

**ANNUAL FINANCIAL REPORT**  
**SUMNER COUNTY, TENNESSEE**



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

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

**ANNUAL FINANCIAL REPORT**  
**SUMNER 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***

***JEFF BAILEY, CPA, CGFM, CFE***  
***Audit Manager***

***EUGENE HAMPTON II, CPA, CGFM***  
***Auditor 4***

***RACHELLE CABADING, CFE***  
***KATIE ARMSTRONG, CFE***  
***TERA HAYNES, CFE***  
***NATHAN ABBOTT, CISA, CFE***  
***State Auditors***

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## ***Audit Highlights***

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

### ***Scope***

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

### ***Results***

Our report on Sumner County's financial statements is unqualified.

Our audit resulted in 14 findings and recommendations, which we have reviewed with Sumner County management. Detailed findings, recommendations, and managements' responses are included in the Single Audit Section of this report.

### ***Findings***

The following are summaries of the audit findings:

#### **OFFICE OF COUNTY EXECUTIVE**

- ◆ A signature stamp was used to affix the signature of the county executive to official documents.

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#### **OFFICE OF FINANCE DIRECTOR**

- ◆ Accounting records were not maintained in conformity with the state mandated County Uniform Chart of Accounts.
  - ◆ Retainage withheld from contractor payments had not been deposited into an escrow account in compliance with state statute.
  - ◆ Expenditures exceeded appropriations approved by the County Commission in several major appropriation categories (the legal level of control) in the General and Highway/Public Works Funds.
  - ◆ Competitive bids were not solicited for the purchase of a truck.
-

## **OFFICE OF DIRECTOR OF SCHOOLS**

- ◆ The office had deficiencies in budget operations.
  - ◆ A cash shortage of \$7,121.85 existed at the Hendersonville High School cafeteria.
  - ◆ The office did not solicit bids for the repair of two service trucks (\$16,849), and certain instructional materials (\$7,113).
  - ◆ The office used signature stamps to affix signatures of the director of schools and the board chair to documents.
- 

## **OFFICE OF TRUSTEE**

- ◆ Trustee funds totaling \$21,803 were stolen during a weekend burglary.
- 

## **OFFICE OF CLERK AND MASTER**

- ◆ Unclaimed funds were not reported and paid to the state.
- 

## **OTHER FINDINGS**

- ◆ Duties were not segregated adequately in the Offices of Trustee, Circuit Court Clerk, and Clerk and Master.
- ◆ County officials have not complied with their private act regarding purchasing.
- ◆ County officials have not adopted written guidelines governing cellular telephone and credit card use.

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## INTRODUCTORY SECTION

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# Sumner County Officials

## June 30, 2006

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### **Officials**

R.J. Thompson, County Executive  
Scotty Parker, Superintendent of Roads  
Benny Bills, Director of Schools  
Betty Gregory, Trustee  
John Isbell, Assessor of Property  
Bill Kemp, County Clerk  
Mahailiah Hughes, Circuit, General Sessions, and Juvenile Courts Clerk  
Brenda Page, Clerk and Master  
Pam Whitaker, Register  
J.D. Vandercook, Sheriff  
Rachel Nichols, Director of Finance  
Leah Dennen, Law Director

### **Board of County Commissioners**

Steve Botts, Chairman	Kenny Pierpaoli
William Black	Darrin Carver
Bobby Thompson	Merrol Hyde
David Cummings	Roland Mumford
Ragan Hall	Nancy Krider Corley
William Craig	Rod Lilly
David Satterfield	Jo Skidmore
Harold Gilbert	Matt Slone
Anthony Holt	Ricky Goats
Joe Blankenship	Paul Freels
Ben Harris	John Smart
Art McClellan	Steve White

### **Board of Education**

Ronnie Stubblefield, Chairman	Will Duncan
Ken Becker	Nancy Roth
Mary Ralph Bradley	Randy Stamps

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## **FINANCIAL SECTION**

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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**

**INDEPENDENT AUDITOR'S REPORT**

March 5, 2007

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

To the County Executive and Board of County Commissioners:

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Sumner County, Tennessee, as of and for the year ended June 30, 2006, which collectively comprise Sumner County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Sumner County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented Resource Authority in Sumner County, Tennessee, which represent 1.8 percent and 3.2 percent, respectively, of the assets and revenues of the aggregate discretely presented component units; the discretely presented Sumner County Emergency Communications District, which represent .7 percent and .5 percent, respectively, of the assets and revenues of the aggregate discretely presented component units; and the discretely presented Sumner County Regional Airport Authority, which represent 1.4 percent and .5 percent, respectively, of the assets and revenues of the aggregate discretely presented component units as of June 30, 2006, and for the year then ended. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the discretely presented Resource Authority in Sumner County, Tennessee, the discretely presented Sumner County Emergency Communications District, and the discretely presented Sumner County Regional Airport Authority, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the

United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Sumner County, Tennessee, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 5, 2007, on our consideration of Sumner County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

As described in Note V.B., Sumner County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries; and GASB Statement No. 47, Accounting for Termination Benefits.

The management of Sumner County did not prepare a management's discussion and analysis. The management's discussion and analysis section is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America.

The budgetary comparison information on pages 79 through 81 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 Sumner County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the General Debt Service Fund, combining and individual fund financial statements of the Sumner County School Department (a discretely presented component unit), 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, combining and individual fund financial statements of the Sumner County School Department (a discretely presented component unit), and the miscellaneous schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Very truly yours,

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

John G. Morgan  
Comptroller of the Treasury

JGM/yu

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# BASIC FINANCIAL STATEMENTS

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Exhibit A

Sumner County, Tennessee  
Statement of Net Assets  
June 30, 2006

	Primary	Component Units			
	Government	Sumner	Resource	Emergency	Sumner County
	Governmental	County	Authority	Communications	Regional
	Activities	School	in Sumner	District	Airport
		Department	County		Authority
<u>ASSETS</u>					
Cash	\$ 278,103	\$ 14,035	\$ 1,102,457	\$ 777,365	\$ 394,232
Equity in Pooled Cash and Investments	49,270,054	12,676,529	0	0	0
Inventories	0	0	52,637	0	0
Investments	8,393,392	0	0	0	0
Accounts Receivable	1,446,265	1,326,029	325,266	82,734	891
Property Taxes Receivable	26,969,400	42,744,876	0	0	0
Allowance for Uncollectible Property Taxes	(492,067)	(733,466)	0	0	0
Accrued Interest Receivable	65,268	0	0	0	0
Due from Other Governments	2,629,188	3,040,813	16,598	0	0
Prepaid Items	0	0	52,375	65,000	11,868
Prepaid Items - Long-term	0	0	0	65,000	0
Note Proceeds Receivable	501,113	0	0	0	0
Capital Assets:					
Assets Not Depreciated:					
Land	1,934,915	6,579,476	282,491	0	6,500
Construction in Progress	0	450,788	0	0	1,256,318
Assets Net of Accumulated Depreciation:					
Buildings and Improvements	28,484,887	159,995,961	2,520,868	0	1,796,451
Other Capital Assets	5,976,949	5,863,968	113,680	670,209	1,650
Infrastructure	32,399,277	0	0	0	0
<b>Total Assets</b>	<b>\$ 157,856,744</b>	<b>\$ 231,959,009</b>	<b>\$ 4,466,372</b>	<b>\$ 1,660,308</b>	<b>\$ 3,467,910</b>

(Continued)

Exhibit A

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

	Primary	Component Units			
	Government	Sumner	Resource	Emergency	Sumner County
	Governmental	County	Authority	Communications	Regional
	Activities	School	in Sumner	District	Airport
		Department	County		Authority
<u>LIABILITIES</u>					
Accounts Payable	\$ 1,182,893	\$ 852,413	\$ 294,192	\$ 35,257	\$ 1,402
Accrued Payroll	231,075	0	0	0	0
Payroll Deductions Payable	0	2,207,978	0	0	0
Contracts Payable	264,016	0	0	0	0
Retainage Payable	148,075	0	0	0	92,197
Due to Litigants, Heirs, and Others	3,180	0	0	0	0
Deferred Revenue - Current Property Taxes	25,748,795	40,992,807	0	0	0
Deferred Revenue	0	0	0	0	2,050
Noncurrent Liabilities:					
Due Within One Year	56,130,498	959,177	67,949	223,921	0
Due in More Than One Year	62,000,000	430,934	2,013,490	244,659	0
Total Liabilities	<u>\$ 145,708,532</u>	<u>\$ 45,443,309</u>	<u>\$ 2,375,631</u>	<u>\$ 503,837</u>	<u>\$ 95,649</u>
<u>NET ASSETS</u>					
Invested in Capital Assets,					
Net of Related Debt	\$ 56,796,028	\$ 0	\$ 2,917,039	\$ 201,629	\$ 0
Invested in Capital Assets	0	172,890,193	0	0	3,060,919
Restricted for:					
Capital Projects	2,310,001	0	0	0	0
Debt Service	24,948,527	0	0	0	0
Highway/Public Works	2,376,889	0	0	0	0
School Federal Projects	0	1,861,938	0	0	0
Other Purposes	1,397,299	589,994	0	0	0
Unrestricted	(75,680,532)	11,173,575	(826,298)	954,842	311,342
Total Net Assets	<u>\$ 12,148,212</u>	<u>\$ 186,515,700</u>	<u>\$ 2,090,741</u>	<u>\$ 1,156,471</u>	<u>\$ 3,372,261</u>

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

Exhibit B

Sumner County, Tennessee  
 Statement of Activities  
 For the Year Ended June 30, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units			
					Total Governmental Activities	Sumner County School Department	Resource Authority in Sumner County	Emergency Communications District	Sumner County Regional Airport Authority
Primary Government:									
General Government	\$ 8,513,307	\$ 2,258,061	\$ 19,762	\$ 0	\$ (6,235,484)	\$ 0	\$ 0	\$ 0	\$ 0
Finance	2,892,468	3,415,671	39,212	0	562,415	0	0	0	0
Administration of Justice	3,397,622	3,306,588	80,439	0	(10,595)	0	0	0	0
Public Safety	11,858,045	1,810,581	618,978	0	(9,428,486)	0	0	0	0
Public Health and Welfare	7,576,005	3,988,631	1,189,433	657,459	(1,740,482)	0	0	0	0
Social, Cultural, and Recreational Services	1,383,644	60,380	108,527	0	(1,214,737)	0	0	0	0
Agriculture & Natural Resources	355,786	0	0	0	(355,786)	0	0	0	0
Other Operations	433,312	3,600	0	0	(429,712)	0	0	0	0
Highways/Public Works	8,235,666	66,137	3,031,265	1,929,213	(3,209,051)	0	0	0	0
Education	14,770,455	12,633,113	0	213,300	(1,924,042)	0	0	0	0
Interest on Long-term Debt	4,113,852	0	0	0	(4,113,852)	0	0	0	0
Other Debt Service	897,033	0	0	0	(897,033)	0	0	0	0
<b>Total Primary Government</b>	<b>\$ 64,427,195</b>	<b>\$ 27,542,762</b>	<b>\$ 5,087,616</b>	<b>\$ 2,799,972</b>	<b>\$ (28,996,845)</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
Component Units:									
Sumner County School Department	\$ 168,837,352	\$ 7,724,648	\$ 13,397,681	\$ 2,722,410	\$ 0	\$ (144,992,613)	\$ 0	\$ 0	\$ 0
Resource Authority in Sumner County	4,300,775	3,532,307	1,836,211	0	0	0	1,067,743	0	0
Emergency Communications District	741,887	751,319	0	0	0	0	0	9,432	0
Sumner County Regional Airport Authority	273,551	143,345	90,179	665,060	0	0	0	0	625,033
<b>Total Component Units</b>	<b>\$ 174,153,565</b>	<b>\$ 12,151,619</b>	<b>\$ 15,324,071</b>	<b>\$ 3,387,470</b>	<b>\$ 0</b>	<b>\$ (144,992,613)</b>	<b>\$ 1,067,743</b>	<b>\$ 9,432</b>	<b>\$ 625,033</b>

(Continued)

Exhibit B

Sumner County, Tennessee  
Statement of Activities (Cont.)

Functions/Programs	Expenses	Program Revenues			Primary Government  Total Governmental Activities	Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Component Units			
						Summer County School Department	Resource Authority in Sumner County	Emergency Communications District	Sumner County Regional Airport Authority
General Revenues:									
Taxes:									
Property Taxes Levied for General Purposes					\$ 14,199,485	\$ 38,980,147	\$ 0	\$ 0	\$ 0
Property Taxes Levied for Debt Service					13,681,752	0	0	0	0
Local Option Sales Tax					5,532,768	10,077,596	0	0	0
Other Local Taxes					7,596,377	3,875,404	0	0	0
Grants and Contributions Not Restricted for Specific Programs					2,297,053	86,201,923	0	15,000	0
Unrestricted Investment Earnings					3,304,321	85,782	4,350	21,175	5,628
Gain on Disposal of Capital Assets					29,826	0	193,504	81	0
Miscellaneous					26,025	732,135	0	80	0
Total General Revenues					<u>\$ 46,667,607</u>	<u>\$ 139,952,987</u>	<u>\$ 197,854</u>	<u>\$ 36,336</u>	<u>\$ 5,628</u>
Special Item					\$ 0	\$ 0	\$ 10,388	\$ 0	\$ 0
Insurance Recovery					0	935,209	0	0	0
Change in Net Assets					\$ 17,670,762	\$ (4,104,417)	\$ 1,275,985	\$ 45,768	\$ 630,661
Net Assets, July 1, 2005					(2,584,189)	185,902,090	814,756	1,110,703	2,741,600
Prior Period Adjustment					(2,938,361)	4,718,027	0	0	0
Net Assets, June 30, 2006					<u>\$ 12,148,212</u>	<u>\$ 186,515,700</u>	<u>\$ 2,090,741</u>	<u>\$ 1,156,471</u>	<u>\$ 3,372,261</u>

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

## Exhibit C-1

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

	Major Funds		Nonmajor	Total Govern- mental Funds
	General	General Debt Service	Other	
			Govern- mental Funds	
<u>ASSETS</u>				
Cash	\$ 0	\$ 0	\$ 278,103	\$ 278,103
Equity in Pooled Cash and Investments	21,239,188	14,808,834	4,716,061	40,764,083
Investments	0	8,393,392	0	8,393,392
Accounts Receivable	855,452	238,424	274,726	1,368,602
Due from Other Governments	1,058,945	927,662	642,581	2,629,188
Due from Other Funds	381,465	0	0	381,465
Note Proceeds Receivable	303,016	198,097	0	501,113
Property Taxes Receivable	13,484,708	12,875,485	609,207	26,969,400
Allowance for Uncollectible Property Taxes	(243,732)	(238,232)	(10,103)	(492,067)
Accrued Interest Receivable	25,348	39,920	0	65,268
Total Assets	<u>\$ 37,104,390</u>	<u>\$ 37,243,582</u>	<u>\$ 6,510,575</u>	<u>\$ 80,858,547</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 1,041,477	\$ 15,325	\$ 126,091	\$ 1,182,893
Accrued Payroll	207,617	0	23,458	231,075
Contracts Payable	0	0	264,016	264,016
Retainage Payable	0	0	148,075	148,075
Due to Other Funds	0	0	381,465	381,465
Due to Litigants, Heirs, and Others	0	0	3,180	3,180
Deferred Revenue - Current Property Taxes	12,883,453	12,279,730	585,612	25,748,795
Deferred Revenue - Delinquent Property Taxes	319,834	319,834	12,055	651,723
Other Deferred Revenues	666,284	489,172	344,777	1,500,233
Total Liabilities	<u>\$ 15,118,665</u>	<u>\$ 13,104,061</u>	<u>\$ 1,888,729</u>	<u>\$ 30,111,455</u>
<u>Fund Balances</u>				
Reserved for Encumbrances	\$ 0	\$ 0	\$ 980,720	\$ 980,720
Reserved for Drug Court	187,141	0	0	187,141
Reserved for Sexual Offender Registration	5,600	0	0	5,600
Reserved for Courtroom Security	4,873	0	0	4,873
Reserved for Courthouse and Jail Maintenance	159,503	0	0	159,503
Reserved for Computer System - Register	122,879	0	0	122,879
Reserved for Automation Purposes - Circuit Court	322,493	0	0	322,493
Reserved for Automation Purposes - Chancery Court	32,437	0	0	32,437
Reserved for Automation Purposes - Sheriff	38,581	0	0	38,581
Reserved for Long-Term Notes Receivable	303,016	198,097	0	501,113
Unreserved, Reported In:				
General Fund	20,809,202	0	0	20,809,202
Special Revenue Funds	0	0	2,311,845	2,311,845
Debt Service Funds	0	23,941,424	0	23,941,424
Capital Projects Funds	0	0	1,329,281	1,329,281
Total Fund Balances	<u>\$ 21,985,725</u>	<u>\$ 24,139,521</u>	<u>\$ 4,621,846</u>	<u>\$ 50,747,092</u>
Total Liabilities and Fund Balances	<u>\$ 37,104,390</u>	<u>\$ 37,243,582</u>	<u>\$ 6,510,575</u>	<u>\$ 80,858,547</u>

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

Exhibit C-2

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

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

Total fund balances - balance sheet - governmental funds (Exhibit C-1)		\$	50,747,092
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Add: land	\$	1,934,915	
Add: buildings and improvements net of accumulated depreciation		28,484,887	
Add: other capital assets net of accumulated depreciation		5,976,949	
Add: infrastructure net of accumulated depreciation		<u>32,399,277</u>	68,796,028
(2) Certain earned amounts are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.			2,151,956
(3) Internal service funds are used by management to charge the cost of liability, workers' compensation, and employee health and dental benefits to individual funds. The assets and liabilities are included in governmental activities in the statement of net assets.			2,990,435
(4) Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.			
Notes payable	\$	(112,000,000)	
Compensated absences		<u>(537,299)</u>	<u>(112,537,299)</u>
Net assets of governmental activities (Exhibit A)			<u>\$ 12,148,212</u>

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

Exhibit C-3

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

	Major Funds		Nonmajor	Total Governmental Funds
	General	General Debt Service	Other Govern- mental Funds	
<b>Revenues</b>				
Local Taxes	\$ 16,826,941	\$ 22,564,167	\$ 2,433,862	\$ 41,824,970
Licenses and Permits	536,045	0	0	536,045
Fines, Forfeitures, and Penalties	746,758	0	84,238	830,996
Charges for Current Services	4,846,445	0	5,302	4,851,747
Other Local Revenues	939,081	2,544,984	90,473	3,574,538
Fees Received from County Officials	6,909,133	0	0	6,909,133
State of Tennessee	3,726,754	0	3,032,737	6,759,491
Federal Government	696,053	0	24,560	720,613
Other Governments and Citizens Groups	535,859	50,410	748,466	1,334,735
<b>Total Revenues</b>	<b>\$ 35,763,069</b>	<b>\$ 25,159,561</b>	<b>\$ 6,419,638</b>	<b>\$ 67,342,268</b>
<b>Expenditures</b>				
Current:				
General Government	\$ 4,171,438	\$ 0	\$ 0	\$ 4,171,438
Finance	2,275,632	0	0	2,275,632
Administration of Justice	2,372,177	0	41,238	2,413,415
Public Safety	9,479,426	0	14,369	9,493,795
Public Health and Welfare	5,937,308	0	0	5,937,308
Social, Cultural, and Recreational Services	844,418	0	0	844,418
Agricultural and Natural Resources	245,301	0	0	245,301
Other Operations	8,689,037	389,850	0	9,078,887
Highways	3,986	0	5,943,749	5,947,735
Debt Service:				
Principal on Debt	0	17,000,000	0	17,000,000
Interest on Debt	0	4,113,852	0	4,113,852
Other Debt Service	0	897,033	0	897,033
Capital Projects	0	0	6,046,773	6,046,773
<b>Total Expenditures</b>	<b>\$ 34,018,723</b>	<b>\$ 22,400,735</b>	<b>\$ 12,046,129</b>	<b>\$ 68,465,587</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ 1,744,346	\$ 2,758,826	\$ (5,626,491)	\$ (1,123,319)
<b>Other Financing Sources (Uses)</b>				
Transfers In	\$ 177,021	\$ 0	\$ 2,413,825	\$ 2,590,846
Transfers Out	0	(2,413,825)	0	(2,413,825)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 177,021</b>	<b>\$ (2,413,825)</b>	<b>\$ 2,413,825</b>	<b>\$ 177,021</b>
Net Change in Fund Balances	\$ 1,921,367	\$ 345,001	\$ (3,212,666)	\$ (946,298)
Fund Balance, July 1, 2005	20,046,034	24,364,520	7,851,016	52,261,570
Prior Period Adjustment	18,324	(570,000)	(16,504)	(568,180)
<b>Fund Balance, June 30, 2006</b>	<b>\$ 21,985,725</b>	<b>\$ 24,139,521</b>	<b>\$ 4,621,846</b>	<b>\$ 50,747,092</b>

