	<u>\$ 279,357</u>	<u>\$ 4,695,192</u>

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

A. Reporting Entity

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

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

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

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

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

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

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 funds:

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

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

C. Assets, Liabilities, and Equity

1. Deposits and Investments

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

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

2. Receivables and Payables

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

Property taxes receivable are shown with an allowance for uncollectibles. The allowance for uncollectible property taxes is equal to 1.94 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. Inventories

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

4. Capital Assets

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

5. Compensated Absences

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

6. Long-term Obligations

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

7. Fund Equity

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all governmental funds. 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 Jackson County Commission and any authorized revisions. Unencumbered appropriations lapse at the end of each fiscal year.

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

The School Department's budgetary basis of accounting is consistent with 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.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits

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

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

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

B. Interfund Receivables, Payables, and Transfers

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

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Purpose School	School Federal Projects	\$ 19,587
School Federal Projects	General Purpose School	1,843

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

Interfund Transfers:

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

Transfers Out	<u>Transfers In</u> General Purpose School Fund
School Federal Projects Fund	\$ 23,589
Nonmajor governmental fund	<u>51,255</u>
Total Transfers	<u>\$ 74,844</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

C. Long-term Debt

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

Other Loans

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

The School Department'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 28 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 by the General Purpose School Fund.

The other loan outstanding as of June 30, 2006, is as follows:

Type	Interest Rate	Original Amount of Issue	Balance 6-30-06
Other Loan	variable	\$ 6,300,000	\$ 5,870,000

In a prior year, Jackson County entered into a loan agreement with the Montgomery County Public Building Authority. Under this loan agreement, the authority loaned \$6,300,000 to the School Department for construction of a middle school. This loan is repayable at a variable interest rate based on the daily London Interbank Offer Rate (LIBOR). In addition, the School Department pays various other fees (trustee, debt remarketing, etc.) in connection with this loan. At June 30, 2006, the variable interest rate was 3.52 percent, and other fees amounted to approximately .2 percent (letter of credit fee) and .08 percent (remarketing fee) of the outstanding loan principal, and the trustee fee was charged at \$100 per month.

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

Year Ending June 30	Other Loan (\$6,300,000)			Total
	Principal	Interest	Other Fees	
2007	\$ 142,000	\$ 217,190	\$ 17,636	\$ 376,826
2008	149,000	211,936	17,238	378,174
2009	156,000	206,423	16,821	379,244
2010	164,000	200,651	16,384	381,035
2011	172,000	194,583	15,925	382,508
2012-2016	999,000	870,758	71,895	1,941,653
2017-2021	1,275,000	666,555	56,442	1,997,997
2022-2026	1,628,000	405,779	36,708	2,070,487
2027-2029	1,185,000	89,096	10,342	1,284,438
Total	\$ 5,870,000	\$ 3,062,971	\$ 259,392	\$ 9,192,363

Total debt per capita for the School Department, including the other loan, amounted to \$534, 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	Other Loan
Balance, July 1, 2005	\$ 207	\$ 5,970,000
Deductions	(207)	(100,000)
Balance, June 30, 2006	\$ 0	\$ 5,870,000
Balance Due Within One Year	\$ 0	\$ 142,000

IV. OTHER INFORMATION

A. Risk Management

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

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

B. Accounting 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 Jackson County is not presenting a comprehensive annual financial report, it has elected not to

prepare a statistical section. 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 Jackson 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. The School Department had no net assets restricted by enabling legislation to disclose as of June 30, 2006. But it is reasonably expected that the 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. The School Department was not offering any termination benefits to employees as of June 30, 2006. But it is reasonably expected that the School Department will offer termination benefits in subsequent years subject to the accounting and reporting requirements of GASB Statement No. 47.

C. Contingent Liabilities

The School Department's attorney is not aware of any pending or threatened lawsuits.

D. Retirement Commitments

Plan Description

Employees of Jackson County, including the School Department, are members of the Political Subdivision Pension Plan (PSPP), an agent

multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service, and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Jackson County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at <http://www.treasury.state.tn.us/tcrs/PS/>.

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

SCHOOL TEACHERS

Plan Description

The School Department contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service.

Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979, are vested after five years of service. Members joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. A cost of living adjustment (COLA) is provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at <http://www.treasury.state.tn.us/tcrs/Schools/>.

Funding Policy

Most teachers are required by state statute to contribute five percent of their salaries to the plan. The employer contribution rate for the School Department is established at an actuarially determined rate. The employer rate for the fiscal year ended June 30, 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 \$311,972, \$308,429, and \$169,262, respectively, equal to the required contributions for each year.

E. Purchasing Law

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

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit C-1

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	Add: Encumbrances 6/30/2006	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Revenues</u>							
Local Taxes	\$ 1,994,289	\$ 0	\$ 0	\$ 1,994,289	\$ 1,912,696	\$ 1,912,696	\$ 81,593
Licenses and Permits	1,405	0	0	1,405	1,100	1,100	305
Charges for Current Services	16,331	0	0	16,331	11,000	11,000	5,331
Other Local Revenues	100,060	0	0	100,060	50,900	50,900	49,160
State of Tennessee	7,850,035	0	0	7,850,035	7,593,700	7,593,700	256,335
Federal Government	93,888	0	0	93,888	83,950	92,200	1,688
Total Revenues	\$ 10,056,008	\$ 0	\$ 0	\$ 10,056,008	\$ 9,653,346	\$ 9,661,596	\$ 394,412
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 4,175,359	\$ (1,003)	\$ 101,184	\$ 4,275,540	\$ 4,461,800	\$ 4,461,800	\$ 186,260
Alternative Instruction Program	50,427	0	1,238	51,665	52,230	52,230	565
Special Education Program	646,205	0	0	646,205	737,350	737,350	91,145
Vocational Education Program	445,284	(1,500)	650	444,434	493,400	493,400	48,966
Adult Education Program	56,705	(12,845)	0	43,860	45,827	45,827	1,967
<u>Support Services</u>							
Attendance	60,744	0	44	60,788	69,100	69,100	8,312
Health Services	49,875	0	118	49,993	51,020	51,020	1,027
Other Student Support	187,001	0	0	187,001	194,560	194,560	7,559
Regular Instruction Program	369,412	(540)	0	368,872	386,600	386,600	17,728
Special Education Program	123,959	(199)	200	123,960	128,600	128,600	4,640
Vocational Education Program	13,626	0	0	13,626	15,230	15,230	1,604
Adult Programs	77,709	(600)	0	77,109	70,043	78,293	1,184
Board of Education	275,597	0	0	275,597	247,740	287,740	12,143
Director of Schools	100,202	0	36	100,238	106,180	106,180	5,942
Office of the Principal	486,659	0	0	486,659	509,400	509,400	22,741

(Continued)

