

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

SINGLE AUDIT REPORT



FOR THE YEAR ENDED JUNE 30, 2006

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

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

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

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Audit Highlights

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

Scope

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

Results

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

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

Findings

The following are summaries of the audit findings:

FENTRESS COUNTY

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

FINANCE DEPARTMENT

- ◆ In some instances, the department used a signature stamp to affix the signature of the finance director to purchase orders and warrants. Competitive bids were not solicited for bullet-proof vests, and purchase orders were not issued for all applicable purchases.
- ◆ The office did not properly maintain inventory records and control over assets.
- ◆ Expenditures exceeded appropriations approved by the County Commission in three major appropriations categories (the legal level of control) of the School Federal Projects Fund.

OFFICE OF COUNTY CLERK

- ◆ Motor vehicle titles and registrations were not reported and paid to the state currently.
-

OFFICE OF GENERAL SESSIONS COURT CLERK

- ◆ Bank statements were not accurately reconciled with the general ledger.
 - ◆ Unclaimed funds were not reported and paid to the state as required by state statute.
 - ◆ The clerk did not require a depository holding county funds to pledge adequate securities to protect funds that exceeded FDIC coverage.
-

OTHER FINDING

- ◆ Duties were not segregated adequately among the officials and employees in the Offices of County Executive, Finance Department, Road Supervisor, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff.

INTRODUCTORY SECTION

Fentress County Officials

June 30, 2006

Officials

John Mullinix, County Executive
Fred Blevins, Road Supervisor
Jerry Roysden, Trustee
Roger Compton, Assessor of Property
Marilyn Stephens, County Clerk
Frank Smith, Circuit and General Sessions Courts Clerk
Kathryn Robbins, Clerk and Master
Faye Stephens, Register
Noel Ray Atkinson, Sheriff
Marilyn Joyce Crabtree, Finance Director

Board of County Commissioners

Bob Pile, Chairman
Leonard Bilbrey
Larry Cooper
Michael Cross
Joey Davidson
Candy Norman
Porter Ray Penticuff
Hollis Poore
Gene Allen Roysden
Donal Williams

Finance Committee

John Mullinix
Fred Blevins
Homer Lee Linder, Jr.
Larry Cooper
Michael Cross
Candy Norman
Bob Pile

FINANCIAL SECTION



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

INDEPENDENT AUDITOR'S REPORT

September 11, 2006

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

To the County Executive and Board of County Commissioners:

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Fentress County, Tennessee, as of and for the year ended June 30, 2006, as shown on pages 15 through 39, which collectively comprise a portion of the county's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Fentress County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

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

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

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

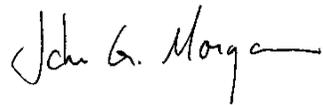
In accordance with Government Auditing Standards, we have also issued our report dated September 11, 2006, on our consideration of Fentress County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The budgetary comparison information on pages 43 through 49 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 Fentress County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the General Debt Service Fund,