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

Exhibit C-4

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

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

Net change in fund balances - total governmental funds (Exhibit C-3)		\$ (946,298)
(1) Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their useful lives and reported as depreciation expense. The difference between capital outlays and depreciation is itemized as follows:		
Add: capital outlays purchased in the current period	\$ 3,522,028	
Less: current year depreciation expense	<u>(5,078,177)</u>	(1,556,149)
(2) Donated capital assets do not generate current financial resources and are therefore not recognized in the governmental funds. This adjustment reflects capital assets donated during the current period.		1,050,269
(3) Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Less: deferred delinquent property taxes and other deferred June 30, 2005	\$ (1,392,699)	
Add: deferred delinquent property taxes and other deferred June 30, 2006	<u>2,151,956</u>	759,257
(4) The issuance of long-term debt (e.g., notes, bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.		
Add: principal payment on notes	\$ 6,000,000	
Add: principal payment on loans	<u>11,000,000</u>	17,000,000
(5) Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		(44,113)
(6) Internal service funds are used by management to charge the cost of liability, workers' compensation, and employee health and dental benefits to individual funds. The net expense of certain activities of the internal service funds is reported with governmental activities in the statement of activities.		<u>1,407,796</u>
Change in net assets of governmental activities (Exhibit B)		<u>\$ 17,670,762</u>

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

Exhibit D-1

Sumner County, Tennessee  
Statement of Net Assets  
Proprietary Funds  
June 30, 2006

Governmental  
 Activities -  
 Internal  
 Service Fund  


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 Self  
 Insurance  
 Fund  


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ASSETS

Current Assets:	
Equity in Pooled Cash and Investments	\$ 8,505,971
Accounts Receivable	77,663
Total Assets	<u>\$ 8,583,634</u>

LIABILITIES

Current Liabilities:	
Claims and Judgments Payable	\$ 5,593,199
Total Liabilities	<u>\$ 5,593,199</u>

NET ASSETS

Unrestricted	<u>\$ 2,990,435</u>
Total Net Assets	<u><u>\$ 2,990,435</u></u>

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

Exhibit D-2

Sumner County, Tennessee  
Statement of Revenues, Expenses, and Changes  
in Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2006

	Governmental Activities - Internal Service Funds
	<u>                    </u>
<u>Operating Revenues</u>	
Charges for Current Services:	
Self-Insurance Premiums/Contributions	\$ 14,898,769
Total Operating Revenues	<u>\$ 14,898,769</u>
<u>Operating Expenses</u>	
Employee Benefits:	
Handling Charges & Administrative Costs	\$ 20,340
Medical Insurance	12,493,857
Dental Insurance	543,163
Liability Claims	569,643
Total Operating Expenses	<u>\$ 13,627,003</u>
Operating Income (Loss)	<u>\$ 1,271,766</u>
<u>Nonoperating Revenues (Expenses)</u>	
Investment Income	\$ 313,051
Total Nonoperating Revenues (Expenses)	<u>\$ 313,051</u>
Income (Loss) Before Transfers	\$ 1,584,817
Transfers In	201,087
Transfers Out	<u>(378,108)</u>
Change in Net Assets	\$ 1,407,796
Net Assets, July 1, 2005	<u>1,582,639</u>
Nets Assets, June 30, 2006	<u>\$ 2,990,435</u>

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

Exhibit D-3

Sumner County, Tennessee  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2006

	Governmental Activities - Internal Service Funds
	<u>Funds</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Receipts from Customers and Users	\$ 14,840,973
Payment to Suppliers	(20,340)
Claims Paid	(11,982,735)
Other Receipts (Payments)	(2,341,416)
Net Cash Provided By (Used In) Operating Activities	<u>\$ 496,482</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Investment Income	<u>\$ 313,051</u>
Net Cash Provided By (Used In) Investing Activities	<u>\$ 313,051</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>	
Transfers to Other Funds	\$ 201,087
Transfers from Other Funds	(378,108)
Net Cash Provided By (Used For) Noncapital Financing Activities	<u>\$ (177,021)</u>
Net Increase (Decrease) In Cash	\$ 632,512
Cash, July 1, 2005	<u>7,873,459</u>
Cash, June 30, 2006	<u><u>\$ 8,505,971</u></u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS)</u>	
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	
Operating Income (Loss)	\$ 1,271,766
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities:	
Change in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(57,796)
Increase (Decrease) in Claims and Judgments Payable	(717,488)
Net Cash Provided By (Used In) Operating Activities	<u><u>\$ 496,482</u></u>

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

Exhibit E

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

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash	\$ 6,759,112
Equity in Pooled Cash and Investments	917,421
Accounts Receivable	8,180
Due from Other Governments	<u>2,551,565</u>
Total Assets	<u>\$ 10,236,278</u>
<u>LIABILITIES</u>	
Accounts Payable	\$ 3,246
Due to Other Taxing Units	2,456,565
Due to State of Tennessee	842,631
Due to Litigants, Heirs, and Others	5,972,489
Due to Joint Ventures	<u>961,347</u>
Total Liabilities	<u>\$ 10,236,278</u>

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

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

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**A. Reporting Entity**

Sumner County is a public municipal corporation governed by an elected 24-member board. As required by GAAP, these financial statements present Sumner County (the primary government) and its component units. The component units discussed below are included in the county's reporting entity because of the significance of their operational or financial relationships with the county.

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

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

The Sumner County School Department operates the public school system in the county, and the voters of Sumner 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 Resource Authority in Sumner County, Tennessee, provides a solid waste Energy Recovery Plant on behalf of the residents of the county, and the cities of Gallatin and Hendersonville. The authority is funded primarily through tipping fees and contributions from the county and cities. Before the issuance of debt instruments, the authority must obtain approval from Sumner County and the cities of Gallatin and Hendersonville.

The Sumner County Emergency Communications District provides a simplified means of securing emergency services through a uniform emergency number for the residents of Sumner County, and the Sumner

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 Sumner County Regional Airport Authority operates the county's airport facility. The authority is funded primarily through federal and state grants and leasing fees. Before the issuance of most debt instruments, the authority must obtain the County Commission's approval.

The Sumner County School Department does not issue separate financial statements from those of the county. Therefore, basic financial statements of the Sumner County School Department are included in this report as listed in the table of contents. Complete financial statements of the Resource Authority in Sumner County, Tennessee, the Sumner County Emergency Communications District, and the Sumner County Regional Airport Authority can be obtained from their administrative offices at the following addresses:

Administrative Offices:

The Resource Authority in Sumner County, Tennessee  
625 Rappahannock Wire Road  
Gallatin, Tennessee 37066

Sumner County Emergency Communications District  
355 North Belvedere Drive  
Gallatin, TN 37066

Sumner County Regional Airport Authority  
P.O. Box 34  
Gallatin, Tennessee 37066

**Related Organizations** – The Industrial Development Board of Sumner County and the Health and Educational Facilities Board of Sumner County are related organizations of Sumner County. The County Commission's Committee on Committees nominates and the Sumner County Commission confirms the board members, but the county's accountability for these organizations does not extend beyond making the appointments.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. However, when applicable, interfund services provided and used between functions are not eliminated in the process of consolidation in the statement of activities. Governmental activities are normally supported by taxes and

intergovernmental revenues. Business-type activities, which rely to a significant extent on fees and charges, are required to be reported separately from governmental activities in government-wide financial statements. However, the primary government of Sumner County does not have any business-type activities to report. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The Sumner County School Department component unit only reports governmental activities in the government-wide financial statements.

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

Sumner County issues all debt for the discretely presented Sumner County School Department. No debt issues were contributed by the county to the School Department during the year ended June 30, 2006.

Separate financial statements are provided for governmental funds, proprietary funds (internal service), and fiduciary funds. The internal service funds are reported with the governmental activities in the government-wide financial statements, and the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary funds financial statements, except for agency funds which have no measurement focus. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund financial statements of Sumner County are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories:

governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental category. Sumner County reports three proprietary funds, internal service funds. It has no enterprise funds to report.

Separate financial statements are provided for governmental funds, proprietary 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 internal service funds and the fiduciary funds in total are reported in single columns by fund type.

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. Sumner 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.

Proprietary funds and fiduciary funds financial statements are reported using the economic resources measurement focus (except for agency funds which have no measurement focus) and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Sumner 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.

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

Additionally, Sumner County reports the following fund types:

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

**Capital Projects Fund** – The General Capital Projects Fund is used to account for general capital expenditures of the county and the discretely presented Sumner County School Department.

**Internal Service Funds** – These funds, the Self Insurance Fund, the Employee Insurance – Dental Fund, and the Employee Insurance – Health Fund are used to account for the county’s self-insured liability, health, dental, and workers’ compensation programs. Premiums charged to the various county funds and employee payroll deductions are placed in these funds for the payment of claims.

**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 Sumner County, and funds held for the benefit of the judicial district drug task force. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. They do, however, use the accrual basis of accounting to recognize receivables and payables.

The discretely presented Sumner County School Department reports the following major governmental fund:

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

Additionally, the Sumner County School Department reports the following fund type:

**Special Revenue Fund** – The School Federal Projects Fund accounts for restricted federal revenues which must be expended on specific education programs.

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

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. The county has three proprietary funds, internal service funds, used to account for the county's self-insured liability, health, dental, and workers' compensation programs. Operating revenues and expenses generally result from providing services in connection with the funds' principal ongoing operations. The principal operating revenues of the county's internal service funds are charges for services. Operating expenses for the internal service funds include administrative expenses and employee benefits.

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

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

**1. Deposits and Investments**

For purposes of the statement of cash flows, cash consists of cash on deposit with the county trustee.

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

The county trustee maintains a cash and internal investment pool that is used by all funds and the discretely presented Sumner County School Department. Each fund's portion of this pool is displayed on the balance sheets or statements of net assets as Equity in Pooled Cash and Investments. Most income from these pooled investments is assigned to the General and General Debt Service Funds. In addition, investments are held separately by the General Debt Service Fund. Sumner County and the Sumner 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. The Sumner County trustee had pooled investments consisting of funds in the State Treasurer's Investment Pool. The General Debt Service Fund had nonpooled investments consisting of funds in government sponsored securities. The net change in fair value of the government sponsored securities is not considered material to the financial statements of this report, and therefore, has been reported at cost rather than 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 property taxes receivable are shown with an allowance for uncollectibles. The allowance for uncollectible property taxes is equal to one 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.

Most payables are disaggregated on the face of the financial statements. Claims and judgments payable totaling \$5,593,199 are discussed in Note V.A. Risk Management.

Retainage payable in the primary government's nonmajor governmental funds 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 in the nonmajor governmental funds.

### **3. Capital Assets**

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

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$7,500 or more and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

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

**4. Compensated Absences**

It is the county's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since Sumner County does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements for the county and the discretely presented School Department. A liability for vacation pay is reported in governmental funds only if amounts have matured, for example, as a result of employee resignations and retirements.

**5. Long-term Obligations**

In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt using the straight-line method. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

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

**6. Net Assets and Fund Equity**

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

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

As of June 30, 2006, Sumner County had \$100,000,000 in outstanding debt for capital purposes for the discretely presented Sumner County School Department. This debt is a liability of Sumner County, but the capital assets acquired are reported in the financial statements of the Sumner County School Department. Therefore, Sumner County has incurred a liability significantly decreasing its unrestricted net assets with no corresponding increase in the county's capital assets.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The following table reflects designations on June 30, 2006:

Fund/Purpose	Amount
General:	
Archives	\$ 27,691
Codes Construction Fees	29,150
Gallatin Library	46,173
GIS Enterprise	2,766
Hendersonville Library	27,191
Hospital Proceeds	10,000,000
Portland Library	25,144
Westmoreland Library	1,116
Drug Control:	
Confiscated Funds Held for Disposition	17,400
General Purpose School:	
Duke Estate	108,648
E-Rate	2,062
Insurance Recovery	935,209
Vehicle Replacement	6,114

**7. Prior-period Adjustments**

On the statement of activities, the primary government's financial statements were restated (\$2,938,361) due to reporting errors in the prior audit period and a change in the method of reporting capital assets.

On the statement of activities, the discretely presented Sumner County School Department's financial statements were restated (\$4,718,027) due to excluding school activity funds in the current year, reporting errors in the prior audit period, and a change in the method of reporting capital assets.

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

Primary Government

Exhibit C-2 includes explanations of the nature of individual elements of items required to reconcile the balance sheet of governmental funds with the government-wide statement of net assets.

Discretely Presented Sumner County School Department

Exhibit K-3 includes explanations of the nature of individual elements of items required to reconcile the balance sheet of governmental funds with the government-wide statement of net assets.

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

Primary Government

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

Discretely Presented Sumner County School Department

Exhibit K-5 includes explanations of the nature of individual elements of items required to reconcile the net change in fund balances – total governmental funds with the change in net assets of governmental activities reported in the government-wide statement of activities.

**III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all governmental funds except the Constitutional Officers – Fees Fund (special revenue fund) which is not budgeted, and the capital projects fund, which adopts a project length budget. 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. Expenditures Exceeded Appropriations**

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

<u>Fund/Major Category</u>	<u>Amount Overpsent</u>
General Fund:	
Election Commission	\$ 220,922
County Buildings	42,951
Civil Defense	15,400
Ambulance/Emergency Medical Services	76,414
Highway/Public Works Fund:	
Other Charges	2,770
General Purpose School Fund:	
Vocational Education Program	12,815
Adult Programs	9,166
Board of Education	146,698
School Federal Projects Fund:	
Support Services:	
Transportation	2,770

Such overexpenditures are a violation of state statute. These overexpenditures were funded by available fund balances.

**C. Adequate Facilities Tax Collections**

In prior years, the county adopted the Sumner County Adequate Facilities Tax, Chapter 57, Private Acts of 1999. This act provides for a tax on new residential and industrial development in the county payable at the time of issuance of a building permit. If the building permit is issued by the county, the county building inspector collects the tax. If the building permit is issued by one of the incorporated cities of Sumner County, the city shall, before the issuance of the building permit, require evidence by a valid certificate executed by the county building inspector that the full amount of the tax due the county has been paid. The cities of Hendersonville, Portland, White House, and Goodlettsville collect the county's tax and forward the collections to the county in accordance with the provisions of the private act. However, the City of Gallatin does not collect the tax for the county. County officials estimate that \$170,000 was not collected for industrial development in the

City of Gallatin. Discussions with the City of Gallatin are ongoing to address this issue.

**D. Cash Shortage and Theft**

The discretely presented School Department had a cash shortage of at least \$7,121.85 at the Hendersonville High School cafeteria. The district attorney general requested an investigation by the Tennessee Bureau of Investigation.

The Trustee's Office was burglarized in January 2006, and \$21,803 was reported stolen.

Details of this cash shortage and theft are discussed in the Schedule of Findings and Questioned Costs section of this report.

**IV. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

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

**Deposits**

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

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

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

**Investments**

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

**Investment Balances.** As of June 30, 2006, Sumner County had the following investments carried at fair value or cost. Except for the investment in U.S. Treasury Notes, all investments are in the county trustee’s investment pool. Separate disclosures concerning pooled investments cannot be made for Sumner County and the discretely presented Sumner County School Department since both pool their deposits and investments through the county trustee.

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value or Cost</u>
Pooled:		
State Treasurer's Investment Pool	Daily	<u>\$ 11,344,329</u>
Nonpooled:		
Primary Government:		
General Debt Service Fund:		
U.S. Treasury Notes	Various	<u>\$ 8,393,392</u>

**Interest Rate Risk.** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. State statutes limit the maturities of certain investments as previously disclosed. Sumner 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. Sumner County has no investment policy that would further limit its investment choices. As of June 30, 2006, Sumner County's investment in the State of Treasurer's Investment Pool was unrated.

**B. Notes Receivable**

Notes receivable in the General and General Debt Service Funds resulted from financing projects for various not-for-profit organizations. The amount of the notes that is not expected to be collected within one year is \$501,113.

**C. Capital Assets**

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

**Primary Government**

**Governmental Activities:**

	Balance 7-1-05	Prior Period Adjustment	Increases	Decreases	Balance 6-30-06
Capital Assets Not Depreciated:					
Land	\$ 1,934,915	\$ 0	\$ 0	\$ 0	\$ 1,934,915
Total Capital Assets Not Depreciated	\$ 1,934,915	\$ 0	\$ 0	\$ 0	\$ 1,934,915
Capital Assets Depreciated:					
Buildings and Land Improvements	\$ 36,874,182	\$ 15,280	\$ 127,871	\$ 0	\$ 37,017,333
Roads and Bridges	187,445,528	(133,396,139)	2,914,601	(844,948)	56,119,042
Other Capital Assets	10,286,243	53,411	1,546,929	(721,482)	11,165,101
Total Capital Assets Depreciated	\$ 234,605,953	\$ (133,327,448)	\$ 4,589,401	\$ (1,566,430)	\$ 104,301,476
Less Accumulated Depreciation For:					
Buildings and Improvements	\$ 6,994,529	\$ 83,585	\$ 1,454,332	\$ 0	\$ 8,532,446
Roads and Bridges	152,363,123	(130,438,140)	2,622,626	(827,844)	23,719,765
Other Capital Assets	6,447,587	(1,539,172)	1,001,219	(721,482)	5,188,152
Total Accumulated Depreciation	\$ 165,805,239	\$ (131,893,727)	\$ 5,078,177	\$ (1,549,326)	\$ 37,440,363
Total Capital Assets Depreciated, Net	\$ 68,800,714	\$ (1,433,721)	\$ (488,776)	\$ (17,104)	\$ 66,861,113
Governmental Activities Capital Assets, Net	\$ 70,735,629	\$ (1,433,721)	\$ (488,776)	\$ (17,104)	\$ 68,796,028

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

Governmental Activities:

General Government	\$ 1,383,915
Finance	13,411
Administration of Justice	1,704
Public Safety	439,890
Public Health and Welfare	179,598
Social, Cultural, and Recreational Services	39,655
Highways/Public Works	<u>3,020,004</u>
 Total Depreciation Expense - Governmental Activities	 <u><u>\$ 5,078,177</u></u>

Discretely Presented Sumner County School Department

Governmental Activities:

	Balance 7-1-05	Prior Period Adjustment	Increases	Decreases	Balance 6-30-06
Capital Assets Not Depreciated:					
Land	\$ 6,579,476	\$ 0	\$ 0	\$ 0	\$ 6,579,476
Construction in Progress	<u>3,273,432</u>	<u>113,723</u>	<u>3,561,897</u>	<u>(6,498,264)</u>	<u>450,788</u>
Total Capital Assets Not Depreciated	<u>\$ 9,852,908</u>	<u>\$ 113,723</u>	<u>\$ 3,561,897</u>	<u>\$ (6,498,264)</u>	<u>\$ 7,030,264</u>
Capital Assets Depreciated:					
Buildings and Improvements	\$ 249,209,610	\$ 777,656	\$ 6,498,264	\$ 0	\$ 256,485,530
Other Capital Assets	<u>12,370,500</u>	<u>3,962,519</u>	<u>752,634</u>	<u>(432,883)</u>	<u>16,652,770</u>
Total Capital Assets Depreciated	<u>\$ 261,580,110</u>	<u>\$ 4,740,175</u>	<u>\$ 7,250,898</u>	<u>\$ (432,883)</u>	<u>\$ 273,138,300</u>
Less Accumulated Depreciated For:					
Buildings and Improvements	\$ 90,093,737	\$ 0	\$ 6,395,832	\$ 0	\$ 96,489,569
Other Capital Assets	<u>6,828,591</u>	<u>0</u>	<u>4,329,332</u>	<u>(369,121)</u>	<u>10,788,802</u>
Total Accumulated Depreciation	<u>\$ 96,922,328</u>	<u>\$ 0</u>	<u>\$ 10,725,164</u>	<u>\$ (369,121)</u>	<u>\$ 107,278,371</u>
Total Capital Assets Depreciated, Net	<u>\$ 164,657,782</u>	<u>\$ 4,740,175</u>	<u>\$ (3,474,266)</u>	<u>\$ (63,762)</u>	<u>\$ 165,859,929</u>
Governmental Activities Capital Assets, Net	<u>\$ 174,510,690</u>	<u>\$ 4,853,898</u>	<u>\$ 87,631</u>	<u>\$ (6,562,026)</u>	<u>\$ 172,890,193</u>

Depreciation expense was charged to functions of the discretely presented Sumner County School Department as follows:

Governmental Activities:

Support Services	\$ 10,697,047
Operation of Non-Instructional Services	<u>28,117</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 10,725,164</u></u>

**D. Construction Commitments**

At June 30, 2006, the General Capital Projects Fund had uncompleted construction contracts of approximately \$980,720 for the renovation of county and school buildings. Funding has been received for these future expenditures.