Exhibit C-1

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	Add: Encumbrances 6/30/2006	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Expenditures (Cont.)</u>							
<u>Support Services (Cont.)</u>							
Fiscal Services	\$ 154,592	\$ (389)	\$ 153	\$ 154,356	\$ 151,900	\$ 156,400	\$ 2,044
Operation of Plant	666,471	0	0	666,471	735,600	735,600	69,129
Maintenance of Plant	161,355	(14,037)	3,572	150,890	172,000	172,000	21,110
Transportation	629,003	(5,393)	59,314	682,924	718,710	718,710	35,786
<u>Operation of Non-Instructional Services</u>							
Food Service	64,201	0	0	64,201	65,460	65,460	1,259
Community Services	55,951	(25)	0	55,926	56,160	56,160	234
Early Childhood Education	132,504	0	24,991	157,495	181,400	181,400	23,905
<u>Capital Outlay</u>							
Regular Capital Outlay	84,403	(37,183)	63,156	110,376	250,000	250,000	139,624
<u>Principal on Debt</u>							
Education	100,207	0	0	100,207	101,210	101,210	1,003
<u>Interest on Debt</u>							
Education	187,742	0	0	187,742	298,000	298,000	110,258
<u>Other Debt Service</u>							
Education	315,689	0	0	315,689	305,500	305,500	(10,189)
Total Expenditures	\$ 9,670,882	\$ (73,714)	\$ 254,656	\$ 9,851,824	\$ 10,605,020	\$ 10,657,770	\$ 805,946
<u>Excess (Deficiency) of Revenues</u>							
Over Expenditures	\$ 385,126	\$ 73,714	\$ (254,656)	\$ 204,184	\$ (951,674)	\$ (996,174)	\$ 1,200,358
<u>Other Financing Sources (Uses)</u>							
Transfers In	\$ 74,844	\$ 0	\$ 0	\$ 74,844	\$ 7,000	\$ 51,500	\$ 23,344
Total Other Financing Sources (Uses)	\$ 74,844	\$ 0	\$ 0	\$ 74,844	\$ 7,000	\$ 51,500	\$ 23,344

(Continued)

Exhibit C-1

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	Add: Encumbrances 6/30/2006	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
Net Change in Fund Balance	\$ 459,970	\$ 73,714	\$ (254,656)	\$ 279,028	\$ (944,674)	\$ (944,674)	\$ 1,223,702
Fund Balance, July 1, 2005	3,727,012	(73,714)	0	3,653,298	3,223,799	3,223,799	429,499
Fund Balance, June 30, 2006	\$ 4,186,982	\$ 0	\$ (254,656)	\$ 3,932,326	\$ 2,279,125	\$ 2,279,125	\$ 1,653,201

Exhibit C-2

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	Add: Encumbrances 6/30/2006	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Revenues</u>							
Federal Government	\$ 1,413,910	\$ 0	\$ 0	\$ 1,413,910	\$ 1,747,091	\$ 1,765,214	\$ (351,304)
Total Revenues	\$ 1,413,910	\$ 0	\$ 0	\$ 1,413,910	\$ 1,747,091	\$ 1,765,214	\$ (351,304)
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 710,098	\$ (104,313)	\$ 15,721	\$ 621,506	\$ 813,227	\$ 830,593	\$ 209,087
Special Education Program	309,593	(2,200)	638	308,031	444,752	444,752	136,721
Vocational Education Program	56,158	(10,703)	23,437	68,892	62,811	70,045	1,153
<u>Support Services</u>							
Health Services	149,166	0	111,789	260,955	262,381	262,361	1,406
Other Student Support	5,151	0	0	5,151	9,000	5,151	0
Regular Instruction Program	145,593	(6,095)	0	139,498	216,438	215,136	75,638
Special Education Program	62,547	(1,353)	0	61,194	61,524	61,524	330
Vocational Education Program	196	0	0	196	1,500	196	0
Total Expenditures	\$ 1,438,502	\$ (124,664)	\$ 151,585	\$ 1,465,423	\$ 1,871,633	\$ 1,889,758	\$ 424,335
Excess (Deficiency) of Revenues Over Expenditures	\$ (24,592)	\$ 124,664	\$ (151,585)	\$ (51,513)	\$ (124,542)	\$ (124,544)	\$ 73,031
<u>Other Financing Sources (Uses)</u>							
Transfers In	\$ 0	\$ 0	\$ 0	\$ 0	\$ 41,787	\$ 41,787	\$ (41,787)
Transfers Out	(23,589)	0	0	(23,589)	(71,111)	(71,111)	47,522
Total Other Financing Sources (Uses)	\$ (23,589)	\$ 0	\$ 0	\$ (23,589)	\$ (29,324)	\$ (29,324)	\$ 5,735

(Continued)

Exhibit C-2

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	Add: Encumbrances 6/30/2006	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
Net Change in Fund Balance	\$ (48,181)	\$ 124,664	\$ (151,585)	\$ (75,102)	\$ (153,866)	\$ (153,868)	\$ 78,766
Fund Balance, July 1, 2005	277,034	(124,664)	0	152,370	153,868	153,868	(1,498)
Fund Balance, June 30, 2006	\$ 228,853	\$ 0	\$ (151,585)	\$ 77,268	\$ 2	\$ 0	\$ 77,268

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

BUDGETARY INFORMATION

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

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

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

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

Nonmajor Governmental Fund

Special Revenue Fund

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

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

Exhibit D

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Charges for Current Services	\$ 277,959	\$ 302,000	\$ 302,000	\$ (24,041)
Other Local Revenues	1,373	1,500	1,500	(127)
Federal Government	539,607	539,000	539,000	607
Total Revenues	<u>\$ 818,939</u>	<u>\$ 842,500</u>	<u>\$ 842,500</u>	<u>\$ (23,561)</u>
<u>Expenditures</u>				
<u>Operation of Non-Instructional Services</u>				
Food Service	\$ 739,605	\$ 852,457	\$ 852,457	\$ 112,852
Total Expenditures	<u>\$ 739,605</u>	<u>\$ 852,457</u>	<u>\$ 852,457</u>	<u>\$ 112,852</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 79,334</u>	<u>\$ (9,957)</u>	<u>\$ (9,957)</u>	<u>\$ 89,291</u>
<u>Other Financing Sources (Uses)</u>				
Transfers Out	\$ (51,255)	\$ (51,255)	\$ (51,255)	\$ 0
Total Other Financing Sources (Uses)	<u>\$ (51,255)</u>	<u>\$ (51,255)</u>	<u>\$ (51,255)</u>	<u>\$ 0</u>
Net Change in Fund Balance	\$ 28,079	\$ (61,212)	\$ (61,212)	\$ 89,291
Fund Balance, July 1, 2005	<u>251,278</u>	<u>254,335</u>	<u>254,335</u>	<u>(3,057)</u>
Fund Balance, June 30, 2006	<u>\$ 279,357</u>	<u>\$ 193,123</u>	<u>\$ 193,123</u>	<u>\$ 86,234</u>

MISCELLANEOUS SCHEDULES

Exhibit E-1

Jackson County, Tennessee
Schedule of Changes in Long-term Notes and Other Loans
Jackson County School Department
For the Year Ended June 30, 2006

<u>Description of Indebtedness</u>	<u>Original Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Last Maturity Date</u>	<u>Outstanding 7-1-05</u>	<u>Paid and/or Matured During Period</u>	<u>Outstanding 6-30-06</u>
<u>NOTES PAYABLE</u>							
<u>Payable through General Purpose School Fund</u>							
Asbestos Removal	\$ 12,207	0 %	6-8-1993	6-8-06	\$ 207	\$ 207	\$ 0
<u>OTHER LOANS PAYABLE</u>							
<u>Payable through General Purpose School Fund</u>							
School Construction	6,300,000	Variable	3-5-01	5-25-29	\$ 5,970,000	\$ 100,000	\$ 5,870,000

Exhibit E-2

Jackson County, Tennessee
Schedule of Transfers
Jackson 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 cost	\$ 23,589
Central Cafeteria	General Purpose School	To reimburse the supervisor's salary	<u>51,255</u>
Total Transfers			<u><u>\$ 74,844</u></u>

Exhibit E-3

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

<u>Official</u>	<u>Authorization for Salary</u>	<u>Salary Paid During Period</u>	<u>Bond</u>	<u>Surety</u>
Director of Schools	State Board of Education and Jackson County Board of Education	\$ 70,186 (1) \$	50,000	Western Surety Company
Employee Blanket Bond Coverage: School Department Employees			150,000	Tennessee School Boards Risk Management Trust

(1) Includes career ladder supplement of \$800.