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

Very truly yours,

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

John G. Morgan
Comptroller of the Treasury

JGM/sb

BASIC FINANCIAL STATEMENTS

Exhibit A

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

	Major Funds				Nonmajor	Total
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Governmental Funds	
<u>ASSETS</u>						
Cash	\$ 0	\$ 0	\$ 0	\$ 0	\$ 12,542	\$ 12,542
Equity in Pooled Cash and Investments	2,346,578	390,912	142,021	2,414,437	163,926	5,457,874
Accounts Receivable	427,545	10,174	3,160	0	1,069	441,948
Allowance for Uncollectibles	(114,348)	0	0	0	0	(114,348)
Due from Other Governments	98,346	317,511	307,754	56,090	0	779,701
Due from Other Funds	12,880	315	12,250	0	0	25,445
Due from Component Units	0	660	0	0	0	660
Property Taxes Receivable	2,185,249	314,824	0	203,710	0	2,703,783
Allowance for Uncollectible Property Taxes	(95,262)	(13,724)	0	(8,881)	0	(117,867)
Total Assets	\$ 4,860,988	\$ 1,020,672	\$ 465,185	\$ 2,665,356	\$ 177,537	\$ 9,189,738
<u>LIABILITIES AND FUND BALANCES</u>						
<u>Liabilities</u>						
Accrued Payroll	\$ 7,262	\$ 0	\$ 0	\$ 0	\$ 0	\$ 7,262
Payroll Deductions Payable	3	1	1,320	0	0	1,324
Due to Other Funds	0	0	0	0	12,880	12,880
Other Current Liabilities	0	0	12	0	0	12
Deferred Revenue - Current Property Taxes	1,981,393	285,455	0	184,706	0	2,451,554
Deferred Revenue - Delinquent Property Taxes	85,766	12,356	0	7,995	0	106,117
Other Deferred Revenues	291,854	57,471	150,310	28,622	0	528,257
Total Liabilities	\$ 2,366,278	\$ 355,283	\$ 151,642	\$ 221,323	\$ 12,880	\$ 3,107,406
<u>Fund Balances</u>						
Reserved for Encumbrances	\$ 425	\$ 0	\$ 0	\$ 0	\$ 0	\$ 425
Reserved for Alcohol and Drug Treatment	6,456	0	0	0	0	6,456
Reserved for Litigation Tax - Jail, Workhouse, or Courthouse	15,597	0	0	0	0	15,597

(Continued)

Exhibit A

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

	Major Funds			Nonmajor	Total	
	General	Solid Waste / Sanitation	Highway / Public Works	General Governmental Funds		Governmental Funds
<u>LIABILITIES AND FUND BALANCES (Cont.)</u>						
<u>Fund Balances (Cont.)</u>						
Reserved for Computer System - Register	\$ 9,258	\$ 0	\$ 0	\$ 0	\$ 9,258	
Unreserved, Reported In:						
General Fund	2,462,974	0	0	0	2,462,974	
Special Revenue Funds	0	665,389	313,543	153,732	1,132,664	
Debt Service Funds	0	0	0	2,444,033	2,444,033	
Capital Projects Funds	0	0	0	10,925	10,925	
Total Fund Balances	\$ 2,494,710	\$ 665,389	\$ 313,543	\$ 2,444,033	\$ 6,082,332	
Total Liabilities and Fund Balances	\$ 4,860,988	\$ 1,020,672	\$ 465,185	\$ 2,665,356	\$ 9,189,738	

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

Exhibit B

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

	Major Funds				Nonmajor	Total
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern- mental Funds	
<u>Revenues</u>						
Local Taxes	\$ 2,669,270	\$ 898,544	\$ 58,657	\$ 517,546	\$ 0	\$ 4,144,017
Licenses and Permits	24,866	0	0	0	0	24,866
Fines, Forfeitures, and Penalties	63,291	0	0	0	149,568	212,859
Charges for Current Services	1,172,976	155,228	0	0	0	1,328,204
Other Local Revenues	589,339	101,930	274,684	79,230	4,713	1,049,896
Fees Received from County Officials	572,770	0	0	0	0	572,770
State of Tennessee	480,437	263,510	1,804,683	0	9,749	2,558,379
Federal Government	69,613	0	0	0	0	69,613
Other Governments and Citizens Groups	22,800	0	0	350,000	0	372,800
Total Revenues	\$ 5,665,362	\$ 1,419,212	\$ 2,138,024	\$ 946,776	\$ 164,030	\$ 10,333,404
<u>Expenditures</u>						
Current:						
General Government	\$ 596,182	\$ 0	\$ 0	\$ 0	\$ 0	\$ 596,182
Finance	759,878	0	0	0	0	759,878
Administration of Justice	398,161	0	0	0	0	398,161
Public Safety	1,451,007	0	0	0	107,481	1,558,488
Public Health and Welfare	1,228,984	1,532,383	0	0	10,600	2,771,967
Social, Cultural, and Recreational Services	155,972	0	0	0	0	155,972
Agricultural and Natural Resources	76,721	0	0	0	0	76,721
Other Operations	404,252	46,995	0	0	0	451,247
Highways	0	0	2,616,139	0	0	2,616,139
Debt Service:						
Principal on Debt	0	0	243,691	457,581	0	701,272
Interest on Debt	0	0	34,456	308,400	0	342,856
Other Debt Service	0	0	0	49,671	0	49,671
Total Expenditures	\$ 5,071,157	\$ 1,579,378	\$ 2,894,286	\$ 815,652	\$ 118,081	\$ 10,478,554
Excess (Deficiency) of Revenues Over Expenditures	\$ 594,205	\$ (160,166)	\$ (756,262)	\$ 131,124	\$ 45,949	\$ (145,150)