**E. 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	Nonmajor governmental	\$ 381,465

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

**Interfund Transfers:**

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

**Primary Government**

<u>Transfers Out</u>	<u>Transfers In</u>		
	General Fund	Nonmajor Governmental Funds	Internal Service Funds
General Debt Service Fund	\$ 0	\$ 2,413,825	\$ 0
Internal Service Funds	<u>177,021</u>	<u>0</u>	<u>201,087</u>
Total	<u><u>\$ 177,021</u></u>	<u><u>\$ 2,413,825</u></u>	<u><u>\$ 201,087</u></u>

**Discretely Presented Sumner County School Department**

	<u>Transfers In</u>
	General
	Purpose
	School
	<u>Fund</u>
<u>Transfers Out</u>	
Nonmajor governmental fund	\$ 18,419

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

**F. Long-term Debt**

General Obligation Notes and Other Loans

The county issues 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.

Capital outlay notes and other loans are direct obligations and pledge the full faith and credit of the government. Capital outlay notes and other loans outstanding were issued for original terms of up to six years for notes, and up to eight years for other loans. Repayment terms are generally structured with principal maturing at the end of the term of the debt. All notes and other loans included in long-term debt as of June 30, 2006, will be retired from the General Debt Service Fund.

Capital outlay notes 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>
Capital Outlay Notes	variable %	\$ 119,500,000	\$ 112,000,000

In prior years, Sumner County entered into capital outlay note agreements with SunTrust Bank. The notes are repayable at an interest rate that is a tax-exempt variable rate determined by the remarketing agent daily or weekly, depending on the particular program. In addition, the county pays various other fees (letter of credit and debt remarketing) in connection with these notes. At June 30, 2006, the variable interest rate was 3.97 percent, and other fees amounted to approximately .125 percent (letter of credit) and .25 percent (remarketing) of outstanding balances.

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

Year Ending June 30	Notes (\$35,000,000)			Total
	Principal	Interest	Other Fees	
2007	\$ 35,000,000	\$ 1,389,500	\$ 125,962	\$ 36,515,462
Total	\$ 35,000,000	\$ 1,389,500	\$ 125,962	\$ 36,515,462

Year Ending June 30	Notes (\$30,000,000)			Total
	Principal	Interest	Other Fees	
2007	\$ 0	\$ 1,191,000	\$ 107,968	\$ 1,298,968
2008	30,000,000	1,191,000	107,968	31,298,968
Total	\$ 30,000,000	\$ 2,382,000	\$ 215,936	\$ 32,597,936

Year Ending June 30	Notes (\$10,500,000)			Total
	Principal	Interest	Other Fees	
2007	\$ 0	\$ 119,100	\$ 12,318	\$ 131,418
2008	3,000,000	119,100	12,318	3,131,418
Total	\$ 3,000,000	\$ 238,200	\$ 24,635	\$ 3,262,835

Year Ending June 30	Notes (\$9,000,000)			Total
	Principal	Interest	Other Fees	
2007	\$ 0	\$ 357,300	\$ 36,953	\$ 394,253
2008	0	357,300	36,953	394,253
2009	9,000,000	357,300	36,953	9,394,253
Total	\$ 9,000,000	\$ 1,071,900	\$ 110,858	\$ 10,182,758

Year Ending June 30	Notes (\$20,000,000)			Total
	Principal	Interest	Other Fees	
2007	\$ 0	\$ 794,000	\$ 71,979	\$ 865,979
2008	0	794,000	71,979	865,979
2009	20,000,000	794,000	71,979	20,865,979
Total	\$ 20,000,000	\$ 2,382,000	\$ 215,936	\$ 22,597,936

Year Ending June 30	Notes (\$15,000,000)			Total
	Principal	Interest	Other Fees	
2007	\$ 15,000,000	\$ 595,500	\$ 53,244	\$ 15,648,744
Total	\$ 15,000,000	\$ 595,500	\$ 53,244	\$ 15,648,744

There is \$23,941,424 available in the General Debt Service Fund to service long-term debt. Debt per capita totaled \$859, based on the 2000 federal census.

As a means to manage its borrowing costs and cash flow requirements, and reduce the risk associated with debt interest rate fluctuations, the county entered into a protected interest rate transaction (rate collar) in January 2001. The rate collar agreement had an original notional amount of \$50 million and extended through June 1, 2006. In addition, the county entered into a protected interest rate transaction (rate collar) in July 2001 that extends through June 1, 2010, for \$35 million (original notional amount) of its variable rate school capital outlay notes. Based on the transaction agreements, the county owes interest to the counterparty (a bank) based on a variable rate that matches the rate required by the notes provided the rate falls between an established ceiling of 6.5 percent and floor of 3.14 percent. In return, the counterparty owes the county interest based on a variable rate that matches the rate required by the notes. Only the net difference in interest payments is actually exchanged with the counterparty.

The county continues to pay interest to the note holders at the variable rate provided by the notes. However, during the term of the rate collar agreement, the county will pay an effective rate that is not less than the floor and not more than the ceiling established in the agreement. The debt service requirements for these notes as presented above are based on a rate of 3.97 percent at June 30, 2006. The county will be exposed to variable rates in excess of the ceiling as defined in the agreement if the counterparty defaults or the agreement is terminated.

Because interest rates have declined since execution of the transactions, the transactions had a net negative fair value of \$69,391 as of June 30, 2006. The transaction's negative fair value may be countered by reductions in total interest payments required under the variable rate notes, creating a lower synthetic variable interest rate.

#### Changes in Long-term Liabilities

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

Governmental Activities:	Notes	Other Loans
Balance, July 1, 2005	\$ 118,000,000	\$ 11,000,000
Deductions	(6,000,000)	(11,000,000)
Balance, June 30, 2006	\$ 112,000,000	\$ 0
Balance Due Within One Year	\$ 50,000,000	\$ 0
	Compensated Absences	Claims and Judgments
Balance, July 1, 2005	\$ 458,138	\$ 6,310,687
Additions	797,884	13,606,663
Deductions	(718,723)	(14,324,151)
Balance, June 30, 2006	\$ 537,299	\$ 5,593,199
Balance Due Within One Year	\$ 537,299	\$ 5,593,199

The internal service funds primarily serve the governmental funds. Accordingly, long-term liabilities for the internal service fund are included as part of the above totals for governmental activities. At year end, \$5,593,199 of claims and judgments is included in the above amounts. Compensated absences payable will be paid from the employing funds, primarily the General Fund and the Highway/Public Works Fund.

#### Discretely Presented Sumner County School Department

##### Changes in Long-term Liabilities

Long-term liability activity for the discretely presented Sumner County School Department for the year ended June 30, 2006, was as follows:

	Compensated Absences
Balance, July 1, 2005	\$ 1,328,301
Additions	101,614
Deductions	(39,805)
Balance, June 30, 2006	\$ 1,390,110
Balance Due Within One Year	\$ 959,177

Compensated absences will be paid from the employing funds.

**G. Internal Financing**

In-lieu-of issuing debt with financial institutions, Sumner County often chooses to internally finance various projects with idle county funds. These debt issues that will be repaid from the same fund in which the loan was obtained are reflected as operating transfers (not notes receivable) in the financial statements of this report. Internally reported notes receivable from idle funds loaned from the General Debt Service Fund that will subsequently be paid by the General Debt Service Fund are reflected below:

Internally Reported Interfund Notes Receivable/Payable  
Through the General Debt Service Fund

	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date
School Roofing	\$ 1,100,000	4 %	1-19-06	2-22-06
School Buses	500,000	4	1-19-06	2-22-06
County Building	813,825	4	1-19-06	2-22-06
	Outstanding 7-1-05	Issued During Period	Paid and/or Matured During Period	Outstanding 6-30-06
School Roofing	\$ 0	\$ 1,100,000	\$ 1,100,000	\$ 0
School Buses	0	500,000	500,000	0
County Building	0	813,825	813,825	0
Total	\$ 0	\$ 2,413,825	\$ 2,413,825	\$ 0

**V. OTHER INFORMATION**

**A. Risk Management**

During the fiscal year, the county consolidated activities of the Employee Insurance - Health and the Employee Insurance - Dental Funds with the Self-Insurance Fund. The county has chosen to establish the Self-Insurance Fund for risks associated with the employees' health and dental insurance plans, workers' compensation, and liability claims. The Self-Insurance Fund is accounted for as an internal service fund where assets are set aside for claim settlements. The county retains the risk of loss to a limit of \$150,000 per single medical claim. Eighty percent of amounts in excess of this limit is covered by an excess loss policy to a maximum of \$1,000,000 per specific claim. The county retains the risk of loss to a limit of \$250,000 maximum tort liability, plus property damage. Claims in excess of this limit are covered by an insurance policy up to a limit of \$1,000,000 per specific claim.

All full-time employees of the primary government and certain non-classified employees of the discretely presented Sumner County School Department are eligible to participate in the employee health and dental insurance. All employees of the primary government and the discretely presented School Department are covered under the workers' compensation and liability coverage. A premium charge is allocated to each fund that accounts for full-time employees. This charge is based on actuarial estimates of the amounts needed to pay prior- and current-year claims. Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The Self-Insurance Fund establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Claims liabilities include specific, incremental claim adjustment expenditure/expenses, if any. In addition, estimated revenues, if any, on settled claims have been deducted from the liability for unpaid claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Changes in the balance of claims liabilities during the past two fiscal years are as follows:

Self-Insurance Fund

	Beginning of Fiscal Year Liability	Current-year Claims and Estimates	Payments	Balance at Fiscal Year-end
2004-2005	\$ 4,734,271	\$ 356,656	\$ (1,121,656)	\$ 3,969,271
2005-2006	3,969,271	13,606,663	(11,982,735)	5,593,199

Employee Insurance - Dental Fund

	Beginning of Fiscal Year Liability	Current-year Claims and Estimates	Payments	Balance at Fiscal Year-end
2004-2005	\$ 88,478	\$ 652,249	\$ (633,562)	\$ 107,165
2005-2006	107,165	0	(107,165)	0

Employee Insurance - Health Fund

	Beginning of Fiscal Year Liability	Current-year Claims and Estimates	Payments	Balance at Fiscal Year-end
2004-2005	\$ 1,466,121	\$ 11,297,358	\$ (10,529,228)	\$ 2,234,251
2005-2006	2,234,251	0	(2,234,251)	0

## B. Accounting Changes

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

Also, for the year ended June 30, 2006, Sumner County adopted the provisions of GASB Statement No. 47, Accounting for Termination Benefits. 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 discretely presented School Department offered termination benefits to employees as of June 30, 2006, as described in Note V.

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 Sumner 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 Sumner 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. Sumner County had no net assets restricted by enabling legislation to disclose as of June 30, 2006. But it is reasonably expected that Sumner County will be required to disclose net assets restricted by enabling legislation in subsequent years.

**C. Subsequent Events**

On August 31, 2006, J.D. Vandercook left the Office of Sheriff and was succeeded by Bob Barker, and Betty Gregory left the Office of Trustee and was succeeded by Marty Nelson.

On October 18, 2006, Sumner County issued \$17,000,000 in capital outlay notes for school construction and renovations.

On January 3, 2007, Sumner County issued internally financed notes totaling \$5,420,825 for library construction and building renovations.

On February 19, 2007, Sumner County authorized the issuance of general obligation refunding bonds totaling \$96,000,000.

**D. Contingent Liabilities**

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

**E. Changes in Administration**

Dennis Petty, director of finance, left office January 23, 2006. Cheryl Thompson was appointed interim director from January 23, 2006, through April 30, 2006. Rachel Nichols was appointed director of finance effective May 1, 2006.

**F. Joint Venture**

The Eighteenth Judicial District Drug Task Force (DTF) is a joint venture formed by an interlocal agreement between the district attorney general of the Eighteenth Judicial District and Sumner County, and various cities within the county. The purpose of the DTF is to provide multi-jurisdictional law enforcement to promote the investigation and prosecution of drug-related activities. Funds for the operations of the DTF come primarily from federal grants, drug fines, and the forfeiture of drug-related assets to the DTF. The DTF is overseen by the district attorney general and is governed by a board of directors including the district attorney general, sheriff, and police chiefs of participating law enforcement agencies within each judicial district.

Sumner County does not have an equity interest in the above-noted joint venture. Complete financial statements for the DTF can be obtained from its administrative office at the following address:

Administrative Office:

Office of District Attorney General  
Eighteenth Judicial District Drug Task Force  
Cordell Hull Building – Third Floor  
113 West Main Street  
Gallatin, Tennessee 37066

**G. Retirement Commitments**

**Plan Description**

Employees of Sumner 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 Sumner County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

## Funding Policy

Sumner County has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to five percent of annual covered payroll. The county is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2006, was 11.61 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Sumner County is established and may be amended by the TCRS Board of Trustees.

## Annual Pension Cost

For the year ended June 30, 2006, Sumner County's annual pension cost of \$4,470,799 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. Sumner County's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2005, was ten years. An actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 2006.

## Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6-30-06	\$4,470,799	100%	\$0
6-30-05	4,144,553	100	0
6-30-04	3,282,659	100	0

**Schedule of Funding Progress**

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/c)
6-30-05	\$68,622	\$71,843	\$3,221	95.52%	\$35,668	9.03%
6-30-03	58,470	62,101	3,631	94.15	30,688	11.83
6-30-01	50,061	54,159	4,098	92.43	26,726	15.33

**SCHOOL TEACHERS**

**Plan Description**

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

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

## **Funding Policy**

Most teachers are required by state statute to contribute five percent of their salaries to the plan. The employer contribution rate for the Sumner County 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 Sumner County School Department is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ended June 30, 2006, 2005, and 2004, were \$4,363,560, \$4,186,811, and \$2,394,862, respectively, equal to the required contributions for each year.

### **H. Other Post-employment Benefits**

#### **Primary Government**

In addition to the retirement commitments described above, Sumner County provides post-retirement health care benefits to all employees who retire from the county on or after age 60 with at least 20 years of service or who retire after 30 years of service and have been eligible for coverage under the county group medical plan for a continuous five-year period immediately prior to retirement. The county pays 75 percent of medical premiums for retirees. Currently, three county retirees meet those eligibility requirements.

#### **Discretely Presented Sumner County School Department**

In addition to the retirement commitments described above, the discretely presented School Department provides post-retirement health care benefits, in accordance with contract provisions, to all employees who have been employed by the School Department for ten years and who retire from the county on or after age 60 with at least 20 years of verified Tennessee Consolidated Retirement Service (TCRS) or have 30 years (regardless of age) of verified TCRS. The School Department pays 70 percent of medical premiums for retirees who had insurance coverage during the last three years of employment. Retirees receive one-year of coverage for every three years worked at the School Department with a maximum coverage of ten years or until eligible for Medicare, whichever comes first. Also, the School department provides term life insurance of \$35,000 until the retiree reaches age 70. Currently, 20 school retirees meet those eligibility requirements.

Also, the discretely presented Sumner County School Department, at the Board of Education's discretion, provides post-retirement health care benefits, in accordance with contract provisions, to all employees who have been employed by the School Department for ten years and who retire from the county on or after age 57 with at least 20 years of verified Tennessee Consolidated Retirement Service (TCRS) or have 30 years (regardless of age) of verified TCRS. The School Department pays 100 percent of the least costly medical premiums available to retirees who had insurance coverage during the last three years of employment until they are eligible for Medicare.

Thereafter to age 70, the retiree will be reimbursed up to \$800 per year for a Medicare supplement policy. Also, the School Department provides term life insurance of \$35,000 until the retiree reaches age 70. Currently, 194 school retirees meet those eligibility requirements.

**I. Termination Benefits**

Discretely Presented Sumner County School Department

The discretely presented School Department offers an ongoing voluntary early retirement incentive. Eligible employees are those who have been employed by the School Department for ten years and have 30 years of verified Tennessee Consolidated Retirement Service or have reached 60 years of age with a minimum of 20 years of service. A cash bonus of \$10 per day up to 100 days, \$20 per day from 101 to 200 days, and \$30 per day for any above 200 days, will be paid for each unused accumulated sick day. Also, retirees who have 35 or more years of service will receive a cash bonus of \$2,000 for 35 to 39 years, \$4,000 for 40 to 44 years, and \$6,000 for 45 or more years. During the year, 34 employees accepted this agreement at a cost of \$52,795.

**J. Office of Finance Director**

Sumner County operates under Chapter 113, Private Acts of 2002, as amended, which provides for a system of central accounting, budgeting, and purchasing covering all funds of the county. This act provides for the creation of a Finance Department operated under the direction of the finance director. Effective June 17, 2002, the County Commission authorized the Highway Department to perform purchasing functions as provided by Section 54-7-113, Tennessee Code Annotated (TCA), and authorized the School Department to perform payroll, accounts payable, purchases, budgets, and ledgers for the School Department.

**K. Purchasing Laws**

Office of Finance Director

Chapter 113, Private Acts of 2002, as amended, governs purchasing procedures for the general county government. This act does not provide for a dollar amount requiring advertisement and competitive bidding, and the financial management committee has not formally adopted a dollar amount. Public advertising provisions for the general government fall under the provisions of the County Purchasing Law of 1983, Sections 5-14-201 through 5-14-206, Tennessee Code Annotated, which provide that general government purchases in excess of \$5,000 are to be made after public advertisement and competitive bidding.

Office of Superintendent of Roads

Section 54-7-113, Tennessee Code Annotated (Uniform Road Law), governs purchasing procedures for the Highway Department. This statute requires all purchases exceeding \$10,000 to be made on the basis of publicly advertised competitive bids.

Office of Director of Schools

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

**VI. OTHER NOTES – DISCRETELY PRESENTED RESOURCE AUTHORITY IN SUMNER COUNTY, TENNESSEE**

**A. Summary of Significant Accounting Policies**

The Resource Authority in Sumner County, Tennessee, is a public and governmental body acting as an instrumentality and agency of Sumner County and the Cities of Gallatin and Hendersonville, organized in 1979 under Chapter No. 157 of the Tennessee Private Acts of 1979, as amended.

Up until May 2005, the authority operated a solid waste disposal and resource recovery facility, which incinerated and disposed of solid waste primarily from the county and the cities, produced steam for distribution to industrial customers, and generated electricity for internal plant consumption. The authority also operated a construction/demolition debris landfill and an ash monofill, both of which ceased operations in fiscal year 2006. The authority began operations of a recycling facility during fiscal year 1992. In May 2005, the authority began operating primarily as a transfer station for solid waste within the county.

The accounting policies of the authority conform to generally accepted accounting principles applicable to governmental units. The authority complies with generally accepted accounting principles and applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. In addition, the authority applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The authority has elected not to follow FASB pronouncements issued since that date.

**Financial Reporting Entity** – The authority complies with GASB Statement No. 14, The Financial Reporting Entity. This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The authority considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the authority's financial statements.

**Basis of Presentation** – The authority is accounted for as an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

**Measurement Focus and Basis of Accounting** – Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

The proprietary funds utilize an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when a liability is incurred or an economic asset used.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the authority's enterprise funds are charges to customers for sales and service. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Cash and Cash Equivalents** – For purposes of the statement of cash flows, the authority considers all highly liquid investments, including restricted assets, with a maturity of three months or less when purchased to be cash equivalents. At June 30, 2006, all the authority's cash was deposited in an

institution which is a member of the Local Government Collateral Pool. The Tennessee Bank Collateral Pool is a multiple financial institution collateral pool where member financial institutions holding public funds pledge collateral to a common pool. If any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. The pool also has the ability to make additional assessments on a pro rata basis to the members of the pool if the value of the pool's collateral is inadequate to cover a loss. As a result, the pool is similar to depository insurance.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the authority's deposits may not be returned or the authority will not be able to recover collateral securities in the possession of an outside party. The authority's policy requires deposits to be 105 percent secured by collateral, less the amount of Federal Deposit Insurance Corporation insurance (FDIC) or deposited in an institution which participates in the State Collateral Pool. Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health and service. Collateral agreements must be approved prior to deposit of funds as provided by law. The authority approves and designates a list of authorized depository institutions based on evaluation of solicited responses and certifications provided by financial institutions and recommendations of authority staff.