Exhibit E-4

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

	General Purpose School	School Federal Projects	Central Cafeteria	Total
<u>Local Taxes</u>				
<u>County Property Taxes</u>				
Current Property Tax	\$ 1,244,573	\$ 0	\$ 0	\$ 1,244,573
Trustee's Collections - Prior Year	58,689	0	0	58,689
Circuit/Clerk & Master Collections - Prior Years	26,248	0	0	26,248
Interest and Penalty	10,227	0	0	10,227
<u>County Local Option Taxes</u>				
Local Option Sales Tax	478,619	0	0	478,619
Wheel Tax	165,204	0	0	165,204
<u>Statutory Local Taxes</u>				
Bank Excise Tax	8,832	0	0	8,832
Interstate Telecommunications Tax	1,897	0	0	1,897
Total Local Taxes	\$ 1,994,289	\$ 0	\$ 0	\$ 1,994,289
<u>Licenses and Permits</u>				
<u>Licenses</u>				
Marriage Licenses	\$ 1,405	\$ 0	\$ 0	\$ 1,405
Total Licenses and Permits	\$ 1,405	\$ 0	\$ 0	\$ 1,405
<u>Charges for Current Services</u>				
<u>Education Charges</u>				
Lunch Payments - Children	\$ 0	\$ 0	\$ 151,727	\$ 151,727
Lunch Payments - Adults	0	0	23,118	23,118
Income from Breakfast	0	0	49,408	49,408
A la carte Sales	0	0	53,706	53,706
Receipts from Individual Schools	16,331	0	0	16,331
Total Charges for Current Services	\$ 16,331	\$ 0	\$ 277,959	\$ 294,290
<u>Other Local Revenues</u>				
<u>Recurring Items</u>				
Investment Income	\$ 0	\$ 0	\$ 1,373	\$ 1,373
Lease/Rentals	3,200	0	0	3,200
Miscellaneous Refunds	36,665	0	0	36,665
<u>Nonrecurring Items</u>				
Insurance Recovery	54,540	0	0	54,540
Sale of Equipment	3,374	0	0	3,374
Damages Recovered from Individuals	899	0	0	899
Contributions & Gifts	1,382	0	0	1,382
Total Other Local Revenues	\$ 100,060	\$ 0	\$ 1,373	\$ 101,433
<u>State of Tennessee</u>				
<u>State Education Funds</u>				
Basic Education Program	\$ 7,488,202	\$ 0	\$ 0	\$ 7,488,202
Early Childhood Education	155,664	0	0	155,664
School Food Service	10,342	0	0	10,342
Other State Education Funds	22,941	0	0	22,941
Career Ladder Program	115,245	0	0	115,245
Career Ladder - Extended Contract	24,341	0	0	24,341
<u>Other State Revenues</u>				
Other State Grants	33,300	0	0	33,300
Total State of Tennessee	\$ 7,850,035	\$ 0	\$ 0	\$ 7,850,035

(Continued)

Exhibit E-4

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

	General Purpose School	School Federal Projects	Central Cafeteria	Total
<u>Federal Government</u>				
<u>Federal Through State</u>				
USDA School Lunch Program	\$ 0	\$ 0	\$ 369,194	\$ 369,194
Breakfast	0	0	170,413	170,413
Adult Education State Grant Program	85,364	0	0	85,364
Vocational Education - Basic Grants to States	0	53,017	0	53,017
Title I Grants to Local Education Agencies	0	345,300	0	345,300
Innovative Education Program Strategies	0	5,596	0	5,596
Special Education - Grants to States	6,399	315,900	0	322,299
Special Education Preschool Grants	0	12,363	0	12,363
Eisenhower Professional Development State Grants	0	156,665	0	156,665
Job Training Partnership Act	0	18,922	0	18,922
Other Federal through State	2,125	239,266	0	241,391
<u>Direct Federal Revenue</u>				
Other Direct Federal Revenue	0	266,881	0	266,881
Total Federal Government	\$ 93,888	\$ 1,413,910	\$ 539,607	\$ 2,047,405
Total	\$ 10,056,008	\$ 1,413,910	\$ 818,939	\$ 12,288,857

Exhibit E-5

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

General Purpose School Fund

Instruction

Regular Instruction Program

Teachers	\$	3,101,829	
Career Ladder Program		69,260	
Career Ladder Extended Contracts		21,486	
Educational Assistants		69,859	
Other Salaries & Wages		18,888	
Certified Substitute Teachers		4,763	
Non-certified Substitute Teachers		52,650	
Social Security		192,803	
State Retirement		180,924	
Medical Insurance		193,144	
Unemployment Compensation		4,820	
Employer Medicare		45,091	
Other Fringe Benefits		9,051	
Maintenance & Repair Services - Equipment		918	
Other Contracted Services		13,213	
Instructional Supplies and Materials		55,369	
Textbooks		111,012	
Regular Instruction Equipment		30,279	
Total Regular Instruction Program			\$ 4,175,359

Alternative Instruction Program

Teachers	\$	41,150	
Social Security		2,338	
State Retirement		2,263	
Medical Insurance		2,148	
Unemployment Compensation		46	
Employer Medicare		547	
Other Fringe Benefits		100	
Instructional Supplies and Materials		893	
Other Equipment		942	
Total Alternative Instruction Program			50,427

Special Education Program

Teachers	\$	433,744
Career Ladder Program		1,615
Homebound Teachers		18,661
Educational Assistants		59,716
Other Salaries & Wages		13,804
Certified Substitute Teachers		425

(Continued)

Exhibit E-5

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

General Purpose School Fund (Cont.)

Instruction (Cont.)

Special Education Program (Cont.)

Non-certified Substitute Teachers	\$	11,274	
Social Security		31,800	
State Retirement		28,988	
Medical Insurance		20,558	
Unemployment Compensation		1,069	
Employer Medicare		7,437	
Other Fringe Benefits		1,500	
Contracts with Other School Systems		2,617	
Contracts with Private Agencies		9,467	
Instructional Supplies and Materials		505	
Other Supplies and Materials		2,896	
Other Charges		129	
Total Special Education Program			\$ 646,205

Vocational Education Program

Teachers	\$	241,686	
Career Ladder Program		3,915	
Certified Substitute Teachers		142	
Non-certified Substitute Teachers		7,376	
Social Security		14,615	
State Retirement		13,491	
Medical Insurance		13,545	
Unemployment Compensation		347	
Employer Medicare		3,409	
Other Fringe Benefits		600	
Maintenance & Repair Services - Equipment		99	
Instructional Supplies and Materials		6,982	
Other Charges		139,077	
Total Vocational Education Program			445,284

Adult Education Program

Teachers	\$	35,078	
Social Security		1,995	
State Retirement		1,929	
Medical Insurance		2,200	
Unemployment Compensation		47	
Employer Medicare		467	
Other Fringe Benefits		100	
Instructional Supplies and Materials		3,022	

(Continued)

Exhibit E-5

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

General Purpose School Fund (Cont.)