(Continued)

Exhibit B

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

	Major Funds				Nonmajor	Total
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern- mental Funds	
<u>Other Financing Sources (Uses)</u>						
Notes Issued	\$ 0	\$ 0	\$ 892,678	\$ 0	\$ 0	\$ 892,678
Capital Leases Issued	0	0	0	0	43,150	43,150
Transfers In	3,000	0	0	0	0	3,000
Transfers Out	0	(3,000)	0	0	0	(3,000)
Total Other Financing Sources (Uses)	\$ 3,000	\$ (3,000)	\$ 892,678	\$ 0	\$ 43,150	\$ 935,828
Net Change in Fund Balances	\$ 597,205	\$ (163,166)	\$ 136,416	\$ 131,124	\$ 89,099	\$ 790,678
Fund Balance, July 1, 2005	1,897,505	828,555	177,127	2,312,909	75,558	5,291,654
Fund Balance, June 30, 2006	\$ 2,494,710	\$ 665,389	\$ 313,543	\$ 2,444,033	\$ 164,657	\$ 6,082,332

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

Exhibit C

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

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash	\$ 425,161
Due from Other Governments	<u>110,567</u>
Total Assets	<u>\$ 535,728</u>
<u>LIABILITIES</u>	
Due to Other Taxing Units	\$ 110,567
Due to Litigants, Heirs, and Others	<u>425,161</u>
Total Liabilities	<u>\$ 535,728</u>

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

A. Reporting Entity

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

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

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

The Fentress County School Department operates the public school system in the county, and the voters of Fentress 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 Fentress County Emergency Communications District provides a simplified means of securing emergency services through a uniform emergency number for the residents of Fentress County, and the Fentress 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 Fentress County Industrial Development Board provides assistance in industrial recruitment in Fentress County, and the County Commission appoints its seven-member board. Fentress County substantially funds the Industrial Development Board through annual appropriations. During the year ended June 30, 2006, the county appropriated an operating subsidy of \$33,000 to the board.

The Fentress County School Department, the Fentress County Emergency Communications District, and the Fentress County Industrial Development Board issue separate financial statements from those of the county. The School Department's financial statements are published as a separate report, but under the same cover as the county's financial statements. The financial statements of the Fentress County Emergency Communications District and the Fentress County Industrial Development Board are published as separate reports. Complete financial statements of the Fentress County Emergency Communications District and the Fentress County Industrial Development Board can be obtained from their administrative offices at the following addresses:

Administrative Offices:

Fentress County Emergency Communications District
310 South Main
Jamestown, TN 38556

Fentress County Industrial Development Board
114 Central Avenue West
Jamestown, TN 38556

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

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

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

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

Property taxes for the period levied, in-lieu-of tax payments, sales taxes, interest, and miscellaneous taxes are all considered to be susceptible to accrual and have been recognized as revenues of the current period. Applicable business taxes, litigation taxes, state-shared excise taxes, fines, forfeitures, and penalties are not susceptible to accrual since they are not measurable (reasonably estimable). All other revenue items are considered to be measurable and available only when the county receives cash.