At June 30, 2006, there were no deposits exposed to custodial risk.

**Materials and Supplies** – Spare parts and supplies are stated at cost.

**Property, Plant, and Equipment** – Property, plant, and equipment are recorded at cost. The capitalization threshold for utility plant is \$500. Depreciation is computed by the straight-line method based on the estimated useful lives of related asset classifications. The authority's policy is to take a full year of depreciation in the year of acquisition. Buildings, structures, and improvements are depreciated over 20 to 30 years and equipment is depreciated over three to ten years.

**Unamortized Bond Costs** – In connection with the issuance of the bonds, the authority incurred legal and other expenses. These expenses have been capitalized and reported as noncurrent assets and are being amortized over the life of the bonds. Amortization expense was \$6,804 for 2006.

**Compensated Absences** – The authority provides for paid vacations and sick leave for its employees. Accrued vacation costs are included in accrued expenses. However, accrued sick leave has not been recognized since the authority does not compensate employees for unused benefits at termination or retirement.

**Equity Classification** – Equity is classified as net assets and displayed, if applicable, in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation, and unamortized landfill costs reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints. The authority has no restricted net assets.
- c. Unrestricted net assets – All other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

**Use of Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from these estimates.

**B. Capital Assets**

The following is a summary of capital assets:

	Balance 7-1-05	Additions	Retirements	Balance 6-30-06
Non Depreciable Capital Assets:				
Land	\$ 282,491	\$ 0	\$ 0	282,491
Depreciable Assets:				
Disposal Plant	68,480	0	0	68,480
Landfill Construction	27,677	0	27,677	0
Recycling Plant	4,711,206	0	0	4,711,206
Equipment	1,929,746	505	797,133	1,133,118
<b>Total Assets</b>	<b>\$ 6,737,109</b>	<b>\$ 505</b>	<b>\$ 824,810</b>	<b>\$ 5,912,804</b>
Less Accumulated Depreciation:				
Disposal Plant	\$ 3,424	\$ 3,424	\$ 0	6,848
Landfill Construction	27,677	0	27,677	0
Recycling Plant	2,094,930	157,040	0	2,251,970
Equipment	1,718,311	66,954	765,827	1,019,438
<b>Total Accumulated Depreciation</b>	<b>\$ 3,844,342</b>	<b>\$ 227,418</b>	<b>\$ 793,504</b>	<b>\$ 3,278,256</b>
<b>Total Capital Assets</b>				
Depreciated, Net	<b>\$ 2,892,767</b>	<b>\$ (226,913)</b>	<b>\$ 31,306</b>	<b>\$ 2,634,548</b>

Depreciation expense for 2006 was \$227,418.

**C. Bonds Payable**

At June 30, 2006, all bonds had been repaid by the authority. During fiscal year 2006, bonds totaling \$1,180,000 were paid.

**D. Landfill Closure and Postclosure Costs**

The authority operated three landfills. Operation, closure, and post-closure care of these landfills are highly regulated (Federal regulations 42 USC 6907 (a) (3) and 6949 (c) and USC 1345 (d) and (e), and Tennessee Rule 1200-1-76.03 (2)).

The authority accounts for the landfills under the provisions of GASB Statement No. 18. This statement requires the current recognition of future closure and postclosure costs based on landfill capacity used to date. These cost estimates require revision for future changes in the closure and postclosure plan or operating conditions (including changes in technology or applicable laws or regulations); these revisions are recognized currently as such conditions occur. The following estimates were made by the authority's independent engineer.

Estimates of future closure and postclosure care costs are summarized as follows:

Closure	\$ 285,630
Postclosure	<u>1,727,860</u>
Total	<u><u>\$ 2,013,490</u></u>

The Capps Gap Landfill is closed and is ten years into postclosure monitoring. The Oak Grove Landfill and Ash Monofill's Cells I, II, and III were officially closed in 2006. Postclosure monitoring on the landfills begins in 2007. All authority landfills are closed.

The authority, along with Sumner County and the cities of Gallatin and Hendersonville, has a Contract in-Lieu-of Performance Bond with the state for financial assurance of the closure and postclosure costs. The authority is potentially responsible for environmental clean-up costs associated with its landfill operations. However, management anticipates any future clean-up cost would be assessed to, and paid by, the party responsible for generating the hazardous materials. During the fiscal year, the state made changes in the calculation of the bond which also resulted in changes in the estimates by the engineer for postclosure costs.

**E. Municipal and County Agreements**

Agreements between the authority and the cities of Gallatin and Hendersonville and Sumner County provide that when future (cumulative) profits are available from the operation of the authority, payments by the cities and the county in-lieu-of tipping fees and other revenues will be returned. During fiscal year 2006, the cities of Gallatin and Hendersonville paid \$473,472 in tipping fees. Sumner County ceased paying in-lieu-of tipping fees that had been \$324,000 per year in prior years. Also, the City of Hendersonville ceased taking waste to the authority during 2006, and tipping fees amounted to \$72,271.

The agreements further provide that in the event the authority's revenues are insufficient to cover the cost of the project, the county and the cities agree to pay such deficit in the proportions of 3/7, 2/7, and 2/7, respectively. During fiscal year 2006, the authority was paid \$1,780,975 for deficit funding. Since the city of Hendersonville is no longer bringing waste to the authority, it has not been finalized as to whether this agreement will continue.

**F. Pension Plan**

The authority contributes a percentage of employees' salaries to a defined contribution retirement program. These funds are invested with ING Life Insurance and Annuity Company. Employees have several investment options. Employees must be full-time and employed for 90 days to be eligible. The percentage of contribution is based on the following:

<u>If Employees Contribute</u>	<u>The Authority Contributes</u>
0% of salary	2% of salary
1% of salary	3% of salary
2% of salary	4% of salary
3% of salary	5% of salary

The authority's total payroll was \$605,201 for 2006. Employees who are covered and participating under the pension plan were paid \$475,488 for 2006. The resource authority contributed 3.9 percent (\$18,544) of covered and participating salaries for 2006.

**G. Tipping Fees**

A major portion of the authority's revenue is from tipping fees. A significant portion of tipping fees are from commercial haulers who are required under waste control laws to dump waste collected within Sumner County at the authority. Recent court decisions have supported the enforcement of this law, and two major commercial haulers have begun delivering all of Sumner County's commercial waste to the resource authority due to management's

enforcement of this law. Congress is currently attempting to draft another law similar to the above-mentioned law. To date, congressional lawmaking efforts have not been successful.

**H. Risk of Loss**

The authority is exposed to the normal business and environmental risks related to the operations of a waste-to-energy plant, a recycling plant, a construction/demolition debris landfill, and an ash monofill. The authority is a member of the Tennessee Municipal Risk Management Self-Insurance Program for workers' compensation and general liability coverage. The authority has obtained coverage from commercial insurance carriers for casualty and property coverage. These insurance coverages minimize the loss from risks to which the authority is exposed. There were no significant reductions in insurance coverage and settled claims resulting from these risks, and claims have not significantly exceeded insurance coverage in any of the past three fiscal years.

**I. Contingency**

In May 2005, the authority ceased waste to energy operations and began operating as a transfer station. The authority entered into a contract with a private waste company that provides for loading, hauling, and disposal of the solid waste. Also, in 2006, the City of Hendersonville passed legislation expressing its desire to dissolve the authority and ceased transporting its solid waste to the authority. The City of Gallatin and the county have not passed such legislation, which is necessary to affect dissolution. In fiscal year 2005, the City of Hendersonville paid approximately \$735,000 in tipping fees, while in 2006 the authority was paid \$72,271 for the disposal of its solid waste. Issues relating to these changes in operations and the extent of participation of the cities and county still exist and could result in additional costs and or liabilities. The ultimate outcome of these uncertainties cannot be presently determined and as a result, an estimate of the costs and liabilities, if any, cannot be determined.

**J. Discontinued Operations**

As mentioned in Note I, in May 2005, the authority ceased operation of the waste to energy plant, which resulted in the steam sales segment of the authority to be discontinued. During 2006, the authority leased certain facilities to a private company to provide steam sales to some of the authority's former customers. The lease provides for a ten dollar per month lease payment plus ten percent of steam sales gross profits. The lease term is month-to-month. Per the private company, no gross profits have been experienced.

**K. Subsequent Event**

Subsequent to year end, the private company leasing the waste to energy plant ceased operations and discontinued providing steam to the authority's former customers. One of the former customers had originally provided the land on which the energy plant was located. The deed to the property has a reversionary clause which states that the land could revert to them should a waste to energy plant not be operated at that location for 12 months.

**L. Special Item**

During the fiscal year 2006, the authority disposed of surplus property, which came about due to the changes in operations. The gain on the sale of these capital assets is reported as a special item on the statement of activities.

**VII. OTHER NOTES – DISCRETELY PRESENTED EMERGENCY COMMUNICATIONS DISTRICT**

**A. Summary of Accounting Policies**

The accounting and reporting policies of the Sumner County Emergency Communications District conform to generally accepted accounting principles applicable to state and local governments.

The following significant accounting policies were applied in the preparation of the accompanying financial statements:

**Reporting Entity** – The district, a component unit of Sumner County, provides emergency communications service to all fire and law enforcement departments of the county and municipalities within the county. The governing board of the district is appointed by the Sumner County Board of County Commissioners. Sumner County maintains controlling interest on the district board in that six of the nine board members must consist of: (a) – Sumner County Executive; (b) – Sumner County Clerk; and (c) – four Sumner County commissioners. The district must obtain County Commission approval before the issuance of most debt, and the County Commission has the ability to adjust the district's service charges. The district is self-supported by a telephone subscriber fee charged to the citizens of Sumner County. The district's financial statements include only the assets and operations of the district and do not include any other fund, organization, agency, or department of Sumner County.

**Measurement Focus/Basis of Accounting** – Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

District operations are accounted for on a cost of service measurement focus using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the related liabilities are incurred.

The major source of revenue is subscriber fees as discussed below:

Subscriber Fees – A monthly service charge is added to each telephone line in Sumner County. The charge is billed and collected by the telephone company and is remitted to the district after deduction of an administrative fee of one percent by BellSouth or up to three percent by smaller telephone companies operating within the county.

**Budgets and Budgetary Accounting** – The district board of directors formally approves the budget. The budget is adopted on a basis consistent with generally accepted accounting principals except that depreciation is not budgeted, and the budgeted cost of capital assets purchased and debt service are included as expenditures. Budgeted amounts lapse at the end of the fiscal year, and no unexpended balances are carried to the subsequent year.

**Encumbrances** – Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the district.

**Capital Assets and Depreciation** – Capital assets are recorded at cost. Depreciation and accumulated depreciation are also recorded. Assets are depreciated using the half-year convention, the straight-line basis, and a 5-10 year expected useful life. Capital assets acquired with a cost over \$1,000 are capitalized.

**Cash and Cash Equivalents** – Cash and cash equivalents as shown in the statement of net assets include all cash in bank accounts, cash on hand, and funds on deposit with the Tennessee Local Government Investment Pool.

**Election in Accordance with GASB 20** – FASB Statements and Interpretations issued before November 30, 1989, apply to the district unless they conflict with GASB guidance. For pronouncements issued after November 30, 1989, the district follows only GASB standards.

**Use of Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Other Significant Accounting Principles** – Other significant accounting policies are described throughout the notes section of this audit report or disclosed in the statement format.

**B. Cash Deposits and Cash Equivalents**

At year end, all cash deposits were in banks belonging to the State Collateral Pool.

**C. Accounts Receivable**

Accounts receivable consist of net amounts due from telephone companies for monthly subscriber fees collected for the district:

State of Tennessee-Wireless	\$	43,000
BellSouth Telecommunications		33,892
North Central Telephone Co-op		2,536
Momentum Telecom		236
TelCove		941
Delta Com		232
Access Integrated Networks		459
NUVOX		952
Miscellaneous Small Accounts		<u>486</u>
Total	\$	<u><u>82,734</u></u>

**D. Change in Property and Equipment**

	Balance 7-1-05	Additions	Balance 6-30-06
Capital Assests Depreciated:			
Furniture & Fixtures	\$ 1,300	\$ 0	\$ 1,300
Office Equipment	3,663	0	3,663
Communications Equipment	<u>1,608,579</u>	<u>34,990</u>	<u>1,643,569</u>
Total Capital Assets Depreciated	<u>\$ 1,613,542</u>	<u>\$ 34,990</u>	<u>\$ 1,648,532</u>
Less Accumulated Depreciation For:			
Furniture & Fixtures	\$ 366	\$ 162	\$ 528
Office Equipment	3,417	169	3,586
Communciations Equipment	<u>669,885</u>	<u>304,324</u>	<u>974,209</u>
Total Accumulated Depreciation	<u>\$ 673,668</u>	<u>\$ 304,655</u>	<u>\$ 978,323</u>
Total Capital Assets Depreciated, Net	<u>\$ 939,874</u>	<u>\$ (269,665)</u>	<u>\$ 670,209</u>

**E. Prepaid Expense**

In June 2003, the district paid a deposit of \$325,000 for leased equipment, which is reflected in the financial statements as prepaid expense. BellSouth will issue a credit for this deposit against the monthly lease payment at the rate of \$5,416.67 per month for 60 months. The remaining deposit balance at

June 30, 2006, is \$130,000. As a return on the \$325,000 deposit, BellSouth will also credit \$499.51 as a discount against the monthly lease payment for a term of 60 months.

**F. Long-term Debt**

The district entered into a capital lease agreement for equipment totaling \$1,242,076. The five-year lease will be amortized at 8.89 percent after an initial payment of \$209,317. Projected liability for the debt is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
6-30-07	\$ 223,921	\$ 32,678	\$ 256,599
6-30-08	244,659	11,940	256,599
Total	<u>\$ 468,580</u>	<u>\$ 44,618</u>	<u>\$ 513,198</u>

Changes in Long-term Debt

	<u>Balance</u>	<u>Payment</u>	<u>Balance</u>
	7-1-05		6-30-06
Capital Lease	\$ 673,520	\$ 204,940	\$ 468,580

**G. Operational Contract**

The district has contracted with S & S Communications, Inc., for all day-to-day supervision and clerical operations of the district. This contract is negotiated annually on July 1 and is reflected in these financial statements as a consultant fee of \$72,216. The district has no employees. Dispatchers located at various police, fire, or medical emergency stations process all calls by the district communication system. All dispatchers are employees of the respective emergency departments.

**H. Service Arrangement Contract**

The district has negotiated a service application with BellSouth Telecommunications for the installation and service of an Enhanced 911 Emergency Service System. BellSouth Telecommunications furnishes equipment and service sufficient to operate the system for an initial installation fee and a monthly fee based upon the number of telephone stations and access lines served by the system. Current year cost to the district for use of this equipment was \$268,357.

**I. Contingencies**

There are no contingencies that should be disclosed in these financial statements.

**J. Related Party Transactions**

There were no related party transactions that should be disclosed in these financial statements.

**K. Subsequent Events**

There were no material subsequent events that would have any effect on these financial statements.

**L. Risk Management**

The district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The district has elected to obtain various insurance policies to transfer risk to a commercial insurance company through policies written for Sumner County or the other governmental departments served by the district. Insurance settlements have not been in excess of insurance coverage in any of the prior three fiscal years.

**VIII. OTHER NOTES – DISCRETELY PRESENTED SUMNER COUNTY REGIONAL AIRPORT AUTHORITY**

**A. Organization and Reporting Entity**

The Sumner County Regional Airport Authority, a component unit of Sumner County, Tennessee, was established in 1981 in accordance with Resolution No. 1811-102 of the Sumner County Commission, pursuant to the Airport Authorities Act as set forth in the Tennessee Code Annotated, 42-3-103. The governing Board of the authority is selected by the authority as terms expire and confirmed by the Sumner County Board of County Commissioners. The authority's 11-member board consists of members who have the requisite aviation background or have a lifetime and/or an education background in the aviation field as well as members who are residents of the community. The airport administrator is hired.

The authority meets the criteria set forth in generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB) for inclusion as a component unit with the county's financial statements based on the county's responsibility for the appointment of the authority members and their approval of capital programs and certain debt issuances. As a component unit of the county, the authority's financial

statements are discretely presented in the county's financial statements. The accompanying financial statements present the financial position and the changes in net assets and cash flows of the authority only. The authority does not have any component units and is not involved in any joint ventures.

**B. Summary of Significant Accounting Policies**

**Basis of Accounting** – The financial statements of the authority are prepared in accordance with generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

In 1999, GASB issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, which is effective in three phases. The phases are based on the total annual revenues of the primary government's governmental and enterprise funds. The county has been classified as a Phase 2 government and was required to implement GASB Statement No. 34 as of July 1, 2002. A component unit is required to implement GASB Statement No. 34 no later than the same year as its primary government. In accordance with this requirement, the authority has implemented this statement as of July 1, 2002. See notes below for more detail. In accordance with the provisions of the GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the authority has elected not to apply all Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989.

The authority's activities are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, net assets, revenues, and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

**Cash, Cash Equivalents, and Investments** – For purposes of the statement of cash flows, the authority considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents. No cash equivalents were held by the authority as of June 30, 2006.

Per Tennessee statutes, bank accounts may only be established and maintained in financial institutions whose deposits are federally insured. Bank account balances (including checking and investment accounts combined) must not exceed the amount federally insured by the FDIC (\$100,000) unless the financial institution participates in the State Collateral Pool or pledges collateral for deposits in excess of the insured limits, and the collateral is maintained in accordance with state statutes. As of June 30, 2006, the authority's combined bank account balances exceeded

FDIC insured limits by \$194,232. The financial institution does not participate in the State Collateral Pool but has pledged adequate collateral to cover the excess risk.

**Receivables** – Receivables are reported at their gross value when earned and reduced by the estimated portion that is expected to be uncollectible. The allowance for uncollectible amounts is based on collection history, aviation industry trends, and current information regarding the credit worthiness of the tenants and others doing business with the authority. When continued collection activity results in receipt of amounts previously written off, revenue is recognized for the amount collected. The authority determined an allowance for uncollectible amounts was not needed as of June 30, 2006.

**Capital Assets** – Prior to GASB Statement No. 34, governments were not required to record capital assets or the corresponding depreciation expense. However, in compliance with Statement No. 34, all capital assets were recorded as of June 30, 2006.

The assets were recorded at historical cost, if available. If historical cost was not available, a current value was obtained from documentation of similar capital assets or estimates. The current values obtained were deflated to historical cost by utilizing the Consumer Price Index.

Subsequent acquisitions of new assets and expenditures which substantially increase the useful lives of existing assets exceeding \$7,500 are recorded at cost. Other acquisitions below this threshold are expensed in the period incurred.

Maintenance and repairs are expensed as incurred. In the future, when properties are disposed of, the related costs and accumulated depreciation will be removed from the respective accounts, and any gain or loss on disposition will be credited or charged to an expense. Capital assets will be written off when fully depreciated unless clearly identified as still being in use.

Capital assets are depreciated over their estimated useful lives. Office equipment, computers, and fixtures are fully expensed in the year of purchase. The estimated lives by general classification are as follows:

<u>Assets</u>	<u>Years</u>
Buildings	30
Building and land improvements	10
Large equipment and vehicles	10
Small equipment and vehicles	5

**Capital Contributions** – Certain expenditures for airport capital improvements are significantly funded through state allocation or grant programs. Capital funding provided under government grants is considered earned as the related allowable expenditure is incurred.

Grants for capital asset acquisition, facility development, and rehabilitation are reported in the statement of revenues, expenses, and changes in net assets, after non-operating revenues and expenses as capital contributions.

**Revenue** – The authority provides 39 hangars for pilots who use the airport facilities and one hangar for the fixed base operator (FBO). Thirty of the hangars were built and are owned by the authority, and 11 were built and are owned by private individuals. The authority leases to the owners the underlying land related to the hangars privately built. The ownership of the 11 hangars built by private individuals will transfer to the authority at the end of their respective 30-year lease terms. Underlying land leases range from \$40 to \$323 per month. Leases on hangars built and owned by the authority have rents that range from \$145 to \$175 per month for individual hangars and \$500 and \$3,750 per month for the two corporate hangars.