Instruction (Cont.)

Adult Education Program (Cont.)

Other Supplies and Materials	\$	5,579	
Other Charges		154	
Other Equipment		6,134	
Total Adult Education Program			\$ 56,705

Support Services

Attendance

Supervisor/Director	\$	46,026	
Career Ladder Program		1,000	
Social Security		2,612	
State Retirement		2,587	
Medical Insurance		3,835	
Unemployment Compensation		47	
Employer Medicare		611	
Other Fringe Benefits		100	
Travel		755	
Other Supplies and Materials		200	
Attendance Equipment		2,971	
Total Attendance			60,744

Health Services

Medical Personnel	\$	30,491	
Other Salaries & Wages		6,245	
Social Security		1,903	
State Retirement		2,292	
Medical Insurance		5,032	
Unemployment Compensation		47	
Employer Medicare		445	
Other Fringe Benefits		100	
Travel		1,357	
Drugs and Medical Supplies		1,365	
In Service/Staff Development		598	
Total Health Services			49,875

Other Student Support

Career Ladder Program	\$	3,435	
Guidance Personnel		151,261	
Social Security		9,016	
State Retirement		8,509	

(Continued)

Exhibit E-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Other Student Support (Cont.)

Medical Insurance	\$	6,600	
Unemployment Compensation		156	
Employer Medicare		2,108	
Other Fringe Benefits		300	
Evaluation and Testing		5,616	
Total Other Student Support			\$ 187,001

Regular Instruction Program

Supervisor/Director	\$	71,201	
Career Ladder Program		8,500	
Librarians		152,138	
Instructional Computer Personnel		46,026	
Other Salaries & Wages		29,746	
Certified Substitute Teachers		397	
Non-certified Substitute Teachers		1,828	
Social Security		17,984	
State Retirement		16,410	
Medical Insurance		10,923	
Unemployment Compensation		364	
Employer Medicare		4,210	
Other Fringe Benefits		600	
Travel		3,021	
Library Books/Media		4,133	
Other Supplies and Materials		17	
In Service/Staff Development		1,914	
Total Regular Instruction Program			369,412

Special Education Program

Supervisor/Director	\$	54,436	
Career Ladder Program		5,000	
Psychological Personnel		34,110	
Assessment Personnel		8,543	
Social Security		5,920	
State Retirement		5,615	
Medical Insurance		4,400	
Unemployment Compensation		93	
Employer Medicare		1,385	
Other Fringe Benefits		300	
Travel		2,852	

(Continued)

Exhibit E-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Special Education Program (Cont.)

Other Supplies and Materials	\$	715	
In Service/Staff Development		199	
Other Equipment		391	
Total Special Education Program			\$ 123,959

Vocational Education Program

Supervisor/Director	\$	10,950	
Social Security		690	
State Retirement		620	
Employer Medicare		170	
Travel		1,056	
Other Supplies and Materials		140	
Total Vocational Education Program			13,626

Adult Programs

Supervisor/Director	\$	51,826	
Clerical Personnel		1,995	
Other Salaries & Wages		3,704	
Social Security		3,356	
State Retirement		2,850	
Medical Insurance		2,200	
Unemployment Compensation		85	
Employer Medicare		785	
Other Fringe Benefits		100	
Travel		301	
In Service/Staff Development		1,870	
Other Charges		2,153	
Other Equipment		6,484	
Total Adult Programs			77,709

Board of Education

Other Salaries & Wages	\$	7,500	
Social Security		465	
Life Insurance		8,152	
Employer Medicare		109	
Audit Services		3,500	
Contributions		35,725	
Dues and Memberships		5,730	
Travel		375	

(Continued)

Exhibit E-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Board of Education (Cont.)

Liability Insurance	\$	88,895	
Premiums on Corporate Surety Bonds		350	
Trustee's Commission		52,003	
Workers' Compensation Insurance		72,448	
In Service/Staff Development		345	
Total Board of Education			\$ 275,597

Director of Schools

County Official/Administrative Officer	\$	69,386	
Career Ladder Program		800	
Social Security		4,186	
State Retirement		3,860	
Medical Insurance		2,200	
Unemployment Compensation		47	
Employer Medicare		979	
Other Fringe Benefits		100	
Communication		7,794	
Postal Charges		2,983	
Travel		1,911	
Other Contracted Services		2,326	
Office Supplies		1,765	
In Service/Staff Development		47	
Administration Equipment		1,818	
Total Director of Schools			100,202

Office of the Principal

Principals	\$	238,624	
Career Ladder Program		5,340	
Assistant Principals		44,735	
Secretary(ies)		65,484	
Clerical Personnel		43,527	
Social Security		23,410	
State Retirement		23,256	
Medical Insurance		15,179	
Unemployment Compensation		688	
Employer Medicare		5,475	
Other Fringe Benefits		300	
Communication		17,051	
Dues and Memberships		1,800	

(Continued)

Exhibit E-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Office of the Principal (Cont.)

Travel	\$	1,432	
Office Supplies		59	
In Service/Staff Development		299	
Total Office of the Principal			\$ 486,659

Fiscal Services

Supervisor/Director	\$	30,500	
Accountants/Bookkeepers		27,500	
Secretary(ies)		22,571	
Clerical Personnel		21,000	
Other Salaries & Wages		21,981	
Social Security		7,605	
State Retirement		6,272	
Unemployment Compensation		283	
Employer Medicare		1,779	
Travel		2,119	
Other Contracted Services		9,074	
Data Processing Supplies		2,995	
Office Supplies		913	
Total Fiscal Services			154,592

Operation of Plant

Custodial Personnel	\$	190,290	
Social Security		11,650	
State Retirement		9,412	
Unemployment Compensation		812	
Employer Medicare		2,725	
Rentals		19,050	
Other Contracted Services		1,200	
Custodial Supplies		39,347	
Electricity		316,074	
Fuel Oil		26,092	
Natural Gas		26,646	
Water and Sewer		23,173	
Total Operation of Plant			666,471

Maintenance of Plant

Supervisor/Director	\$	33,880
Other Salaries & Wages		34,568

(Continued)

Exhibit E-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Maintenance of Plant (Cont.)

Social Security	\$	4,186	
State Retirement		4,431	
Unemployment Compensation		131	
Employer Medicare		979	
Maintenance & Repair Services - Buildings		18,548	
Maintenance & Repair Services - Equipment		15,357	
Travel		1,143	
Other Contracted Services		18,647	
Other Supplies and Materials		25,492	
Maintenance Equipment		3,993	
Total Maintenance of Plant			\$ 161,355

Transportation

Mechanic(s)	\$	22,087	
Bus Drivers		153,623	
Other Salaries & Wages		7,536	
Social Security		11,169	
State Retirement		5,868	
Unemployment Compensation		698	
Employer Medicare		2,612	
Contracts with Vehicle Owners		262,463	
Maintenance & Repair Services - Vehicles		9,274	
Other Contracted Services		9,702	
Gasoline		66,336	
Lubricants		63	
Tires and Tubes		7,747	
Vehicle Parts		12,669	
Other Supplies and Materials		3,500	
Vehicle and Equipment Insurance		19,502	
Other Charges		12,504	
Transportation Equipment		21,650	
Total Transportation			629,003

Operation of Non-Instructional Services

Food Service

Supervisor/Director	\$	51,258	
Career Ladder Program		1,000	
Social Security		2,781	
State Retirement		2,874	

(Continued)

Exhibit E-5

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

General Purpose School Fund (Cont.)