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds which have no measurement focus. Revenues are recognized

when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Fentress County reports the following major governmental funds:

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

Solid Waste/Sanitation Fund – This fund is used to account for transactions relating to the disposal of Fentress County’s solid waste.

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

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

Additionally, Fentress County reports the following fund types:

Capital Projects Fund – The Community Development/Industrial Park Fund is used to account for financial resources to be used for maintaining and improving industrial park buildings.

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

C. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

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

The county trustee maintains a cash and internal investment pool that is used by all Fentress County and Fentress County School Department funds. Each fund’s portion of this pool is displayed on the balance sheets or statements of net assets as Equity in Pooled Cash

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

2. Receivables and Payables

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

All ambulance and property taxes receivable are shown with an allowance for uncollectibles. Ambulance receivables allowance for uncollectibles is based on historical collection data. The allowance for uncollectible property taxes is equal to 2.29 percent of total taxes levied.

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

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

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

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

3. Capital Assets

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

4. Compensated Absences

The general policy of Fentress County does not allow for the accumulation of vacation and sick days beyond year end.

5. Long-term Obligations

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

Governmental funds recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses.

Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Fund Equity

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

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

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

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

B. The County Had Deposits That Were Exposed to Custodial Credit Risk

The general sessions court clerk did not require one depository holding county funds to pledge adequate securities to protect funds that exceeded Federal Deposit Insurance Corporation (FDIC) coverage. At June 30, 2006, deposits at this depository exceeded FDIC coverage and collateral securities pledged by \$91,833. Section 5-8-201, Tennessee Code Annotated, provides for county officials to require any bank that is a depository of county funds to

deposit in an escrow account in a second bank collateral security equal to 105 percent of such county funds.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

Deposits

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

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, Fentress County's deposits may not be returned to it. Fentress County does not have a formal policy that limits custodial credit risk for deposits. Separate disclosures concerning bank balances of pooled deposits cannot be made for Fentress County and the Fentress County School

Department since both pool their deposits and investments through the county trustee. As of June 30, 2006, bank balances of \$91,833 were exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$ 91,833</u>
Total	<u><u>\$ 91,833</u></u>

This amount was in a nonpooled bank account reported in the fiduciary funds. Uninsured and uncollateralized deposits are a violation of state statutes.

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. The county had no pooled and nonpooled investments as of June 30, 2006.

B. Interfund Receivables, Payables, and Transfers

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

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental	\$ 12,880
Solid Waste/Sanitation	General	300
Solid Waste/Sanitation	Highway/Public Works	15
Highway/Public Works	General	8,575
Highway/Public Works	Solid Waste/Sanitation	3,675

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

All receivables, except for the \$12,880 due from the nonmajor governmental funds to the General Fund, were in transit from the payable funds at June 30, 2006.

Due to/from primary government and component unit:

Receivable Fund	Payable Fund	Amount
Primary government: Solid Waste/Sanitation	Component unit: School Department: General Purpose School	\$ 660

This receivable was in transit from the General Purpose School Fund at June 30, 2006.

Interfund Transfers:

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

<u>Transfers Out</u>	<u>Transfers In General Fund</u>
Solid Waste/Sanitation Fund	\$ 3,000
Total	<u>\$ 3,000</u>

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

C. Capital Leases

On April 29, 2003, Fentress County entered into a five-year lease-purchase agreement for a tractor and cutter. The terms of the agreement require total lease payments of \$34,822 plus interest of 5.1 percent. Title to the equipment transfers to Fentress County at the end of the lease period. The lease payments are made by the Highway/Public Works Fund.

On December 13, 2005, Fentress County entered into a two-year lease-purchase agreement for two patrol cars. The terms of the agreement require total lease payments of \$43,150 plus interest of 5.2 percent. Title to

the patrol cars transfers to Fentress County at the end of the lease period. The Drug Control Fund is making the lease payments.