**Deferred Revenue** – The authority records hangar rent collected in advance of the months in which it is earned as deferred revenue. Deferred revenue totaled \$2,050 for the year ended June 30, 2006.

**Net Assets** – In conformity with GASB Statement No. 34, net assets have been labeled and displayed in three components: invested in capital assets, net of related debt, restricted, and unrestricted. As of June 30, 2006, there were no restricted net assets.

**Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimated.

**C. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Sumner County Regional Airport Authority and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of the basic financial statements.

**D. Long-term Debt**

No long-term debt was incurred by the authority for the year ended June 30, 2006.

**E. State Grants**

During the year ended June 30, 2006, a total of \$682,550 in federal and state grant monies was paid by the State of Tennessee to the authority. These funds were disbursed for the construction of and repair of certain runways and for the development of a new fuel farm. The construction is overseen by the state, and all expenditures are reviewed for propriety by the state. None of these funds are required to be repaid.

Of the total grant monies received, \$421,606 was allocated from a \$978,000 grant previously awarded. The total grant is comprised of \$861,260 of federal funds, \$18,940 state funds, and \$97,800 of matching funds from the authority. At June 30, 2006, a total of \$926,905 has been expended under this grant.

Of the total grant monies received, \$211,985 was allocated from a \$251,639 grant previously awarded. This grant is comprised of \$226,475 of federal funds and \$25,164 of matching funds from the authority. At June 30, 2006, a total of \$211,985 has been expended under this grant.

Of the total grant monies received, \$39,959 was allocated from a \$166,667 grant previously awarded. This grant is comprised of \$150,000 federal funds and \$16,667 matching funds from the authority. At June 30, 2006, a total of \$159,034 has been expended under this grant.

In addition, \$9,000 of grant funds was received from a \$9,000 grant issued in a previous year.

**F. Airport Management**

The authority has contracted with Jet Harbor, Inc., to act as fixed base operator (FBO) for the airport. As FBO, Jet Harbor, engages in flight instruction, aircraft rental, aircraft maintenance, aircraft charter, and the sale of fuel and lubricants.

The authority has contracted with J & S Properties to perform daily management duties for \$1,500 per month. During the year ended June 30, 2006, management expense totaled \$18,095.

**G. Risk Financing Activities**

The authority is exposed to certain risks of loss related to its buildings (hangars), equipment, and infrastructure improvements (runways). The

authority is not covered by the Sumner County Self-Insurance Plan, but has obtained commercial insurance as required by the Airport Minimum Standards and Rules and Regulations. The authority has had no settlements in excess of insurance coverage in the past three years.

**H. Capital Assets**

Non-depreciable assets owned by the authority consist of land recorded at cost. In addition, construction in progress relating to the runway project and the development of a fuel farm was recorded at total actual cost of \$1,005,174 and \$251,144 respectively. These assets were not completely operational at June 30, 2006, and will not be depreciated until they are put into service upon completion of the respective projects.

Depreciation expense for the year ending June 30, 2006, totaled \$162,348.

Eleven privately built hangars were removed from the airport's capital assets in previous years.

The following is a summary of the authority's depreciable and non-depreciable assets as of June 30, 2006:

**Schedule of Depreciable and Non-Depreciable Assets**

	<b>Balance 7-1-05</b>	<b>Additions</b>	<b>Balance 6-30-06</b>	<b>Accum. Deprec.</b>	<b>Net Book Value 6-30-06</b>
<b>Depreciable Assets</b>					
Buildings	\$ 4,436,182	\$ 0	\$ 4,436,182	\$ 2,716,796	\$ 1,719,386
Building Improvements	149,471	0	149,471	100,262	49,209
Leasehold Improvements	42,046	0	42,046	14,190	27,856
Vehicles	11,000	0	11,000	9,350	1,650
<b>Total</b>	<b>\$ 4,638,699</b>	<b>\$ 0</b>	<b>\$ 4,638,699</b>	<b>\$ 2,840,598</b>	<b>\$ 1,798,101</b>
<b>Non-Depreciable Assets</b>					
Land	\$ 6,500	\$ 0	\$ 6,500	n/a	\$ 6,500
Construction in Progress	553,896	702,422	1,256,318	n/a	1,256,318
<b>Total</b>	<b>\$ 560,396</b>	<b>\$ 702,422</b>	<b>\$ 1,262,818</b>	<b>\$ 0</b>	<b>\$ 1,262,818</b>
<b>Total Assets</b>	<b>\$ 5,199,095</b>	<b>\$ 702,422</b>	<b>\$ 5,901,517</b>	<b>\$ 2,840,598</b>	<b>\$ 3,060,919</b>

**I. Budget**

The authority is not required by law or GASB to utilize a budget and does not do so.

**J. Related Party Transactions**

During the year ended June 30, 2006, the authority received \$90,179 from Sumner County that was used for improvements and operating expenses. None of this is required to be repaid to the county.

**K. Leases**

The authority has a 30-year lease for certain privately built hangers whose ownership reverts to the authority at the end of the lease period. These hangers were removed from capital assets in previous years. The value of these hangers is estimated at \$1,260,000.

**L. Subsequent Events**

Subsequent to June 30, 2006, the authority received approval for additional grant money to complete the runway project. The amendment was approved by the state in October 2006, for \$209,675. The additional grant funds are expected to fully fund any remaining obligations on the runway project, as determined by the state and in relation to the paragraph below.

Subsequent to June 30, 2006, the authority was threatened with litigation concerning final payment on the runway project. The unresolved payment of approximately \$200,000 cannot be released until the contractor's work is approved by the state. Management does not expect litigation to be formally filed or the authority to be adversely affected by this matter.

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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Exhibit F

Sumner 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	\$ 16,826,941	\$ 16,416,572	\$ 16,402,572	\$ 424,369
Licenses and Permits	536,045	505,000	436,000	100,045
Fines, Forfeitures, and Penalties	746,758	1,137,000	714,154	32,604
Charges for Current Services	4,846,445	3,468,000	4,261,062	585,383
Other Local Revenues	939,081	593,500	774,464	164,617
Fees Received from County Officials	6,909,133	6,447,000	6,400,000	509,133
State of Tennessee	3,726,754	3,989,080	4,040,473	(313,719)
Federal Government	696,053	504,000	1,333,914	(637,861)
Other Governments and Citizens Groups	535,859	50,000	511,146	24,713
Total Revenues	\$ 35,763,069	\$ 33,110,152	\$ 34,873,785	\$ 889,284
<u>Expenditures</u>				
<u>General Government</u>				
County Commission	\$ 272,413	\$ 260,820	\$ 278,678	\$ 6,265
Board of Equalization	38,349	37,500	42,500	4,151
County Mayor/Executive	364,873	231,569	366,663	1,790
County Attorney	234,278	242,146	242,146	7,868
Election Commission	890,384	411,862	669,462	(220,922)
Register of Deeds	445,456	427,333	567,730	122,274
Planning	472,150	500,683	514,418	42,268
County Buildings	1,240,171	1,020,605	1,197,220	(42,951)
Preservation of Records	73,828	0	82,765	8,937
Risk Management	139,536	0	1,685,482	1,545,946
<u>Finance</u>				
Accounting and Budgeting	324,209	333,819	333,819	9,610
Property Assessor's Office	481,111	475,870	529,159	48,048
Reappraisal Program	306,366	300,058	311,007	4,641
County Trustee's Office	267,277	296,059	298,159	30,882
County Clerk's Office	843,767	797,302	845,402	1,635
Data Processing	52,902	59,155	59,155	6,253
Other Finance	0	1,435,482	0	0
<u>Administration of Justice</u>				
Circuit Court	930,328	1,048,102	1,090,202	159,874
Circuit Court Judge	6,366	0	10,000	3,634
General Sessions Court	193,751	205,514	205,514	11,763
Chancery Court	400,387	389,224	402,653	2,266
Juvenile Court	298,939	305,181	305,374	6,435
District Attorney General	3,600	50,000	3,600	0
Other Administration of Justice	252,263	215,499	256,699	4,436
Probation Services	286,543	0	309,751	23,208
<u>Public Safety</u>				
Sheriff's Department	3,915,827	3,896,153	4,072,312	156,485
Jail	3,940,024	4,219,381	4,241,635	301,611

(Continued)

Exhibit F

Sumner 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 Safety (Cont.)</u>				
Workhouse	\$ 446,062	\$ 450,764	\$ 450,764	\$ 4,702
Correctional Incentive Program Improvements	0	309,751	0	0
Juvenile Services	319,937	344,976	353,036	33,099
Fire Prevention and Control	76,000	80,000	91,400	15,400
Civil Defense	27,400	8,000	12,000	(15,400)
Other Emergency Management	754,176	593,080	1,389,603	635,427
<u>Public Health and Welfare</u>				
Local Health Center	1,011,007	1,082,506	1,082,986	71,979
Rabies and Animal Control	197,004	198,175	198,175	1,171
Ambulance/Emergency Medical Services	4,439,149	3,884,696	4,362,735	(76,414)
Dental Health Program	118,564	121,896	121,896	3,332
Alcohol and Drug Programs	0	150,000	50,000	50,000
Other Local Health Services	26,681	35,261	35,261	8,580
Appropriation to State	139,381	177,283	177,283	37,902
General Welfare Assistance	0	2,000	2,000	2,000
Aid to Dependent Children	5,522	6,000	6,000	478
Other Local Welfare Services	0	1,000	1,000	1,000
<u>Social, Cultural, and Recreational Services</u>				
Senior Citizens Assistance	41,000	41,000	41,000	0
Libraries	803,418	771,405	818,860	15,442
<u>Agriculture &amp; Natural Resources</u>				
Agriculture Extension Service	217,611	229,185	229,185	11,574
Soil Conservation	27,690	27,697	27,697	7
Other Agriculture & Natural Resources	0	82,765	0	0
<u>Other Operations</u>				
Tourism	311,000	311,000	311,000	0
Other Economic and Community Development	65,006	75,000	91,000	25,994
Veterans' Services	19,201	19,608	19,608	407
Other Charges	1,083,755	1,587,100	1,336,000	252,245
Contributions to Other Agencies	533,196	659,424	598,703	65,507
Employee Benefits	6,658,879	6,661,929	6,807,229	148,350
Miscellaneous	18,000	1,251,000	716,000	698,000
<u>Highways</u>				
Highway and Bridge Maintenance	3,986	0	501,000	497,014
Total Expenditures	\$ 34,018,723	\$ 36,321,818	\$ 38,752,926	\$ 4,734,203
Excess (Deficiency) of Revenues				
Over Expenditures	\$ 1,744,346	\$ (3,211,666)	\$ (3,879,141)	\$ 5,623,487
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 177,021	\$ 1,871,023	\$ 1,694,877	\$ (1,517,856)
Total Other Financing Sources (Uses)	\$ 177,021	\$ 1,871,023	\$ 1,694,877	\$ (1,517,856)
Net Change in Fund Balance				
Fund Balance, July 1, 2005	\$ 1,921,367	\$ (1,340,643)	\$ (2,184,264)	\$ 4,105,631
Prior Period Adjustment	20,046,034	20,228,161	20,228,161	(182,127)
	18,324	0	0	18,324
Fund Balance, June 30, 2006	\$ 21,985,725	\$ 18,887,518	\$ 18,043,897	\$ 3,941,828

**SUMNER 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 Sumner 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 Category</u>	<u>Amount Overspent</u>
General Fund:	
Election Commission	\$ 220,922
County Buildings	42,951
Civil Defense	15,400
Ambulance/Emergency Medical Services	76,414

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

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

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# Nonmajor Governmental Funds

## Special Revenue Funds

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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.

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

District Attorney General Fund – The District Attorney General Fund is used to account for restricted revenue held for the benefit of the Office of District Attorney General.

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

Highway/Public Works Fund – The Highway/Public Works Fund is used to account for transactions of the county Highway Department.

## Capital Projects Fund

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

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General Capital Projects Fund – The General Capital Projects Fund is used to account for the general capital expenditures of the county and the discretely presented Sumner County School Department.

Exhibit G-1

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

	Special Revenue Funds					Capital Projects Fund	Total Nonmajor Governmental Funds
	Drug Control	District Attorney General	Constitu - tional Officers - Fees	Highway / Public Works	Total	General Capital Projects	
<u>ASSETS</u>							
Cash	\$ 0	\$ 0	\$ 278,103	\$ 0	\$ 278,103	\$ 0	\$ 278,103
Equity in Pooled Cash and Investments	95,175	122,795	0	1,775,999	1,993,969	2,722,092	4,716,061
Accounts Receivable	919	2,590	106,542	164,675	274,726	0	274,726
Due from Other Governments	0	0	0	642,581	642,581	0	642,581
Property Taxes Receivable	0	0	0	609,207	609,207	0	609,207
Allowance for Uncollectible Property Taxes	0	0	0	(10,103)	(10,103)	0	(10,103)
<b>Total Assets</b>	<b>\$ 96,094</b>	<b>\$ 125,385</b>	<b>\$ 384,645</b>	<b>\$ 3,182,359</b>	<b>\$ 3,788,483</b>	<b>\$ 2,722,092</b>	<b>\$ 6,510,575</b>
<u>LIABILITIES AND FUND BALANCES</u>							
<u>Liabilities</u>							
Accounts Payable	\$ 37	\$ 666	\$ 0	\$ 125,388	\$ 126,091	\$ 0	\$ 126,091
Accrued Payroll	0	0	0	23,458	23,458	0	23,458
Contracts Payable	0	0	0	0	0	264,016	264,016
Retainage Payable	0	0	0	0	0	148,075	148,075
Due to Other Funds	0	0	381,465	0	381,465	0	381,465
Due to Litigants, Heirs, and Others	0	0	3,180	0	3,180	0	3,180
Deferred Revenue - Current Property Taxes	0	0	0	585,612	585,612	0	585,612
Deferred Revenue - Delinquent Property Taxes	0	0	0	12,055	12,055	0	12,055
Other Deferred Revenues	0	0	0	344,777	344,777	0	344,777
<b>Total Liabilities</b>	<b>\$ 37</b>	<b>\$ 666</b>	<b>\$ 384,645</b>	<b>\$ 1,091,290</b>	<b>\$ 1,476,638</b>	<b>\$ 412,091</b>	<b>\$ 1,888,729</b>
<u>Fund Balances</u>							
Reserved for Encumbrances	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 980,720	\$ 980,720
Unreserved	96,057	124,719	0	2,091,069	2,311,845	1,329,281	3,641,126
<b>Total Fund Balances</b>	<b>\$ 96,057</b>	<b>\$ 124,719</b>	<b>\$ 0</b>	<b>\$ 2,091,069</b>	<b>\$ 2,311,845</b>	<b>\$ 2,310,001</b>	<b>\$ 4,621,846</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 96,094</b>	<b>\$ 125,385</b>	<b>\$ 384,645</b>	<b>\$ 3,182,359</b>	<b>\$ 3,788,483</b>	<b>\$ 2,722,092</b>	<b>\$ 6,510,575</b>

Exhibit G-2

Sumner 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	District Attorney General	Constitu - tional Officers - Fees	Highway / Public Works	Total	General Capital Projects	
<u>Revenues</u>							
Local Taxes	\$ 0	\$ 0	\$ 0	\$ 2,433,862	\$ 2,433,862	\$ 0	\$ 2,433,862
Fines, Forfeitures, and Penalties	51,159	33,079	0	0	84,238	0	84,238
Charges for Current Services	0	0	5,302	0	5,302	0	5,302
Other Local Revenues	0	0	0	90,473	90,473	0	90,473
State of Tennessee	0	0	0	3,032,737	3,032,737	0	3,032,737
Federal Government	0	0	0	0	0	24,560	24,560
Other Governments and Citizens Groups	22,785	0	0	0	22,785	725,681	748,466
Total Revenues	\$ 73,944	\$ 33,079	\$ 5,302	\$ 5,557,072	\$ 5,669,397	\$ 750,241	\$ 6,419,638
<u>Expenditures</u>							
Current:							
Administration of Justice	\$ 0	\$ 35,936	\$ 5,302	\$ 0	\$ 41,238	\$ 0	\$ 41,238
Public Safety	14,369	0	0	0	14,369	0	14,369
Highways	0	0	0	5,943,749	5,943,749	0	5,943,749
Capital Projects	0	0	0	0	0	6,046,773	6,046,773
Total Expenditures	\$ 14,369	\$ 35,936	\$ 5,302	\$ 5,943,749	\$ 5,999,356	\$ 6,046,773	\$ 12,046,129
Excess (Deficiency) of Revenues Over Expenditures	\$ 59,575	\$ (2,857)	\$ 0	\$ (386,677)	\$ (329,959)	\$ (5,296,532)	\$ (5,626,491)
<u>Other Financing Sources (Uses)</u>							
Transfers In	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,413,825	\$ 2,413,825
Total Other Financing Sources (Uses)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,413,825	\$ 2,413,825
Net Change in Fund Balances	\$ 59,575	\$ (2,857)	\$ 0	\$ (386,677)	\$ (329,959)	\$ (2,882,707)	\$ (3,212,666)
Fund Balance, July 1, 2005	55,526	125,036	0	2,477,746	2,658,308	5,192,708	7,851,016
Prior Period Adjustment	(19,044)	2,540	0	0	(16,504)	0	(16,504)
Fund Balance, June 30, 2006	\$ 96,057	\$ 124,719	\$ 0	\$ 2,091,069	\$ 2,311,845	\$ 2,310,001	\$ 4,621,846

Exhibit G-3

Sumner 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	\$ 51,159	\$ 13,000	\$ 13,000	\$ 38,159
Other Local Revenues	0	10,000	0	0
Other Governments and Citizens Groups	22,785	0	33,353	(10,568)
Total Revenues	<u>\$ 73,944</u>	<u>\$ 23,000</u>	<u>\$ 46,353</u>	<u>\$ 27,591</u>
<u>Expenditures</u>				
<u>Public Safety</u>				
Drug Enforcement	\$ 14,369	\$ 150,000	\$ 173,353	\$ 158,984
Total Expenditures	<u>\$ 14,369</u>	<u>\$ 150,000</u>	<u>\$ 173,353</u>	<u>\$ 158,984</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 59,575</u>	<u>\$ (127,000)</u>	<u>\$ (127,000)</u>	<u>\$ 186,575</u>
Net Change in Fund Balance	\$ 59,575	\$ (127,000)	\$ (127,000)	\$ 186,575
Fund Balance, July 1, 2005	55,526	127,000	127,000	(71,474)
Prior Period Adjustment	(19,044)	0	0	(19,044)
Fund Balance, June 30, 2006	<u>\$ 96,057</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 96,057</u>

Exhibit G-4

Sumner County, Tennessee  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual and Budget  
District Attorney General 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	\$ 33,079	\$ 34,000	\$ 34,000	\$ (921)
Total Revenues	\$ 33,079	\$ 34,000	\$ 34,000	\$ (921)
<u>Expenditures</u>				
<u>Administration of Justice</u>				
District Attorney General	\$ 35,936	\$ 50,000	\$ 50,000	\$ 14,064
Total Expenditures	\$ 35,936	\$ 50,000	\$ 50,000	\$ 14,064
Excess (Deficiency) of Revenues Over Expenditures	\$ (2,857)	\$ (16,000)	\$ (16,000)	\$ 13,143
Net Change in Fund Balance	\$ (2,857)	\$ (16,000)	\$ (16,000)	\$ 13,143
Fund Balance, July 1, 2005	125,036	16,000	16,000	109,036
Prior Period Adjustment	2,540	0	0	2,540
Fund Balance, June 30, 2006	\$ 124,719	\$ 0	\$ 0	\$ 124,719

Exhibit G-5

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 2,433,862	\$ 2,313,635	\$ 2,313,635	\$ 120,227
Other Local Revenues	90,473	109,490	109,490	(19,017)
State of Tennessee	3,032,737	3,106,437	3,103,937	(71,200)
Federal Government	0	50,000	50,000	(50,000)
Total Revenues	<u>\$ 5,557,072</u>	<u>\$ 5,579,562</u>	<u>\$ 5,577,062</u>	<u>\$ (19,990)</u>
<u>Expenditures</u>				
<u>Highways</u>				
Administration	\$ 173,447	\$ 187,891	\$ 187,891	\$ 14,444
Highway and Bridge Maintenance	3,080,931	3,300,900	3,394,611	313,680
Operation and Maintenance of Equipment	797,743	742,950	892,950	95,207
Quarry Operations	44,959	64,820	64,820	19,861
Litter and Trash Collection	49,447	62,305	59,805	10,358
Other Charges	210,996	208,226	208,226	(2,770)
Employee Benefits	712,832	728,272	728,272	15,440
Capital Outlay	873,394	1,127,500	1,577,500	704,106
Total Expenditures	<u>\$ 5,943,749</u>	<u>\$ 6,422,864</u>	<u>\$ 7,114,075</u>	<u>\$ 1,170,326</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (386,677)</u>	<u>\$ (843,302)</u>	<u>\$ (1,537,013)</u>	<u>\$ 1,150,336</u>
Net Change in Fund Balance	\$ (386,677)	\$ (843,302)	\$ (1,537,013)	\$ 1,150,336
Fund Balance, July 1, 2005	<u>2,477,746</u>	<u>2,477,746</u>	<u>2,477,746</u>	<u>0</u>
Fund Balance, June 30, 2006	<u>\$ 2,091,069</u>	<u>\$ 1,634,444</u>	<u>\$ 940,733</u>	<u>\$ 1,150,336</u>