Operation of Non-Instructional Services (Cont.)

Food Service (Cont.)

Medical Insurance	\$	5,491	
Unemployment Compensation		47	
Employer Medicare		650	
Other Fringe Benefits		100	
Total Food Service			\$ 64,201

Community Services

Supervisor/Director	\$	40,954	
Other Salaries & Wages		780	
Social Security		2,144	
State Retirement		2,297	
Medical Insurance		5,334	
Unemployment Compensation		46	
Employer Medicare		501	
Other Fringe Benefits		100	
Communication		404	
Travel		1,157	
Other Supplies and Materials		2,234	
Total Community Services			55,951

Early Childhood Education

Teachers	\$	62,263	
Educational Assistants		21,084	
Other Salaries & Wages		50	
Certified Substitute Teachers		1,531	
Non-certified Substitute Teachers		1,524	
Social Security		4,979	
State Retirement		4,518	
Medical Insurance		5,084	
Unemployment Compensation		202	
Employer Medicare		1,165	
Other Fringe Benefits		100	
Communication		646	
Travel		40	
Other Contracted Services		128	
Other Supplies and Materials		6,487	
Other Equipment		22,703	
Total Early Childhood Education			132,504

(Continued)

Exhibit E-5

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

General Purpose School Fund (Cont.)

Capital Outlay

Regular Capital Outlay

Administration Equipment	\$	9,444	
Building Improvements		66,126	
Other Equipment		8,833	
Total Regular Capital Outlay			\$ 84,403

Principal on Debt

Education

Principal on Notes	\$	207	
Principal on Other Loans		100,000	
Total Education			100,207

Interest on Debt

Education

Interest on Other Loans	\$	187,742	
Total Education			187,742

Other Debt Service

Education

Debt Service Contribution to Primary Government	\$	297,630	
Other Debt Service		18,059	
Total Education			315,689

Total General Purpose School Fund \$ 9,670,882

School Federal Projects Fund

Instruction

Regular Instruction Program

Teachers	\$	359,082
Educational Assistants		62,879
Other Salaries & Wages		935
Certified Substitute Teachers		170
Non-certified Substitute Teachers		3,928
Social Security		26,116
State Retirement		21,340
Medical Insurance		4,400
Unemployment Compensation		890
Employer Medicare		5,508
Other Fringe Benefits		1,300
Instructional Supplies and Materials		218,951

(Continued)

Exhibit E-5

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

School Federal Projects Fund (Cont.)

Instruction (Cont.)

Regular Instruction Program (Cont.)

Regular Instruction Equipment	\$ 4,599	
Total Regular Instruction Program		\$ 710,098

Special Education Program

Teachers	\$ 31,849	
Educational Assistants	148,945	
Other Salaries & Wages	9,211	
Social Security	11,653	
State Retirement	10,044	
Unemployment Compensation	834	
Employer Medicare	2,725	
Contracts with Other School Systems	7,000	
Contracts with Private Agencies	73,426	
Other Contracted Services	1,189	
Instructional Supplies and Materials	7,732	
Other Supplies and Materials	4,985	
Total Special Education Program		309,593

Vocational Education Program

Teachers	\$ 15,000	
Other Salaries & Wages	1,045	
Social Security	983	
State Retirement	890	
Unemployment Compensation	24	
Employer Medicare	230	
Travel	510	
Instructional Supplies and Materials	15,894	
Other Charges	758	
Vocational Instruction Equipment	20,824	
Total Vocational Education Program		56,158

Support Services

Health Services

Supervisor/Director	\$ 34,866
Teachers	3,000
Certified Substitute Teachers	113
Non-certified Substitute Teachers	618
Social Security	2,309
State Retirement	2,083

(Continued)

Exhibit E-5

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

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Health Services (Cont.)

Medical Insurance	\$	2,200	
Unemployment Compensation		5	
Employer Medicare		540	
Other Fringe Benefits		100	
Travel		1,843	
Other Supplies and Materials		1,698	
Other Equipment		99,791	
Total Health Services			\$ 149,166

Other Student Support

Travel	\$	3,823	
In Service/Staff Development		1,328	
Total Other Student Support			5,151

Regular Instruction Program

Supervisor/Director	\$	85,025	
Social Security		5,285	
State Retirement		4,669	
Medical Insurance		4,000	
Unemployment Compensation		59	
Employer Medicare		1,232	
Postal Charges		200	
Travel		19,877	
Other Contracted Services		6,137	
Library Books/Media		7,312	
In Service/Staff Development		9,840	
Other Charges		1,957	
Total Regular Instruction Program			145,593

Special Education Program

Psychological Personnel	\$	11,370	
Assessment Personnel		34,172	
Social Security		2,656	
State Retirement		2,505	
Medical Insurance		2,200	
Unemployment Compensation		48	
Employer Medicare		621	
Travel		2,879	
Other Supplies and Materials		3,269	

(Continued)

Exhibit E-5

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

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Special Education Program (Cont.)

In Service/Staff Development	\$ 2,827	
Total Special Education Program		\$ 62,547

Vocational Education Program

Travel	\$ 196	
Total Vocational Education Program		<u>196</u>

Total School Federal Projects Fund		\$ 1,438,502
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Central Cafeteria Fund

Operation of Non-Instructional Services

Food Service

Cafeteria Personnel	\$ 274,451	
Social Security	16,696	
State Retirement	14,756	
Unemployment Compensation	1,169	
Employer Medicare	3,905	
Communication	1,218	
Maintenance & Repair Services - Equipment	8,667	
Travel	5,961	
Other Contracted Services	5,977	
Food Supplies	322,307	
Other Supplies and Materials	44,203	
In Service/Staff Development	1,228	
Food Service Equipment	<u>39,067</u>	
Total Food Service		<u>\$ 739,605</u>

Total Central Cafeteria Fund		<u>739,605</u>
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Total Governmental Funds - Jackson County School Department		<u>\$ 11,848,989</u>
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SINGLE AUDIT REPORT
JACKSON COUNTY, TENNESSEE
AND
JACKSON 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

GARY D. RAMSEY, CPA
STEPHEN ALRED
KELLEY J. McNEAL, CPA, CGFM
State Auditors

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

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

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

October 9, 2006

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

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

We have audited the financial statements of each major fund and the aggregate remaining fund information of Jackson County, Tennessee, and the Jackson County School Department as of and for the year ended June 30, 2006, which collectively comprise a portion of Jackson County's and the Jackson County School Department's basic financial statements and have issued our reports thereon dated October 9, 2006. Our reports on the financial statements of Jackson County, Tennessee, and the Jackson County School Department express adverse opinions because the government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Jackson County's and the Jackson County School Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting

and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Jackson County's and the Jackson County School Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06.03(A,B,C), 06.04(A), 06.05(B,C), 06.08, 06.09, 06.10, 06.11, 06.12, 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, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Jackson County's and the Jackson County School Department's financial statements are free of material misstatement, we performed tests of their 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, 06.02, 06.03(D), 06.04(B), 06.05(A), 06.06, 06.07, 06.13, 06.14, 06.15, and 06.18.