# **Major Governmental Fund**

## **General Debt Service Fund**

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

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Exhibit H

Sumner 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	\$ 22,564,167	\$ 21,382,046	\$ 21,382,046	\$ 1,182,121
Other Local Revenues	2,544,984	1,400,000	1,400,000	1,144,984
Other Governments and Citizens Groups	50,410	0	50,410	0
Total Revenues	<u>\$ 25,159,561</u>	<u>\$ 22,782,046</u>	<u>\$ 22,832,456</u>	<u>\$ 2,327,105</u>
<u>Expenditures</u>				
<u>Other Operations</u>				
Other Charges	\$ 389,850	\$ 400,000	\$ 400,000	\$ 10,150
<u>Principal on Debt</u>				
General Government	6,000,000	10,000,000	9,186,175	3,186,175
Education	11,000,000	12,600,000	11,000,000	0
<u>Interest on Debt</u>				
General Government	528,302	880,000	880,000	351,698
Education	3,585,550	4,504,000	4,504,000	918,450
<u>Other Debt Service</u>				
General Government	591,373	599,025	599,025	7,652
Education	305,660	416,200	416,200	110,540
Total Expenditures	<u>\$ 22,400,735</u>	<u>\$ 29,399,225</u>	<u>\$ 26,985,400</u>	<u>\$ 4,584,665</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 2,758,826</u>	<u>\$ (6,617,179)</u>	<u>\$ (4,152,944)</u>	<u>\$ 6,911,770</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 0	\$ 240,000	\$ 189,590	\$ (189,590)
Transfers Out	(2,413,825)	0	(2,413,825)	0
Total Other Financing Sources (Uses)	<u>\$ (2,413,825)</u>	<u>\$ 240,000</u>	<u>\$ (2,224,235)</u>	<u>\$ (189,590)</u>
Net Change in Fund Balance	\$ 345,001	\$ (6,377,179)	\$ (6,377,179)	\$ 6,722,180
Fund Balance, July 1, 2005	24,364,520	24,461,591	24,461,591	(97,071)
Prior Period Adjustment	(570,000)	0	0	(570,000)
Fund Balance, June 30, 2006	<u>\$ 24,139,521</u>	<u>\$ 18,084,412</u>	<u>\$ 18,084,412</u>	<u>\$ 6,055,109</u>

# Fiduciary Funds

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

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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, general sessions, and juvenile courts clerk; clerk and master; register; and sheriff. Such collections include amounts due the state, cities, other county funds, litigants, heirs, and others.

Judicial District Drug Fund – The Judicial District Drug Fund is used to account for state grants and other restricted revenues held for the benefit of the multi-jurisdictional drug task force which was created by contract (mutual aid agreement) between the participating city and county governments.

Exhibit J-1

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

	Agency Funds			
	Cities - Sales Tax	Constitu - tional Officers - Agency	Judicial District Drug	Total
<u>ASSETS</u>				
Cash	\$ 0	\$ 6,759,112	\$ 0	\$ 6,759,112
Equity in Pooled Cash and Investments	0	0	917,421	917,421
Accounts Receivable	0	656	7,524	8,180
Due from Other Governments	2,456,565	0	95,000	2,551,565
Total Assets	<u>\$ 2,456,565</u>	<u>\$ 6,759,768</u>	<u>\$ 1,019,945</u>	<u>\$ 10,236,278</u>
<u>LIABILITIES</u>				
Accounts Payable	\$ 0	\$ 0	\$ 3,246	\$ 3,246
Due to Other Taxing Units	2,456,565	0	0	2,456,565
Due to State of Tennessee	0	842,631	0	842,631
Due to Litigants, Heirs, and Others	0	5,917,137	55,352	5,972,489
Due to Joint Ventures	0	0	961,347	961,347
Total Liabilities	<u>\$ 2,456,565</u>	<u>\$ 6,759,768</u>	<u>\$ 1,019,945</u>	<u>\$ 10,236,278</u>

Exhibit J-2

Sumner 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	\$ 13,196,093	\$ 13,196,093	\$ 0
Due from Other Governments	1,038,251	2,456,565	1,038,251	2,456,565
Total Assets	<u>\$ 1,038,251</u>	<u>\$ 15,652,658</u>	<u>\$ 14,234,344</u>	<u>\$ 2,456,565</u>
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 1,038,251	\$ 15,652,658	\$ 14,234,344	\$ 2,456,565
Total Liabilities	<u>\$ 1,038,251</u>	<u>\$ 15,652,658</u>	<u>\$ 14,234,344</u>	<u>\$ 2,456,565</u>
<u>Constitutional Officers - Agency Fund</u>				
<u>Assets</u>				
Cash	\$ 15,701,023	\$ 6,759,112	\$ 15,701,023	\$ 6,759,112
Investments	4,095,106	0	4,095,106	0
Accounts Receivable	2,499	656	2,499	656
Total Assets	<u>\$ 19,798,628</u>	<u>\$ 6,759,768</u>	<u>\$ 19,798,628</u>	<u>\$ 6,759,768</u>
<u>Liabilities</u>				
Due to Litigants, Heirs, and Others	\$ 18,852,159	\$ 5,917,137	\$ 18,852,159	\$ 5,917,137
Due to State of Tennessee	679,970	842,631	679,970	842,631
Due to Other Funds	266,499	0	266,499	0
Total Liabilities	<u>\$ 19,798,628</u>	<u>\$ 6,759,768</u>	<u>\$ 19,798,628</u>	<u>\$ 6,759,768</u>
<u>Judicial District Drug Fund</u>				
<u>Assets</u>				
Equity in Pooled Cash and Investments	\$ 800,354	\$ 571,903	\$ 454,836	\$ 917,421
Accounts Receivable	0	7,524	0	7,524
Due from Other Governments	101,374	95,000	101,374	95,000
Total Assets	<u>\$ 901,728</u>	<u>\$ 674,427</u>	<u>\$ 556,210</u>	<u>\$ 1,019,945</u>
<u>Liabilities</u>				
Accounts Payable	\$ 316	\$ 3,246	\$ 316	\$ 3,246
Due to Joint Ventures	828,292	615,829	482,774	961,347
Due to Litigants, Heirs, and Others	73,120	55,352	73,120	55,352
Total Liabilities	<u>\$ 901,728</u>	<u>\$ 674,427</u>	<u>\$ 556,210</u>	<u>\$ 1,019,945</u>

(Continued)

Exhibit J-2

Sumner County, Tennessee  
Combining Statement of Changes in Assets and  
Liabilities - All Agency Funds (Cont'd)

	Beginning Balance	Additions	Deductions	Ending Balance
<u>Totals - All Agency Funds</u>				
<u>Assets</u>				
Cash	\$ 15,701,023	\$ 6,759,112	\$ 15,701,023	\$ 6,759,112
Equity in Pooled Cash and Investments	800,354	13,767,996	13,650,929	917,421
Accounts Receivable	2,499	8,180	2,499	8,180
Due from Other Governments	1,139,625	2,551,565	1,139,625	2,551,565
Investments	4,095,106	0	4,095,106	0
<b>Total Assets</b>	<b>\$ 21,738,607</b>	<b>\$ 23,086,853</b>	<b>\$ 34,589,182</b>	<b>\$ 10,236,278</b>
<u>Liabilities</u>				
Accounts Payable	\$ 316	3,246	316	\$ 3,246
Due to Other Taxing Units	1,038,251	15,652,658	14,234,344	2,456,565
Due to Joint Ventures	828,292	615,829	482,774	961,347
Due to State of Tennessee	679,970	842,631	679,970	842,631
Due to Other Funds	266,499	0	266,499	0
Due to Litigants, Heirs, and Others	18,925,279	5,972,489	18,925,279	5,972,489
<b>Total Liabilities</b>	<b>\$ 21,738,607</b>	<b>\$ 23,086,853</b>	<b>\$ 34,589,182</b>	<b>\$ 10,236,278</b>

# Proprietary Funds

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Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the county, or other governments, on a cost-reimbursed basis.

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Self-Insurance Fund – The Self-Insurance Fund is used to account for transactions of the county’s self-insured liability, workers’ compensation, dental, and health insurance.

Employee Insurance - Dental Fund – The Employee Insurance - Dental Fund was used to account for the county’s self-insured dental insurance program; however, the fund was closed by transferring assets to the Self-Insurance Fund.

Employee Insurance - Health Fund – The Employee Insurance - Health Fund was used to account for the county’s self-insured health program; however, the fund was closed by transferring assets to the Self-Insurance Fund.

Exhibit I-1

Sumner County, Tennessee  
Combining Statement of Revenues, Expenses, and  
Changes in Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2006

	Internal Service Funds			Total
	Self - Insurance	Employee Insurance- Dental	Employee Insurance- Health	
<u>Operating Revenues</u>				
Charges for Current Services:				
Self-Insurance Premiums/Contributions	\$ 14,898,769	\$ 0	\$ 0	\$ 14,898,769
Total Operating Revenues	<u>\$ 14,898,769</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 14,898,769</u>
<u>Operating Expenses</u>				
Employee Benefits:				
Handling Charges and Administrative Costs	\$ 20,340	\$ 0	\$ 0	\$ 20,340
Medical Insurance	12,493,857	0	0	12,493,857
Dental Insurance	543,163	0	0	543,163
Liability Claims	569,643	0	0	569,643
Total Operating Expenses	<u>\$ 13,627,003</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 13,627,003</u>
Operating Income (Loss)	<u>\$ 1,271,766</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,271,766</u>
<u>Nonoperating Revenues (Expenses)</u>				
Investment Income	\$ 313,051	\$ 0	\$ 0	\$ 313,051
Total Nonoperating Revenues (Expenses)	<u>\$ 313,051</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 313,051</u>
Income (Loss) Before Transfers	\$ 1,584,817	\$ 0	\$ 0	\$ 1,584,817
Transfers In	201,087	0	0	201,087
Transfers Out	(177,021)	(128,930)	(72,157)	(378,108)
Change in Net Assets	\$ 1,608,883	\$ (128,930)	\$ (72,157)	\$ 1,407,796
Net Assets, July 1, 2005	<u>1,381,552</u>	<u>128,930</u>	<u>72,157</u>	<u>1,582,639</u>
Nets Assets, June 30, 2006	<u>\$ 2,990,435</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,990,435</u>

Exhibit I-2

Sumner County, Tennessee  
Combining Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2006

	<u>Internal Service Funds</u>			Total
	Self - Insurance	Employee Insurance- Dental	Employee Insurance- Health	
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>				
Receipts from Customers and Users	\$ 14,834,574	\$ 594	\$ 5,805	\$ 14,840,973
Payment to Suppliers	(20,340)	0	0	(20,340)
Claims Paid	(11,982,735)	0	0	(11,982,735)
Other Receipts (Payments)	0	(107,165)	(2,234,251)	(2,341,416)
Net Cash Provided By (Used In) Operating Activities	<u>\$ 2,831,499</u>	<u>\$ (106,571)</u>	<u>\$ (2,228,446)</u>	<u>\$ 496,482</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>				
Investment Income	\$ 313,051	\$ 0	\$ 0	\$ 313,051
Net Cash Provided By (Used In) Investing Activities	<u>\$ 313,051</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 313,051</u>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>				
Transfers from Other Funds	\$ 201,087	\$ 0	\$ 0	\$ 201,087
Transfers to Other Funds	(177,021)	(128,930)	(72,157)	\$ (378,108)
Net Cash Provided By (Used For) Noncapital Financing Activities	<u>\$ 24,066</u>	<u>\$ (128,930)</u>	<u>\$ (72,157)</u>	<u>\$ (177,021)</u>
Net Increase (Decrease) in Cash	\$ 3,168,616	\$ (235,501)	\$ (2,300,603)	\$ 632,512
Cash, July 1, 2005	5,337,355	235,501	2,300,603	7,873,459
Cash, June 30, 2006	<u>\$ 8,505,971</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 8,505,971</u>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS)</u></b>				
<b><u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>				
Operating Income (Loss)	\$ 1,271,766	\$ 0	\$ 0	\$ 1,271,766
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities:				
Change in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(64,195)	594	5,805	(57,796)
Increase (Decrease) in Claims and Judgments Payable	1,623,928	(107,165)	(2,234,251)	(717,488)
Net Cash Provided By (Used In) Operating Activities	<u>\$ 2,831,499</u>	<u>\$ (106,571)</u>	<u>\$ (2,228,446)</u>	<u>\$ 496,482</u>

# Sumner County School Department

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This section presents fund financial statements for the Sumner County School Department, a discretely presented component unit. The School Department uses a General Fund and one Special Revenue Fund.

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

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

Exhibit K-1

Sumner County, Tennessee  
Statement of Activities  
Discretely Presented Sumner County School Department  
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Assets Total Governmental Activities
Governmental Activities:					
Instruction	\$ 100,791,788	\$ 756,219	\$ 9,441,087	\$ 32,915	\$ (90,561,567)
Support Services	57,255,540	10,944	0	181,595	(57,063,001)
Operation of Noninstructional Services	10,576,724	6,957,485	3,956,594	2,507,900	2,845,255
Other Debt Service	213,300	0	0		(213,300)
<b>Total Governmental Activities</b>	<b>\$ 168,837,352</b>	<b>\$ 7,724,648</b>	<b>\$ 13,397,681</b>	<b>\$ 2,722,410</b>	<b>\$ (144,992,613)</b>
General Revenues:					
Taxes:					
Property Taxes Levied for General Purposes					\$ 38,980,147
Local Option Sales Tax					10,077,596
Other Local Taxes					3,875,404
Grants and Contributions Not Restricted for Specific Programs					86,201,923
Unrestricted Investment Income					85,782
Miscellaneous					732,135
<b>Total General Revenues</b>					<b>\$ 139,952,987</b>
Insurance Recovery					\$ 935,209
Change in Net Assets					\$ (4,104,417)
Net Assets, July 1, 2005					185,902,090
Prior Period Adjustment					4,718,027
<b>Net Assets, June 30, 2006</b>					<b>\$ 186,515,700</b>

Exhibit K-2

Sumner County, Tennessee  
Balance Sheet - Governmental Funds  
Discretely Presented Sumner County School Department  
June 30, 2006

	<u>Major Fund</u>	<u>Nonmajor Fund</u>	<u>Total</u>
	General Purpose School	School Federal Projects Fund	Govern-mental Funds
<b><u>ASSETS</u></b>			
Cash	\$ 14,035	\$ 0	\$ 14,035
Equity in Pooled Cash and Investments	10,909,440	1,767,089	12,676,529
Accounts Receivable	1,326,029	0	1,326,029
Due from Other Governments	2,941,761	99,052	3,040,813
Property Taxes Receivable	42,744,876	0	42,744,876
Allowance for Uncollectible Property Taxes	(733,466)	0	(733,466)
Total Assets	<u>\$ 57,202,675</u>	<u>\$ 1,866,141</u>	<u>\$ 59,068,816</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
<u>Liabilities</u>			
Accounts Payable	\$ 848,210	\$ 4,203	\$ 852,413
Payroll Deductions Payable	2,207,978	0	2,207,978
Deferred Revenue - Current Property Taxes	40,992,807	0	40,992,807
Deferred Revenue - Delinquent Property Taxes	911,210	0	911,210
Other Deferred Revenues	1,108,897	0	1,108,897
Total Liabilities	<u>\$ 46,069,102</u>	<u>\$ 4,203</u>	<u>\$ 46,073,305</u>
<u>Fund Balances</u>			
Reserved for Encumbrances	\$ 1,587,248	\$ 0	\$ 1,587,248
Other Local Education Reserves	589,994	0	589,994
Reserved for Title I Grants to Local Education Agencies	0	32,340	32,340
Reserved for Innovative Education Program Strategies	0	33,484	33,484
Reserved for Special Education - Grants to States	0	1,766,844	1,766,844
Other Federal Reserves	0	29,270	29,270
Unreserved, Reported In:			
General Fund	8,956,331	0	8,956,331
Total Fund Balances	<u>\$ 11,133,573</u>	<u>\$ 1,861,938</u>	<u>\$ 12,995,511</u>
Total Liabilities and Fund Balances	<u>\$ 57,202,675</u>	<u>\$ 1,866,141</u>	<u>\$ 59,068,816</u>

Exhibit K-3

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

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

Total fund balances - balance sheet - governmental funds (Exhibit K-2)		\$	12,995,511
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Add: land	\$	6,579,476	
Add: construction in progress		450,788	
Add: buildings and improvements net of accumulated depreciation		159,995,961	
Add: other capital assets net of accumulated depreciation		<u>5,863,968</u>	172,890,193
(2) Certain earned amounts are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.			2,020,107
(3) Long-term compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds.			<u>(1,390,111)</u>
Net assets of governmental activities (Exhibit A)		\$	<u><u>186,515,700</u></u>

Exhibit K-4

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

	<u>Major Fund</u>	<u>Nonmajor Fund</u>	
	General Purpose School	School Federal Projects Fund	Total Governmental Funds
<u>Revenues</u>			
Local Taxes	\$ 54,276,193	\$ 0	\$ 54,276,193
Licenses and Permits	8,011	0	8,011
Charges for Current Services	7,578,357	0	7,578,357
Other Local Revenues	1,053,959	0	1,053,959
State of Tennessee	85,077,472	0	85,077,472
Federal Government	4,963,916	8,863,074	13,826,990
Total Revenues	<u>\$ 152,957,908</u>	<u>\$ 8,863,074</u>	<u>\$ 161,820,982</u>
<u>Expenditures</u>			
Current:			
Instruction	\$ 94,005,463	\$ 6,579,439	\$ 100,584,902
Support Services	46,383,219	1,661,678	48,044,897
Operation of Non-Instructional Services	10,055,148	0	10,055,148
Capital Outlay	1,166,953	0	1,166,953
Debt Service:			
Other Debt Service	213,300	0	213,300
Total Expenditures	<u>\$ 151,824,083</u>	<u>\$ 8,241,117</u>	<u>\$ 160,065,200</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 1,133,825</u>	<u>\$ 621,957</u>	<u>\$ 1,755,782</u>
<u>Other Financing Sources (Uses)</u>			
Insurance Recovery	\$ 1,692,885	\$ 0	\$ 1,692,885
Transfers In	18,419	0	18,419
Transfers Out	0	(18,419)	(18,419)
Total Other Financing Sources (Uses)	<u>\$ 1,711,304</u>	<u>\$ (18,419)</u>	<u>\$ 1,692,885</u>
Net Change in Fund Balances	\$ 2,845,129	\$ 603,538	\$ 3,448,667
Fund Balance, July 1, 2005	7,906,682	1,258,400	9,165,082
Prior Period Adjustment	381,762	0	381,762
Fund Balance, June 30, 2006	<u>\$ 11,133,573</u>	<u>\$ 1,861,938</u>	<u>\$ 12,995,511</u>

Exhibit K-5

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

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

Net change in fund balances - total governmental funds (Exhibit K-4)		\$ 3,448,667
(1) Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their useful lives and reported as depreciation expense. The difference between capital outlays and depreciation is itemized as follows:		
Add: capital outlays purchased in the current period	\$ 4,314,531	
Less: current year depreciation expense	<u>(10,725,164)</u>	(6,410,633)
(2) Disposal of capital assets does not generate current financial resources and is therefore not recognized in the governmental funds. This adjustment reflects disposed capital assets during the current period.		(63,762)
(3) Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Add: deferred delinquent property taxes/other deferred June 30, 2006	\$ 2,020,107	
Less: deferred delinquent property taxes/other deferred June 30, 2005	<u>(3,138,601)</u>	(1,118,494)
(4) Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		<u>39,805</u>
Change in net assets of governmental activities (Exhibit B)		<u>\$ (4,104,417)</u>

Exhibit K-6

Sumner County, Tennessee  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual (Budgetary Basis) and Budget  
Discretely Presented Sumner 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	\$ 54,276,193	\$ 0	\$ 0	\$ 54,276,193	\$ 53,370,115	\$ 53,370,115	\$ 906,078
Licenses and Permits	8,011	0	0	8,011	16,000	16,000	(7,989)
Charges for Current Services	7,578,357	0	0	7,578,357	7,621,577	7,621,577	(43,220)
Other Local Revenues	1,053,959	0	0	1,053,959	665,382	1,108,757	(54,798)
State of Tennessee	85,077,472	0	0	85,077,472	85,095,334	85,778,784	(701,312)
Federal Government	4,963,916	0	0	4,963,916	2,900,543	4,639,582	324,334
Total Revenues	\$ 152,957,908	\$ 0	\$ 0	\$ 152,957,908	\$ 149,668,951	\$ 152,534,815	\$ 423,093
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 70,811,296	\$ (13,229)	\$ 51,246	\$ 70,849,313	\$ 69,752,183	\$ 71,214,199	\$ 364,886
Alternative Instruction Program	1,355,625	0	0	1,355,625	1,445,883	1,407,433	51,808
Special Education Program	14,122,360	0	0	14,122,360	15,031,862	15,234,405	1,112,045
Vocational Education Program	7,477,606	0	0	7,477,606	7,760,991	7,464,791	(12,815)
Adult Education Program	238,576	0	0	238,576	252,640	307,924	69,348
<u>Support Services</u>							
Attendance	308,804	0	0	308,804	312,608	314,608	5,804
Health Services	250,888	0	0	250,888	280,046	288,346	37,458
Other Student Support	3,713,961	0	4,730	3,718,691	3,858,595	3,798,345	79,654
Regular Instruction Program	5,686,378	(5,516)	7,199	5,688,061	4,998,255	6,051,620	363,559
Alternative Instruction Program	221,387	0	0	221,387	231,552	224,052	2,665
Special Education Program	1,211,046	0	0	1,211,046	1,215,464	1,350,220	139,174
Vocational Education Program	191,688	0	0	191,688	195,172	195,172	3,484
Adult Programs	343,879	0	23,219	367,098	267,635	357,932	(9,166)
Board of Education	3,101,991	0	0	3,101,991	2,955,293	2,955,293	(146,698)
Director of Schools	477,273	0	0	477,273	517,736	523,436	46,163

(Continued)

Exhibit K-6

Sumner County, Tennessee  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual (Budgetary Basis) and Budget  
Discretely Presented Sumner 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>							
Office of the Principal	\$ 10,099,136	\$ 0	\$ 174	\$ 10,099,310	\$ 10,590,790	\$ 10,517,515	\$ 418,205
Fiscal Services	781,441	0	495	781,936	790,723	793,248	11,312
Operation of Plant	10,536,133	0	86,754	10,622,887	10,849,243	10,839,243	216,356
Maintenance of Plant	3,262,779	(36,796)	10,845	3,236,828	3,277,761	3,277,761	40,933
Transportation	5,478,746	(372)	673	5,479,047	5,605,217	5,744,417	265,370
Central and Other	717,689	0	0	717,689	788,780	788,630	70,941
<u>Operation of Non-Instructional Services</u>							
Food Service	9,083,609	(18,000)	198,861	9,264,470	10,907,078	10,907,078	1,642,608
Community Services	971,539	(1,000)	6,444	976,983	1,212,036	1,212,036	235,053
<u>Capital Outlay</u>							
Regular Capital Outlay	1,166,953	(326,114)	1,196,608	2,037,447	351,933	2,244,803	207,356
<u>Principal on Debt</u>							
Education	0	0	0	0	210,000	0	0
<u>Other Debt Service</u>							
Education	213,300	0	0	213,300	0	213,300	0
Total Expenditures	\$ 151,824,083	\$ (401,027)	\$ 1,587,248	\$ 153,010,304	\$ 153,659,476	\$ 158,225,807	\$ 5,215,503
Excess (Deficiency) of Revenues							
Over Expenditures	\$ 1,133,825	\$ 401,027	\$ (1,587,248)	\$ (52,396)	\$ (3,990,525)	\$ (5,690,992)	\$ 5,638,596
<u>Other Financing Sources (Uses)</u>							
Insurance Recovery	\$ 1,692,885	\$ 0	\$ 0	\$ 1,692,885	\$ 0	\$ 1,714,095	\$ (21,210)
Transfers In	18,419	0	0	18,419	15,000	15,000	3,419
Transfers Out	0	0	0	0	(2,500)	(16,128)	16,128
Total Other Financing Sources (Uses)	\$ 1,711,304	\$ 0	\$ 0	\$ 1,711,304	\$ 12,500	\$ 1,712,967	\$ (1,663)

(Continued)

Exhibit K-6

Sumner County, Tennessee  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual (Budgetary Basis) and Budget  
Discretely Presented Sumner 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	\$ 2,845,129	\$ 401,027	\$ (1,587,248)	\$ 1,658,908	\$ (3,978,025)	\$ (3,978,025)	\$ 5,636,933
Fund Balance, July 1, 2005	7,906,682	(401,027)	0	7,505,655	9,160,578	9,160,578	(1,654,923)
Prior Period Adjustment	381,762	0	0	381,762	0	0	381,762
Fund Balance, June 30, 2006	<u>\$ 11,133,573</u>	<u>\$ 0</u>	<u>\$ (1,587,248)</u>	<u>\$ 9,546,325</u>	<u>\$ 5,182,553</u>	<u>\$ 5,182,553</u>	<u>\$ 4,363,772</u>

Exhibit K-7

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Federal Government	\$ 8,863,074	\$ 9,000,096	\$ 10,866,465	\$ (2,003,391)
Total Revenues	\$ 8,863,074	\$ 9,000,096	\$ 10,866,465	\$ (2,003,391)
<u>Expenditures</u>				
<u>Instruction</u>				
Regular Instruction Program	\$ 2,916,272	\$ 2,799,630	\$ 3,224,219	\$ 307,947
Alternative Instruction Program	20,833	16,336	21,486	653
Special Education Program	3,256,785	4,050,936	5,001,706	1,744,921
Vocational Education Program	385,549	385,552	385,552	3
<u>Support Services</u>				
Attendance	0	950	800	800
Health Services	0	2,600	2,750	2,750
Other Student Support	55,836	72,728	89,879	34,043
Regular Instruction Program	728,236	735,902	1,096,440	368,204
Special Education Program	741,934	746,567	848,935	107,001
Vocational Education Program	70,538	73,233	73,233	2,695
Transportation	65,134	62,364	62,364	(2,770)
Total Expenditures	\$ 8,241,117	\$ 8,946,798	\$ 10,807,364	\$ 2,566,247
Excess (Deficiency) of Revenues Over Expenditures	\$ 621,957	\$ 53,298	\$ 59,101	\$ 562,856
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 0	\$ 0	\$ 100,000	\$ (100,000)
Transfers Out	(18,419)	(53,298)	(159,101)	140,682
Total Other Financing Sources (Uses)	\$ (18,419)	\$ (53,298)	\$ (59,101)	\$ 40,682
Net Change in Fund Balance	\$ 603,538	\$ 0	\$ 0	\$ 603,538
Fund Balance, July 1, 2005	1,258,400	0	0	1,258,400
Fund Balance, June 30, 2006	\$ 1,861,938	\$ 0	\$ 0	\$ 1,861,938

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## MISCELLANEOUS SCHEDULES

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Exhibit L-1

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

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-05	Paid and/or Matured During Period	Outstanding 6-30-06
<u>NOTES PAYABLE</u>							
<u>Payable through General Debt Service Fund</u>							
School	\$ 35,000,000	Variable %	8-15-01	6-1-07	\$ 35,000,000	\$ 0	\$ 35,000,000
School	30,000,000	Variable	7-2-02	6-1-08	30,000,000	0	30,000,000
Jail	10,500,000	Variable	7-2-02	6-1-08	9,000,000	6,000,000	3,000,000
Jail	9,000,000	Variable	7-2-03	6-1-09	9,000,000	0	9,000,000
School	20,000,000	Variable	7-2-03	6-1-09	20,000,000	0	20,000,000
School	15,000,000	Variable	7-2-04	6-1-07	15,000,000	0	15,000,000
Total Notes Payable					<u>\$ 118,000,000</u>	<u>\$ 6,000,000</u>	<u>\$ 112,000,000</u>
<u>OTHER LOANS PAYABLE</u>							
<u>Payable through General Debt Service Fund</u>							
School	20,000,000	Variable	3-1-1998	6-30-06	\$ 11,000,000	\$ 11,000,000	\$ 0
Total Bonds Payable					<u>\$ 11,000,000</u>	<u>\$ 11,000,000</u>	<u>\$ 0</u>

Exhibit L-2

Sumner County, Tennessee  
Schedule of Notes and Interest Requirements by Year

Year Ending June 30	Notes Requirements	Interest Requirements	Total Requirements
2007	\$ 50,000,000	\$ 4,854,823	\$ 54,854,823
2008	33,000,000	2,690,617	35,690,617
2009	29,000,000	1,510,979	30,510,979
Total	<u>\$ 112,000,000</u>	<u>\$ 9,056,419</u>	<u>\$ 121,056,419</u>

Exhibit L-3

Sumner County, Tennessee  
Schedule of Investments  
June 30, 2006

Fund and Type	Date of Purchase	Date of Maturity	Interest Rates	Amount
<u>General Debt Service Fund</u>				
Treasury Notes	Various	Various	Varies	\$ 8,393,392

## Exhibit L-4

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

Description	Debtor	Original Amount of Note	Date of Issue	Date of Maturity	Interest Rates	Balance
General Fund:						
Construction of Athletic Facility	Station Camp Creek High Boosters Club	\$ 55,000	6-18-03	6-18-08	0 %	\$ 22,000
Construction of Athletic Facility	Whitehouse Dugout Club	100,000	3-1-04	3-1-14	0	80,000
Construction of Athletic Facility	Whitehouse Soccer Club	39,183	3-1-04	3-1-14	0	31,183
Construction of Athletic Facility	Portland Dugout Club	101,233	7-1-05	6-21-15	0	90,833
Construction of Athletic Facility	Beech Baseball Booster Club	79,000	6-19-06	12-31-16	0	79,000
						<u>\$ 303,016</u>
General Debt Service Fund:						
Construction of Athletic Facility	Portland High Quarterback Club	150,000	3-1-03	3-1-13	0	\$ 93,097
Construction of Athletic Facility	Hendersonville High Athletic Club	155,059	3-1-03	3-1-13	0	105,000
						<u>\$ 198,097</u>
Total Notes Receivable						<u>\$ 501,113</u>

Exhibit L-5

Sumner County, Tennessee

Schedule of Transfers

Primary Government and Discretely Presented Sumner County School Department

For the Year Ended June 30, 2006

<u>To Fund</u>	<u>From Fund</u>	<u>Purpose</u>	<u>Amount</u>
<u>Primary Government</u>			
General	Self-Insurance	Provide funds for salaries	\$ 177,021
General Capital Projects	General Debt Service	Internal loan	2,413,825
Self-Insurance	Employee Insurance - Dental	Close fund	128,930
Self-Insurance	Employee Insurance - Health	Close fund	<u>72,157</u>
Total Transfers Primary Government			<u>\$ 2,791,933</u>
<u>Discretely Presented Sumner County School Department</u>			
General School Purpose	School Federal Projects	Indirect costs	<u>\$ 18,419</u>
Total Transfers Discretely Presented Sumner County School Department			<u>\$ 18,419</u>

Exhibit L-6

Sumner County, Tennessee  
Schedule of Salaries and Official Bonds of Principal Officials  
Primary Government and Discretely Presented Sumner County School Department  
For the Year Ended June 30, 2006

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
County Executive	Sections 8-24-102 and 5-1-310, <u>TCA</u>	\$ 86,763 (1)	\$ 50,000	Hartford Fire Insurance Co.
Highway Superintendent	Section 8-24-102, <u>TCA</u>	80,628	50,000	"
Director of Schools	State Board of Education and Local Board of Education	113,800 (2)		
Trustee	Sections 8-24-102 and 5-1-310, <u>TCA</u>	75,400 (1)	3,538,700	"
Assessor of Property	Sections 8-24-102 and 5-1-310, <u>TCA</u>	75,400 (1)	10,000	Western Surety Co.
Director of Finance:				
Dennis Petty (7-1-05 through 1-22-06)	County Commission	80,971 (3)	50,000	Cincinnati Insurance Co.
Cheryl Thompson (Interim 1-23-06 through 4-30-06)	County Commission	10,830	50,000	"
Rachel Nichols (5-1-06 through 6-30-06)	County Commission	12,115	50,000	Hartford Fire Insurance Co.
County Clerk	Sections 8-24-102 and 5-1-310, <u>TCA</u>	75,400 (1)	50,000	"
Circuit Court Clerk	Sections 8-24-102 and 5-1-310, <u>TCA</u>	75,400 (1)	50,000	"
Clerk and Master	Sections 8-24-102 and 5-1-310, <u>TCA</u> , and Chancery Court	80,702 (4)	50,000	The Ohio Casualty Insurance Co.
Register	Sections 8-24-102 and 5-1-310, <u>TCA</u>	75,400 (1)	25,000	Hartford Fire Insurance Co.
Sheriff	Section 8-24-102, <u>TCA</u>	81,147 (5)	25,000	"

Other Bonds

County Engineer  
 Coroner  
 Employee Blanket Bond

- (1) Includes \$2,100 education supplement.
- (2) Includes \$1,000 career ladder payment.
- (3) Includes vacation pay of \$7,639.
- (4) Includes special commissioner fees totaling \$5,302 and education supplement of \$2,100.
- (5) Includes law enforcement training supplement of \$519.

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## **SINGLE AUDIT SECTION**

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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

March 5, 2007

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

To the County Executive and Board of County Commissioners:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Sumner County, Tennessee, as of and for the year ended June 30, 2006, which collectively comprise Sumner County's basic financial statements and have issued our report thereon dated March 5, 2007. 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 Sumner County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Sumner County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the

accompanying Schedule of Findings and Questioned Costs as items 06.01, 06.06(C), 06.07, 06.09, 06.10, 06.12, and 06.14.

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 Sumner County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as items 06.02, 06.03, 06.04, 06.05, 06.06(A,B), 06.08, 06.11, and 06.13.

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

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

Very truly yours,



John G. Morgan  
Comptroller of the Treasury

JGM/yu



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

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

March 5, 2007

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

To the County Mayor and Board of County Commissioners:

Compliance

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

Sumner County's basic financial statements include the operations of the Sumner County Regional Airport Authority which received \$686,258 in federal awards which is not included in the Schedule of Expenditures of Federal Awards and State Grants during the year ended June 30, 2006. Our audit of Sumner County did not include the operations of the Sumner County Regional Airport Authority because the component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133.

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

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

#### Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

#### Schedule of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Sumner County, Tennessee, as of and for the year ended June 30, 2006, and have issued our report thereon dated March 5, 2007. Our audit was performed for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and State Grants is presented for purposes of additional analysis, as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Very truly yours,

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

John G. Morgan  
Comptroller of the Treasury

JGM/yu

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

For the Resource Authority in Sumner County, Tennessee

To the Board of Directors  
The Resource Authority in Sumner County, Tennessee  
Gallatin, Tennessee

We have audited the financial statements of the Resource Authority in Sumner County, Tennessee, as of and for the year ended June 30, 2006, and have issued our report thereon. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Resource Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we have reported to management in a separate letter.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Resource Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under Government Auditing Standards.

However, we noted certain matters that we reported to the management of the Resource Authority in Sumner County, Tennessee, in a separate letter.

This report is intended solely for the information and use of the finance committee, management and others, the Board of Directors, the State Comptroller's Office 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.

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

For the Sumner County Emergency Communications District

To the Board of Directors  
Sumner County Emergency Communications District  
Gallatin, Tennessee

We have audited the financial statements of the Sumner County Emergency Communications District as of and for the year ended June 30, 2006, and have issued our report thereon. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sumner County Emergency Communications District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sumner County Emergency Communications District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards which is described in the accompanying schedule of findings and recommendations as item 06-1.

This report is intended solely for the information and use of the audit committee, management, city council, 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. However, this report is a matter of public record and its distribution is not limited.

06-1 FINDING (REPEAT)

Failure to Comply with Stipulations of the Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts

District funds were spent for road signs in violation of the Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts.

RECOMMENDATION:

The district should adopt policies and establish procedures to attain compliance with the Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts.

MANAGEMENT'S RESPONSE

These were signs erected on private property, not provided by the county. The board has moved to petition the state board or state legislation to allow Emergency Communications Districts to provide signs for private roads.

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

For the Sumner County Regional Airport Authority

To the Board of Directors  
The Sumner County Regional Airport Authority  
Gallatin, Tennessee

We have audited the financial statements of the Sumner County Regional Airport Authority, Tennessee, as of and for the year ended June 30, 2006, and have issued our report thereon. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sumner County Regional Airport Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving 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 Sumner County Regional Airport Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2006-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sumner County Regional Airport Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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 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 management in the normal course of performing their assigned functions.

Our consideration of the internal control over 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 the reportable condition is not a material weakness.

This report is intended solely for the information and use of the audit committee, management and others with the organization, the County Commission, and federal awarding agencies, pass-through entities, and other regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

## **Finding 2006-1**

### Statement of Condition

The airport administrator makes all deposits, processes all disbursements, and reconciles the bank accounts. Pursuant to prior year audit recommendations, monthly banking activity and all expenditures over \$2,500 are reviewed and approved by the board. After approval, the administrator processes checks that are signed with a single signature, usually by the administrator.

### Criteria

Internal controls should include documented approvals of bank reconciliations. Disbursements should include dual signatures over a stipulated amount.

### Effect of Condition

The absence of dual signatures and independent review of bank reconciliations could increase the opportunity to misstate or misuse the authority's cash.

### Cause of Condition

Management is cognizant of control requirements but is not formally documenting approvals of bank reconciliations or requiring a second signature on disbursements over \$2,500.

### Recommendation

Management should formally document the independent review of monthly bank reconciliations. Further, the board should consider requiring dual signatures on all checks over \$2,500.

Sumner County, Tennessee  
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
U.S. Department of Agriculture:			
Passed-through State Department of Agriculture:			
Food Distribution (Noncash Assistance)	10.550	N/A	\$ 439,503
Passed-through State Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	687,162
National School Lunch Program	10.555	N/A	2,706,071
Total U.S. Department of Agriculture			<u>\$ 3,832,736</u>
U.S. Department of the Interior:			
Direct Program:			
Payments in-Lieu-of Taxes	15.226	N/A	\$ 15,034
Total U.S. Department of the Interior			<u>\$ 15,034</u>
U.S. Department of Justice:			
Direct Program:			
Public Safety Partnership and Community Policing (COPS IN SCHOOLS)	16.710	N/A	\$ 30,630
Passed-through State Department of Children's Services:			
Juvenile Accountability Incentive Block Grant	16.523	GG-05-11498-00	3,091
Passed-through State Department of Finance and Administration:			
Edward Byrne Memorial Formula Grant Program	16.579	Z-99-088468-00	40,250
Total U.S. Department of Justice			<u>\$ 73,971</u>
U.S. Department of Transportation:			
Passed-through State Department of Transportation:			
Highway Planning and Construction	20.205	STP-H-8300(60)	\$ 24,560
Total U.S. Department of Labor			<u>\$ 24,560</u>
U.S. Department of Education			
Passed-through State Department of Labor and Workforce:			
Adult Education - State Grant Program	84.002	Z-06-027820-00	\$ 263,674
Passed-through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	N/A	2,509,732
Special Education Cluster:			
Special Education - Grants to States	84.027	N/A	4,042,976 (3)
Special Education - Grants to States	84.027A	GG-05-11066-00	91,078 (3)
Special Education - Preschool Grants	84.173	N/A	90,235
Vocational Education - Basic Grants to States	84.048	N/A	456,088
Safe and Drug Free Schools and Communities -			
Grants to Reduce Alcohol Abuse	84.184A	(2)	272,734 (4)
Safe and Drug Free Schools and Communities -			
National Coordinator Program	84.184K	(2)	195,888 (4)
Safe and Drug-Free Schools and Communities - State Grants	84.186	(2)	109,898 (5)
Safe and Drug Free Schools and Communities - DARE	84.186B	(2)	3,307 (5)
Education for Homeless Children and Youth - Grants			
for State and Local Activities	84.196A	(2)	55,701
21st Century Community Learning Centers	84.287C	(2)	400,438
State Grants for Innovative Programs	84.298	N/A	204,493
Education Technology State Grants	84.318	(2)	83,801
English Language Acquisition Grants	84.365	N/A	33,812
Improving Teacher Quality State Grants	84.367	N/A	776,464
Hurricane Education Recovery	84.938	N/A	100,733
Total U.S. Department of Education			<u>\$ 9,691,052</u>

(Continued)

Sumner County, Tennessee  
Schedule of Expenditures of Federal Awards and State Grants (1) (Cont.)