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

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

Very truly yours,



John G. Morgan
Comptroller of the Treasury

JGM/rc



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

October 9, 2006

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

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

Compliance

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

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

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

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

Internal Control Over Compliance

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

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 the Jackson 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 06.19.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

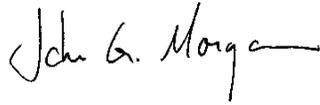
Schedule of Federal Awards

We have audited the financial statements of each major fund and the aggregate remaining fund information of Jackson County, Tennessee, and the Jackson County School Department as of and for the year ended June 30, 2006, and have issued our reports thereon dated October 9, 2006. Our reports on the financial statements of Jackson County and the Jackson County School Department express adverse opinions because the

government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34. Our audit was performed for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and State Grants is presented for purposes of additional analysis, as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Very truly yours,

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

John G. Morgan
Comptroller of the Treasury

JGM/rc

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

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
Office of National Drug Control Policy: Passed through Fiscal Court of Laurel County, Kentucky: Appalachia High Intensity Drug Traffic Area Program	07.XXX	I5PAPP5012	\$ 3,124
U.S. Department of Agriculture: Passed-through State Department of Agriculture: Food Donation (Noncash Assistance)	10.550	N/A	\$ 59,763
Passed-through State Department of Education: Child Nutrition Cluster: School Breakfast Program	10.553	N/A	170,413
National School Lunch Program	10.555	N/A	369,194
Total U.S. Department of Agriculture			\$ 599,370
U.S. Department of Housing and Urban Development: Passed-through State Housing Development Agency: HOME Investment Partnerships Program	14.239	HM-03-41	\$ 5,127
U.S. Department of Justice: Direct Program: Public Safety Partnerships and Community Policing Grants	16.710	N/A	\$ 4,204
U.S. Department of Labor: Passed-through Upper Cumberland Human Resource Agency: WIA Youth Activities	17.259	06-07-087-005-09-82	\$ 18,930
U.S. Department of Transportation: Passed-through State Department of Transportation: Highway Planning and Construction	20.205	STP-H-4400(51)	\$ 44,213
State and Community Highway Safety	20.600	(3)	12,436
Total U.S. Department of Transportation			\$ 56,649
U.S. Department of Education: Passed-through State Department of Labor and Workforce Development: Adult Education - State Grant Program	84.002	(4)	\$ 85,364
Passed-through State Department of Education: Title I Grant to Local Educational Agencies	84.010	N/A	417,987
Special Education Cluster: Special Education - Grants to States	84.027	N/A	360,676
Special Education - Preschool Grants	84.173	N/A	15,899
Vocational Education - Basic Grants to States	84.048	N/A	42,573
Safe and Drug Free Schools and Communities - State Grants	84.186	(2)	5,185
Fund for the Improvement of Education	84.215	N/A	153,666
State Grants for Innovative Programs	84.298	N/A	47,490
Education Technology State Grants	84.318	(2)	4,186
Reading First State Grants	84.357	GG-04-11040-00	302,185
Rural Education	84.358	N/A	2,796
Improving Teacher Quality State Grants	84.367	N/A	99,042
Total U.S. Department of Education			\$ 1,537,049
U.S. Department of Homeland Security: Passed-through State Department of the Military: State Domestic Preparedness Equipment Support Program	97.004	Z-03-017765-00	\$ 22,818
Public Assistance Grants	97.036	Z-05-024731-00	629,076
Total U.S. Department of Homeland Security			\$ 651,894
Total Expenditures of Federal Awards			\$ 2,876,347

(Continued)

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

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Contract Number	Expenditures
<u>State Grants</u>			
Adult Education - State Department of Labor and Workforce Development	N/A	(2)	\$ 22,691
Aging Program - Upper Cumberland Development District	N/A	(2)	11,631
Reappraisal Program - Comptroller of the Treasury	N/A	(2)	5,313
Litter Program - State Department of Transportation	N/A	(2)	33,952
Law Enforcement Training - State Department of Safety	N/A	(2)	6,225
Local Health Services Grant - State Department of Health	N/A	(2)	2,900
State Supplement Grant Program - State Commission on Children and Youth	N/A	(2)	9,000
Family Resource Center - State Department of Education	N/A	(2)	33,300
Voluntary PreK for Tennessee - State Department of Education	N/A	(2)	65,000
Lottery for Education - PreK - State Department of Education	N/A	(2)	90,664
Used Oil Grant - State Department of Environment and Conservation	N/A	(2)	24,090
Waste Tire Storage and Disposal - State Department of Environment and Conservation	N/A	(2)	<u>6,971</u>
Total State Grants			<u>\$ 311,737</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-05-024075-00: \$4,785; Z-06-027285-00: \$7,651

(4) Z-05-022232-00: \$6,689; Z-06-027785-00: \$78,675

Jackson County, Tennessee, and the Jackson 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 Jackson County, Tennessee, and the Jackson County School Department for the year ended June 30, 2005, which have not been corrected.

JACKSON COUNTY AND JACKSON COUNTY SCHOOL DEPARTMENT

<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>
05.03(A)	13	Expenditures exceeded appropriations
05.04(A, B)	14	Purchase orders were either not issued or not issued properly, and invoices were paid without documentation that goods had been received and/or services had been rendered
05.05(A, B, C)	15	The office did not properly maintain inventory records and controls over assets

OFFICE OF ROAD SUPERINTENDENT

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
05.07	16	Adequate controls were not maintained over rock
05.08	17	The office did not properly issue purchase orders

OFFICE OF DIRECTOR OF SCHOOLS

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
05.09	17	The office did not properly maintain inventory records and controls over assets

OFFICE OF SHERIFF

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
05.15	23	Collections were not properly deposited
05.16	23	The office had deficiencies in the administration of drug control funds

OTHER FINDINGS

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
05.17	24	A central system of accounting, budgeting, and purchasing had not been adopted
05.18	24	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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2006

PART I, SUMMARY OF AUDITOR'S RESULTS

1. Adverse opinions were issued on the financial statements of Jackson County and the Jackson County School Department.
2. The audit of the financial statements of Jackson County and the Jackson County School Department disclosed reportable conditions in internal control. None of these conditions were considered to be a material weakness.
3. The audit disclosed four instances of noncompliance that were material to the financial statements of Jackson County, and one instance of noncompliance that was material to the financial statements of the Jackson County School Department.
4. The audit disclosed one reportable condition in internal control over major programs.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit revealed one finding that is required to be reported under Section 510(a) of OMB Circular A-133.
7. The Child Nutrition Cluster: the School Breakfast Program and the National School Lunch Program (CFDA Nos. 10.553 and 10.555); the Reading First State Grants (CFDA No. 84.357); and the Public Assistance Grants (CFDA No. 97.036) were determined to be major programs.
8. A threshold of \$300,000 was used to distinguish between Type A and Type B federal programs.
9. Jackson County and the Jackson County School Department did not qualify as low-risk auditees.

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

Findings and recommendations, as a result of our examination, are presented below. We reviewed these findings and recommendations with management to provide an opportunity for their response. The written responses of the road superintendent 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.