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Health and Human Services:			
Passed-through State Department of Labor and Workforce: Child Welfare Services - State Grants (Family Resource Center)	93.645	(2)	\$ 32,683
Passed-through Tennessee Department of Education:			
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	(2)	9,802
Passed-through State Department of Health: Block Grants for Prevention and Treatment of Substance Abuse	93.959	GG-06-12131-00	16,648
Total U.S. Department of Health and Human Services			<u>\$ 59,133</u>
U.S. Department of Homeland Security			
Passed through State Department of Military:			
Homeland Security Cluster:			
Homeland Security Grant Program	97.004	Z-04-020149-01	\$ 45,853 (6)
Homeland Security Grant Program	97.004	Z-04-022497-00	214,038 (6)
Homeland Security Grant Program	97.004	Z-05-025212-00	295,896 (6)
State and Local Homeland Security Exercise Support	97.006	Z-04-019761-01	23,637
Public Assistance Grants	97.036	(2)	381,138
Hazard Mitigation Grant	97.039	GG-0410974-00	19,916
Total U.S. Department of Homeland Security			<u>\$ 980,478</u>
Total Expenditures of Federal Awards			<u>\$ 14,676,964</u>
<u>State Grants</u>			
State Reappraisal Program - Comptroller of the Treasury	N/A	(2)	\$ 39,212
Juvenile Justice - State Commission on Children and Youth	N/A	(2)	9,000
Lottery for Education: Afterschool Program - State Department of Education	N/A	N/A	85,341
Safe Schools Act - State Department of Education	N/A	N/A	73,904
Development and Coordination of Rural Health Services - State Department of Health	N/A	Z-06-026020-00	816,003
Litter Program - State Department of Transportation	N/A	Z-06-028013-00	59,805
Total State Grants			<u>\$ 1,083,265</u>

CFDA = Catalog of Federal Domestic Assistance  
N/A = Not Applicable

- (1) Presented in conformity with generally accepted accounting principles using the modified accrual basis of accounting.
- (2) Information not available.
- (3) Total Special Education - Grants to States from the  
U.S. Department of Education (CFDA No. 84.027) \$4,134,054.
- (4) Total Safe and Drug-Free Schools and Communities - National Program from the  
U.S. Department of Education (CFDA No. 84.184) \$468,622.
- (5) Total Safe and Drug-Free Schools and Communities - State Grants from the  
U.S. Department of Education (CFDA No. 84.186) \$113,205.
- (6) Total Homeland Security Grant Program from the  
U.S. Department of Homeland Security (CFDA No. 97.004) \$555,787.

Sumner County, Tennessee  
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 Comprehensive Annual Financial Report for Sumner County, Tennessee, for the year ended June 30, 2005, which have not been corrected.

**OFFICE OF FINANCE DIRECTOR**

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
05-04	163	A purchasing system was not developed as required by private act

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**SUMNER COUNTY, TENNESSEE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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

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

1. An unqualified opinion was issued on the financial statements of Sumner County.
2. The audit of the financial statements of Sumner County disclosed reportable conditions in internal control. None of these conditions was considered to be a material weakness.
3. The audit disclosed two instances of noncompliance that are material to the financial statements of Sumner County.
4. The audit disclosed no reportable conditions in internal control over major programs.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit revealed no findings that are required to be reported under Section 510(a) of OMB Circular A-133.
7. The Title I Grants to Local Educational Agencies (CFDA No. 84.010); Vocational Education – Basic Grants to States (CFDA No. 84.048); and Improving Teacher Quality State Grants (CFDA No. 84.367) were determined to be major programs.
8. A threshold of \$440,309 was used to distinguish between Type A and Type B federal programs.
9. Sumner County did qualify as a low-risk auditee.

## **PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS**

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

### **OFFICE OF COUNTY EXECUTIVE**

**FINDING 06.01**      **A SIGNATURE STAMP WAS USED TO SIGN DOCUMENTS**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination disclosed that a signature stamp was used to affix the signature of the county executive to official documents. Tennessee Code Annotated does not provide authority for the use of a signature stamp.

### **RECOMMENDATION**

Management should discontinue the use of any signature stamps.

### **MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE**

Management will make necessary changes.

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### **OFFICE OF FINANCE DIRECTOR**

**FINDING 06.02**      **FINANCIAL TRANSACTIONS WERE NOT RECORDED IN ACCORDANCE WITH THE COUNTY UNIFORM CHART OF ACCOUNTS**  
(Noncompliance Under Government Auditing Standards)

The accounting record's fund numbers, fund titles, and account numbers did not conform with the County Uniform Chart of Accounts. The failure to maintain accounts in conformity with the chart defeats the intent of the County Uniform Chart of Accounts as established by the Office of the Comptroller of the Treasury under provisions of Section 5-8-501, Tennessee Code Annotated. This deficiency resulted in a significant increase in total audit hours.

RECOMMENDATION

Accounting records should be maintained in conformity with the County Uniform Chart of Accounts.

MANAGEMENT'S RESPONSE – FINANCE DIRECTOR

Management concurs, and steps are being taken to comply with the County Uniform Chart of Accounts.

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FINDING 06.03      **RETAINAGE WITHHELD FROM CONTRACTOR PAYMENTS  
WAS NOT DEPOSITED INTO AN ESCROW ACCOUNT IN  
COMPLIANCE WITH STATE STATUTE**  
(Noncompliance Under Government Auditing Standards)

The office did not deposit retainage of \$110,108 withheld from contractor payments into an escrow account. Section 66-11-144, Tennessee Code Annotated, requires that retainage withheld from contractor payments be deposited into an escrow account for contracts of \$500,000 or more.

RECOMMENDATION

Retainage withheld from contractor payments on contracts of \$500,000 or more should be deposited into an escrow account in compliance with state statute.

MANAGEMENT'S RESPONSE – FINANCE DIRECTOR

Management concurs.

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FINDING 06.04      **EXPENDITURES EXCEEDED APPROPRIATIONS AT THE  
MAJOR CATEGORY LEVEL OF CONTROL**  
(Material 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):

Fund/Major Category	Amount Overspent
General Fund:	
Election Commission	\$ 220,922
County Buildings	42,951
Civil Defense	15,400
Ambulance/Emergency Medical Services	76,414
Highway/Public Works Fund:	
Other Charges	2,770

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

**RECOMMENDATION**

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

**MANAGEMENT’S RESPONSE – FINANCE DIRECTOR**

Management concurs.

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**FINDING 06.05      COMPETITIVE BIDS WERE NOT SOLICITED FOR THE PURCHASE OF A TRUCK  
(Noncompliance Under Government Auditing Standards)**

Competitive bids were not solicited for the purchase of a truck (\$23,822). Sumner County operates under the provisions of Chapter 113, Private Acts of 2002. This private act does not provide a dollar amount requiring advertisement and competitive bidding, and the financial management committee has not formally adopted a dollar amount requiring competitive bids; therefore, public advertising provisions for the general government fall under the provisions of the County Purchasing Law of 1983, Sections 5-14-201 through 5-14-206, Tennessee Code Annotated, which provide that general government purchases in excess of \$5,000 are to be made after public advertisement and competitive bidding.

**RECOMMENDATION**

Competitive bids should be solicited in compliance with state statute.

MANAGEMENT’S RESPONSE – FINANCE DIRECTOR

Management concurs.

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OFFICE OF DIRECTOR OF SCHOOLS

FINDING 06.06      **THE OFFICE HAD DEFICIENCIES IN BUDGET OPERATIONS**  
(A. and B. Material Noncompliance Under Government Auditing Standards; C. Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following deficiencies in budget operations:

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

<u>Fund/Major Category</u>	<u>Amount Overspent</u>
General Purpose School Fund:	
Vocational Education Program	\$     12,815
Adult Programs	9,166
Board of Education	146,698
School Federal Projects Fund:	
Support Services:	
Transportation	2,770

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

- B. Expenditures exceeded appropriations in 32 personal (payroll) services accounts in the General Purpose School and School Federal Projects Funds by \$348,912. The appropriating resolution in the county budget states, “The salaries, wages, or remuneration of each officer, employee, or agent of the County, shall not be in excess of the amounts authorized by existing law or as set forth in the estimate of expenditures which accompanies this resolution.”

- C. Some budget amendments in the General Purpose School and School Federal Projects Funds were posted to accounts that were not approved by the County Commission. Management accepted our adjustments to properly reflect these budget amendments in the financial statements of this report.

### RECOMMENDATION

Expenditures should be held within appropriations approved by the County Commission. Budget amendments should be posted to the accounts approved by the County Commission.

### MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

The director of schools and central office staff concur with this finding. The following procedures will be implemented immediately:

- Expenditures will be monitored at least monthly to be sure that they do not exceed appropriations in both major categories and personal (payroll) services.
- At least two members of the Finance Department will review budget amendments to be sure that they are posted correctly and that the amounts do not create a negative appropriation.

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**FINDING 06.07      A CASH SHORTAGE OF \$7,121.85 EXISTED AT THE HENDERSONVILLE HIGH SCHOOL CAFETERIA**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

During October 2005, food service personnel observed that the Hendersonville High School cafeteria had collections for six days in September 2005 that were not deposited into the bank account. School Department personnel did not inform auditors of the cash shortage until April 2006.

We reviewed the accounting records at the Hendersonville High School cafeteria from August 16, 2004, through October 31, 2005, and noted the following deficiencies:

- A. Collections for six days in September 2005, of \$7,121.85, were not deposited or otherwise accounted for.
- B. Collections for 12 days were not deposited to the bank account within three days of collection as required by Section 5-8-207, Tennessee Code Annotated.
- C. The cafeteria's computer system allows for changes to daily collections without any record of the changes.

- D. Food service personnel reconciled the monthly bank statements with the daily summary reports from the computer system. However, original deposit slips and supporting documentation (original receipts) were not reviewed and reconciled with the summary reports and bank deposits. Any differences between daily collections and deposits were noted on the bank reconciliation, but an explanation of the differences was not always given.
- E. Duties were not segregated adequately. Employees who were responsible for maintaining accounting records were also involved in receipting and depositing funds.
- F. Funds were not adequately safeguarded because several employees had access to collections.

We have discussed this finding with the district attorney general who asked for an investigation by the Tennessee Bureau of Investigation (TBI). The TBI investigation is pending.

#### RECOMMENDATION

Officials should institute proceedings with their insurance company to collect the missing funds, correct the above-noted deficiencies, and improve internal control procedures over the operation of the Hendersonville High School cafeteria. School officials should randomly perform internal audit procedures at all of the School Department cafeterias to ensure control over collections.

#### MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

The director of schools and central office staff concur with this finding. The following procedures are currently in place and will be enforced:

- The school nutrition supervisor and central office staff can view individual school cafeteria bank accounts via the internet to monitor the deposit of funds within the three-day limit. The three-day deposit requirement will be reviewed at managers' meetings throughout the year.
- New point-of-sale software has been purchased and installed that will not allow changes to be made after each day is closed out.
- Original deposit slips and receipts will be used in reconciling the monthly bank statements. This requirement will be reviewed at managers' meetings throughout the year.
- Wherever possible, duties involving the receipting, counting, and depositing of funds will be divided among two or more employees, so that one person is not responsible for all of the cash-related functions.

- Cashiers are assigned specific cash register lines for accountability. Registers can only be accessed via a personalized code number. Funds will be safeguarded in the manager's office until the deposit is made.
- The insurance company will be contacted to pursue the possibility of filing a claim.

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**FINDING 06.08**      **THE OFFICE DID NOT BID CERTAIN PURCHASES**  
(Noncompliance Under Government Auditing Standards)

Competitive bids were not solicited for the repair of two service trucks (\$16,849), and certain instructional materials (\$7,113). These purchases were approved by the executive committee (director of schools and the chairman of the Board of Education).

Sumner County operates under the provisions of Chapter 113, Private Acts of 2002. This private act does not provide a dollar amount requiring advertisement and competitive bidding, and the financial management committee has not formally adopted a dollar amount requiring competitive bids; therefore, public advertising provisions for the School Department fall under the provisions of Section 49-2-203, Tennessee Code Annotated (TCA), which provide for the county Board of Education, through its executive committee, to make all purchases, and that competitive bids should be solicited through newspaper advertisement on all purchases exceeding \$5,000. It should be noted that the Tennessee General Assembly amended Section 49-2-203, TCA, effective May 12, 2006, raising the bid limit from \$5,000 to \$10,000.

**RECOMMENDATION**

All purchases exceeding the bid limit established by statute should be competitively bid.

**MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS**

Management and the central office staff concur with the finding regarding the purchase of instructional materials. Competitive bids will be solicited for purchases over \$10,000.

Repairs to two departmental service trucks (Transportation and Operations) were made by the only authorized repair facility in the area. In order to obtain an estimate, the vehicles would have needed to be physically examined by the repair shops. It was determined that to reassemble the truck engines and have the vehicles towed to one or more other dealerships to obtain repair estimates would not be cost-efficient or enable the trucks to be repaired and put back on the road in a timely manner.

**FINDING 06.09      THE OFFICE USED SIGNATURE STAMPS**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Signature stamps were used to affix the director of school's and board chair's signatures to documents issued by the office. Section 49-2-113, Tennessee Code Annotated, provides for the use of a mechanical check-signing machine; however, there is no statutory authority for the use of a signature stamp in place of an individual's actual signature.

**RECOMMENDATION**

In the absence of statutory authority, the office should discontinue using any signature stamps.

**MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS**

The director of schools and central office staff concur with this finding. The following procedures will be implemented immediately.

- The signature stamps for the director of schools and the board chair will be destroyed.
- The director of schools and the board chair will sign replacement payroll checks in person.
- No other documents issued by the Finance Department will be signed with a signature stamp.

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**OFFICE OF TRUSTEE**

**FINDING 06.10      TRUSTEE FUNDS TOTALING \$21,803 WERE STOLEN**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

On Monday, January 9, 2006, county officials discovered that a burglary had occurred at the Sumner County Administration Building over the weekend, and the Offices of Trustee, County Clerk, and County Executive had been entered. In the Office of Trustee, cash totaling \$6,518 and checks totaling \$15,285 were missing from the safe. The City of Gallatin Police Department is investigating the theft.

## MANAGEMENT'S RESPONSE – TRUSTEE

All checks that were stolen were voided and replacement checks were received, processed, and properly deposited. The County Commission replaced the cash due to the high deductible of our insurance.

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## OFFICE OF CLERK AND MASTER

### FINDING 06.11      **UNCLAIMED FUNDS WERE NOT REPORTED AND PAID TO THE STATE** (Noncompliance Under Government Auditing Standards)

The clerk and master did not report and pay unclaimed funds (old outstanding checks totaling \$63,471.67 as of June 30, 2006) to the state Treasurer's Office. The Unclaimed Property Act, Section 66-29-101 et seq., Tennessee Code Annotated, provides that any funds held for more than one year and unclaimed by the owner are considered abandoned. This statute further provides for the funds to be reported and paid to the state Treasurer's Office.

### RECOMMENDATION

The clerk should report and pay to the state Treasurer's Office any unclaimed funds held for more than one year as required by state statute.

## MANAGEMENT'S RESPONSE – CLERK AND MASTER

The clerk and master has assigned a part-time employee to assist with voiding the unclaimed checks and attempting to locate these persons. This task is almost completed, and monies will be turned over to the State of Tennessee in May 2007, after publication is completed.

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## OTHER FINDINGS AND RECOMMENDATIONS

### FINDING 06.12      **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF TRUSTEE, CIRCUIT COURT CLERK, AND CLERK AND MASTER,** (Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among the employees in the Offices of Trustee, Circuit Court Clerk, and Clerk and Master. Employees responsible for maintaining the accounting records were also involved in receipting, depositing, and/or disbursing funds.

## RECOMMENDATION

To strengthen internal controls over operations, officials should segregate duties adequately among employees.

## MANAGEMENT'S RESPONSE – TRUSTEE

I did not fully understand the segregation of duties process; however, some procedures were put in place. Since I did not get re-elected, I did not get to fully implement all procedures that were necessary to comply with the recommendation.

## MANAGEMENT'S RESPONSE – CIRCUIT COURT CLERK

All employees in the office write receipts. When the counter has people waiting for service, sometimes all the employees are there waiting on them. I feel it is necessary for everyone to be able to wait on the customers, which usually involves writing a receipt.

Each morning the money drawers are counted and balanced by an employee, the money and receipts are handed to another employee who counts the money again, balances the money with the receipts, and the receipts with the various line items they are paid into. After this the money, receipts, and ledgers are given to the bookkeeper who again counts the money and gives the deposit to another employee who writes up the deposit. The deposit is then given to a runner who takes it to the bank and returns the deposit book for verification as to the deposit amount. The money is placed in a vault in the Circuit Division at night and the money is placed in a safe in the General Sessions Office at night.

Three employees and I are trained to post the cash journal. One employee usually posts the cash journal; however, the two other employees or I frequently post the cash journal.

At the end of the month, one employee and I balance the books and get the reports ready to go to the various agencies, and we issue all checks that go with them. Either Tammy Prock, my employee, or I will sign the checks. I usually balance the bank statement at the end of each month, however, Tammy will do it if I am tied up on something else or out of town. I do the year end financial statement to be sure that everything balances for the year, and I will have to say I keep my nose in everything that involves the money in the office to be sure it is all there.

## MANAGEMENT'S RESPONSE – CLERK AND MASTER

I no longer have the account clerk sign any of the checks issued; however, I have continued to allow the account clerk to remain on the signature card at the banks because the account clerk is the chief deputy and in the absence of the clerk and master it is necessary for her to perform the duties of clerk and master. Every clerk in the office receipts monies. Since our office has been computerized and monthly reports are generated by the computer, the account clerk receipts court cost and reconciles the accounts. I am making efforts to comply with the audit finding, but I find it necessary to be cautious with whom I give authority to perform certain duties when it involves the monies of the court.

**FINDING 06.13      THE COUNTY DOES NOT COMPLY WITH ITS PRIVATE ACT REGARDING PURCHASING**  
(Noncompliance Under Government Auditing Standards)

Chapter 113, Private Acts of 2002, provides that the financial management committee, with the assistance of the purchasing agent, shall establish a purchasing system for the county. This act also provides for the purchasing agent to review specifications and changes developed by individual departments to allow for maximum competition of prospective bidders; prepare formal and informal bids; collect sealed bids; and open bids through a procedure open to the public. In addition, the purchasing agent shall evaluate, compare and submit bids for approval by the financial management committee, if so deemed by the committee; issue purchase orders and contracts; and verify receiving the merchandise or service. Sumner County hired a purchasing agent May 1, 2006; however, a purchasing system has not been established.

**RECOMMENDATION**

The financial management committee should establish a purchasing system in compliance with its private act.

**MANAGEMENTS' RESPONSE – COUNTY EXECUTIVE AND FINANCE DIRECTOR**

Management is taking steps to implement a formal purchasing system.

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**FINDING 06.14      WRITTEN GUIDELINES GOVERNING CELLULAR TELEPHONES AND CREDIT CARDS HAD NOT BEEN ADOPTED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Sumner County had cellular telephones and credit cards available for employees to use for business purposes. However, the County Commission had not adopted written guidelines governing the use of these telephones and credit cards.

**RECOMMENDATION**

The County Commission should adopt written guidelines governing the use of cellular telephones and credit cards. These guidelines should identify those who are entitled to use the telephones and credit cards and the purposes for which the telephones and credit cards can be used.

**MANAGEMENTS' RESPONSE – COUNTY EXECUTIVE AND FINANCE DIRECTOR**

Management is taking steps to adopt needed policies.

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

There were no findings and questioned costs for federal awards.

**SUMNER COUNTY, TENNESSEE  
AUDITEE REPORTING RESPONSIBILITIES  
For the Year Ended June 30, 2006**

There were no audit findings relative to federal awards presented in the prior or current years' Schedules of Findings and Questioned Costs.