JACKSON COUNTY AND JACKSON COUNTY SCHOOL DEPARTMENT

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

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

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

RECOMMENDATION

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

OFFICE OF COUNTY MAYOR

**FINDING 06.02 EXPENDITURES EXCEEDED APPROPRIATIONS
(Noncompliance Under Government Auditing Standards)**

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

<u>Fund</u>	<u>Major Appropriation Category</u>	<u>Amount Overspent</u>
General	County Buildings	\$ 1,203
"	Chancery Court	1,098
"	Sheriff's Department	15,471
"	Jail	11,869
"	Other Charges	1,533
"	Employee Benefits	1,789
"	Miscellaneous	14,492
"	Litter and Trash Collection	175
General Debt Service	Principal on Debt - General Government	7,822
"	Other Debt Service - General Government	6,180

Expenditures also exceeded the total appropriations in the Solid Waste/Sanitation Fund by \$15,349.

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 governments shall be appropriated to such use by the county legislative bodies."

RECOMMENDATION

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

**FINDING 06.03 THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES
(A., B., and C. – Internal Control – Reportable Condition Under Government Auditing Standards; D. – Noncompliance Under Government Auditing Standards)**

Our examination of purchasing procedures revealed the following deficiencies:

- A. The office did not issue purchase orders for some applicable purchases. Purchase orders are necessary to control who has authority to make purchases and to document purchasing commitments. Also, in some instances purchase orders were issued after the purchases were made. This practice defeats the purpose of the purchase order and makes it an approval of payment rather than an approval of the purchase. Furthermore, our examination disclosed that descriptions and dollar amounts of purchases were not listed on some purchase orders. The dollar amounts and descriptions of items on purchase orders are necessary to quantify purchasing commitments and to identify the items purchased.
- B. In several instances, invoices were paid without documentation that goods had been received and/or services had been rendered. This practice weakens controls over the purchasing process. We extended our audit procedures and determined that these goods were received and services were rendered.
- C. The County Mayor's Office could not locate the original bids submitted for the purchase of an ambulance remount (\$48,097). The Ambulance Service had a summary tabulation of the bids received; however, since there were no original bids on file, we could not verify the accuracy of the summary information.
- D. Competitive bids were not solicited for the purchase of patrol cars (\$48,975) for the Sheriff's Department. Section 5-14-201 et seq., Tennessee Code Annotated, requires competitive bids to be solicited through public advertisement for purchases exceeding \$5,000.

RECOMMENDATION

Purchase orders should be issued for all applicable purchases before purchases are made and should include the dollar amounts and descriptions of items purchased. Documentation should be obtained indicating that goods have been received and/or services have been rendered before invoices are paid. Original bids should be on file for audit inspection. Competitive bids should be solicited for purchases exceeding \$5,000 as required by state statute.

FINDING 06.04 DEFICIENCIES WERE NOTED IN THE JAIL CONSTRUCTION PROJECT

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

Our examination of the jail construction project revealed the following deficiencies:

- A. The County Commission approved bids and contracts for the jail construction project; however, the County Mayor's Office did not maintain the bid files or

contracts. We obtained the bid files and contracts from the construction manager for the project, but could only obtain summaries of the bids for the general construction and asbestos removal contracts.

- B. The office did not deposit amounts withheld from contractor payments into an escrow account. Section 66-11-144, Tennessee Code Annotated, requires that funds withheld from contractor payments be deposited into an escrow account for contracts of \$500,000 or more.

RECOMMENDATION

Original bids and contracts of the jail construction project should be maintained in the County Mayor’s Office. Amounts withheld from contractor payments on contracts of \$500,000 or more should be deposited into an escrow account in compliance with state statute.

FINDING 06.05 DEFICIENCIES WERE NOTED IN THE MAINTENANCE OF ACCOUNTING RECORDS

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

Our examination of the accounting records revealed the following deficiencies:

- A. Receivables and payables at June 30, 2006, were not determined and recorded on the accounting records for various funds as required by generally accepted accounting principles. We performed additional audit procedures and determined the following totals of receivables and payables at June 30, 2006:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
General	\$ 16,197	\$ 41,270
Solid Waste/Sanitation	0	17,800
General Capital Projects	0	422,454

We have presented audit adjustments to management for their approval and posting to properly present these receivables and payables in the financial statements of this report.

- B. Fund balance reserves were reflected in the accounting records of the General Fund at June 30, 2006; however, the office could not provide documentation to support the calculation of these reserves. We performed additional audit procedures and determined the reservations of fund balance were materially correct.

- C. General ledger payroll liability accounts were not reconciled monthly with payroll reports and payments. The failure to regularly reconcile payroll deduction accounts allows errors to remain undiscovered and uncorrected. We extended our audit procedures and presented adjustments to management to correct any errors.

RECOMMENDATION

Receivables and payables should be properly determined and recorded on the accounting records as required by generally accepted accounting principles. Also, officials should have documentation on file to support the calculation for any reserves. This documentation should include the beginning balances, detailed revenues and expenditures, and ending balances for all legally restricted revenues. Furthermore, general ledger payroll liability accounts should be reconciled monthly with payroll reports and payments, and errors should be corrected promptly.

FINDING 06.06 **A LOAN FROM THE LOCAL INSURANCE PROVIDER FOR COUNTY INSURANCE WAS NOT AUTHORIZED IN ACCORDANCE WITH STATE STATUTE**
(Material Noncompliance Under Government Auditing Standards)

The county mayor entered into an agreement with the local insurance provider to pay the county's insurance premium in four installments totaling \$230,616 prior to June 30, 2006. The total of the four installments included a finance charge of \$3,999. This loan was not approved by the County Commission or the state director of Local Finance. Section 9-21-801, Tennessee Code Annotated, provides that "the county may issue interest-bearing tax anticipation notes for the purpose of meeting appropriations made for the current fiscal year in anticipation of the collection of taxes and revenues of that fiscal year, ... but sale of the notes shall first be approved by the state director of Local Finance."

RECOMMENDATION

Debt obligations of the county should be approved by the County Commission and the state director of Local Finance as required by state statute.

FINDING 06.07 THE COUNTY PAID INSURANCE PREMIUMS TO A LOCAL AGENT BASED UPON AN ALTERED DOCUMENT
(Material Noncompliance Under Government Auditing Standards)

Jackson County paid a local insurance agent for liability and workers' compensation insurance through the Tennessee School Boards Risk Management Trust (TSB-RMT), a public entity risk pool established by the Tennessee School Boards Association, an association of member school districts. As noted in the previous finding, the premiums for this coverage were financed by the local agent; therefore, the disbursements for premiums were made directly to the agent rather than to the insurance carrier. Upon examining the insurance binder provided to the county, we noted that the cost summary on TSB-RMT letterhead appeared to have been altered. The underwriter for the insurance pool provided us with a copy of the original cost summary from TSB-RMT that was \$20,601 less than the copy in the county's binder. According to the local agent, the difference between the cost summaries was his fee, and the cost summary sheet in the county's binder was a form created by TSB-RMT with the dollars left blank for the agent to fill in. However, the TSB-RMT underwriter advised us that they do not provide agents with blank forms; therefore, the cost summary sheet on TSB-RMT letterhead provided to the county had been altered. Section 39-16-504, Tennessee Code Annotated, states that "It is unlawful for any person to (1) Knowingly make a false entry in, or false alteration of, a governmental record; (2) Make, present, or use any record, document or thing with knowledge of its falsity and with intent that it will be taken as a genuine governmental record." While it is lawful for the agent to receive a fee for his services, it is unlawful to alter a government document and present the document with the intent that it will be perceived as a genuine government record. Any fees charged by the agent for his services should have been specified on the cost summaries presented to the county. The alteration of the cost summary for insurance has been discussed with the district attorney general.

RECOMMENDATION

The county should not make disbursements to vendors if the supporting documentation for the disbursement appears to have been altered.

FINDING 06.08 THE OFFICE DID NOT PROPERLY MAINTAIN INVENTORY RECORDS AND CONTROLS OVER ASSETS
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

- A. We noted certain assets that were not included on the inventory, such as, vehicles, guns, phones, pagers, radios, and all of the assets of the Ambulance Service.
- B. Inventory records did not include all of the information necessary to identify the assets, such as, the serial number.

- C. Inventory records were not verified by personnel who are independent of maintaining the inventory records.

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

RECOMMENDATION

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

OFFICE OF ROAD SUPERINTENDENT

FINDING 06.09 **ADEQUATE CONTROLS WERE NOT MAINTAINED OVER ROCK**
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

RECOMMENDATION

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

FINDING 06.10 **THE OFFICE DID NOT PROPERLY ISSUE PURCHASE ORDERS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

RECOMMENDATION

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

FINDING 06.11 **THE OFFICE DID NOT PROPERLY MAINTAIN INVENTORY RECORDS AND CONTROLS OVER ASSETS**
(Internal Control – Reportable Condition under Government Auditing Standards)

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

- A. We noted certain assets that were not included on the inventory, such as, a road tractor and a copy/fax machine.
- B. Several assets were not tagged or otherwise clearly marked as county property.
- C. Inventory records were not verified by personnel who are independent of maintaining the inventory records.

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

RECOMMENDATION

The department should improve controls over assets. Officials should ensure that inventory lists include all of the department’s assets and that the descriptions are sufficient to identify the assets. Also, the department should ensure that personnel independent of the record-keeping process periodically verify inventory records.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 06.12 **THE OFFICE DID NOT PROPERLY MAINTAIN INVENTORY RECORDS AND CONTROLS OVER ASSETS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

- A. We noted certain assets that were not included on the inventory, such as, computer equipment and maintenance and repair equipment at the bus garage.

- B. Inventory records did not include all of the information necessary to identify the assets, such as, the serial number or vehicle identification number.
- C. Inventory records were not verified by personnel who are independent of maintaining the inventory records.
- D. Inventory records were maintained by the office; however, we noted some offices' records that had not been updated for two years.

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

RECOMMENDATION

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

OFFICE OF CLERK AND MASTER

FINDING 06.13 **AN EXECUTION DOCKET TRIAL BALANCE WAS NOT PREPARED**
(Noncompliance Under Government Auditing Standards)

The clerk and master did not prepare a trial balance of execution docket cause balances as required by Section 18-2-103, Tennessee Code Annotated, (TCA). Consequently, we were unable to reconcile balance sheet accounts with cause balances. Furthermore, we were unable to determine if the clerk had complied with provisions of the Unclaimed Property Act, Section 66-29-110, TCA. This statute provides that any funds held by the court for 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. The clerk had unidentified court funds of \$13,960 at June 30, 2006.

RECOMMENDATION

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

OFFICE OF SHERIFF

**FINDING 06.14 COLLECTIONS WERE NOT PROPERLY DEPOSITED
(Noncompliance Under Government Auditing Standards)**

The Sheriff's Department did not deposit collections to the office bank account within three days of collection as required by Section 5-8-207, Tennessee Code Annotated. This statute requires county officials to deposit all funds within three days of collection.

RECOMMENDATION

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

**FINDING 06.15 THE OFFICE HAD DEFICIENCIES IN THE
ADMINISTRATION OF DRUG CONTROL FUNDS
(Noncompliance Under Government Auditing Standards)**

The Sheriff's Office had the following deficiencies in administering drug control funds:

- A. Several forms and reports required by the Office of the Comptroller of the Treasury were not completed or prepared. These forms and reports are necessary to document the administration of confidential funds and to account for cash transactions related to undercover investigative operations. We noted disbursements from confidential drug funds to purchase drugs (\$580) and to make payments to confidential informants (\$1,150) that had no supporting documentation other than the informant's name and date paid. We extended our audit procedures and determined that the drugs were actually purchased and that the informants had been used on other cases.
- B. Several forms documenting payments to confidential informants did not have the required signatures of two officers. The signature of the first officer is necessary to document that he made the payment, and the signature of the second officer is necessary to document that he witnessed the payment.

RECOMMENDATION

The sheriff should ensure that the officers complete all forms and prepare all reports required by the Office of the Comptroller of the Treasury to document undercover investigative operations. Payments to informants should be documented by the signatures of two officers.

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 that 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 the accounting records in these offices were also involved in receipting, depositing, and/or disbursing funds. We realize that due to limited resources and personnel, management may not be able to properly segregate duties among employees. However, our professional standards require that we bring this matter to the reader’s attention in this report.

MANAGEMENT’S RESPONSE – ROAD SUPERINTENDENT (DIRECT QUOTE)

Due to limited resources in personnel we are not able to properly segregate duties.

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

Due to limited resources in personnel we are not able to properly segregate duties.

FINDING 06.18 THE INDUSTRIAL DEVELOPMENT BOARD OF THE COUNTY OF JACKSON, TENNESSEE, WAS NOT AUDITED
(Noncompliance Under Government Auditing Standards)

An annual audit was not performed on the Industrial Development Board of the County of Jackson, Tennessee, a component unit of Jackson County. Section 9-3-211, Tennessee Code Annotated, requires an annual audit of each entity charged with the care and control of public funds.

RECOMMENDATION

An annual audit of the Industrial Development Board of the County of Jackson, Tennessee, should be performed as required by state statute.

**PART III, FINDINGS AND QUESTIONED
COSTS FOR FEDERAL AWARDS
For the Year Ended June 30, 2006**

Federal/Pass-through Agencies	Finding Number	Federal CFDA Number	Criteria	Explanation	Amount Questioned
U.S. Department of Agriculture:					
Passed-through State Department of Education:					
Child Nutrition Cluster:					
School Breakfast Program	06.19	10.553	Circular A-133, Section 500 (c)(3)	Reportable Condition in Internal Control See Finding 06.17 - Duties were not adequately segregated in the Office of Director of Schools	\$ 0
School Lunch Program		10.555			
U.S. Department of Education:					
Passed-through State Department of Education:					
Reading First State Grants		84.357			
U.S. Department of Homeland Security:					
Passed-through State Department of the Military:					
Public Assistance Grants		97.036	Circular A-133, Section 500 (c)(3)	Reportable Condition in Internal Control See Finding 06.17 - Duties were not adequately segregated in the Office of Road Superintendent	0

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

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

Road Superintendent and Director of Schools – Corrective Action Plan for Current-year Findings

FINDINGS 06.17 AND 06.19

Contact Person: Joe Barlow, Director of Schools

Corrective action planned: Due to limited resources and personnel, management may not be able to properly segregate duties among employees.

Anticipated completion date: None

FINDINGS 06.17 AND 06.19

Contact Person: Edward Anderson, Road Superintendent

Corrective action planned: Due to limited resources and personnel, management may not be able to properly segregate duties among employees.

Anticipated completion date: None