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

<u>Year Ending June 30</u>	<u>Governmental Funds</u>
2007	\$ 22,962
2008	<u>20,973</u>
Total Minimum Lease Payments	\$ 43,935
Amounts Representing Interest	<u>(2,821)</u>
 Present Value of Minimum Lease Payments	 \$ <u><u>41,114</u></u>

D. Long-term Debt

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

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 five years for notes and up to 25 years for other loans. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. Capital outlay notes included in long-term debt as of June 30, 2006, will be retired from the General Debt Service Fund and the Highway Public Works Fund. Other loans included in long-term debt as of June 30, 2006, will be retired from the General Debt Service Fund.

Capital outlay notes, other loans, and capital leases outstanding as of June 30, 2006, are as follows:

Type	Interest Rate		Original Amount of Issue	Balance 6-30-06
Capital Outlay Notes	2.7	%	\$ 1,628,000	\$ 1,319,710
Other Loans	Variable		12,300,000	9,259,000
Capital Leases	5.1 to 5.2		77,972	41,114

In prior years, Fentress County entered into two loan agreements with the Montgomery County Public Building Authority. Under these agreements, the authority loaned funds to Fentress County for the construction of an elementary school (\$6,000,000) and for various public works projects (\$1,000,000). The loans are repayable at tax-exempt variable rates determined by the remarketing agent daily or weekly, depending on the particular program. In addition, the county pays various other fees (trustee, letter of credit, and debt remarketing) in connection with these loans. At June 30, 2006, the variable interest rate for each loan was four percent, and other fees amounted to approximately .25 percent (letter of credit fee), .08 percent (remarketing fee) of the outstanding loan principal, and the trustee fee was \$100 per month.

Also, in prior years, Fentress County entered into a loan agreement with the Sevier County Public Building Authority. Under this loan agreement, the authority loaned Fentress County \$5,300,000 for construction and renovation at an elementary school. The loan is repayable at an interest rate that is a tax-exempt variable rate determined by the remarketing agent daily or weekly, depending on the particular program. In addition, the county pays various other fees (liquidity, rating agency, administrative, trustee, and debt remarketing) in connection with this loan. At June 30, 2006, the variable interest rate was four percent, and other fees were approximately .55 percent of the outstanding loan principal.

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

Year Ending June 30	Notes	
	Principal	Interest
2007	\$ 316,718	\$ 31,739
2008	325,317	23,140
2009	334,269	14,188
2010	343,406	5,051
Total	\$ 1,319,710	\$ 74,118

Year Ending June 30	Other Loan (\$5,300,000)			
	Principal	Interest	Other Fees	Total
2007	\$ 205,000	\$ 126,600	\$ 17,407	\$ 349,007
2008	215,000	118,400	16,280	349,680
2009	225,000	109,800	15,098	349,898
2010	240,000	100,800	13,860	354,660
2011	250,000	91,200	12,540	353,740
2012-2016	1,475,000	294,000	40,425	1,809,425
2017-2018	360,000	30,600	4,207	394,807
Total	\$ 2,970,000	\$ 871,400	\$ 119,817	\$ 3,961,217

Year Ending June 30	Other Loan (\$6,000,000)			
	Principal	Interest	Other Fees	Total
2007	\$ 164,000	\$ 216,760	\$ 19,083	\$ 399,843
2008	172,000	210,200	18,541	400,741
2009	181,000	203,320	17,974	402,294
2010	190,000	196,080	17,377	403,457
2011	199,000	188,480	16,749	404,229
2012-2016	1,156,000	814,600	73,205	2,043,805
2017-2021	1,474,000	559,200	52,134	2,085,334
2022-2026	1,883,000	233,240	25,242	2,141,482
Total	\$ 5,419,000	\$ 2,621,880	\$ 240,305	\$ 8,281,185

Year Ending June 30	Other Loan (\$1,000,000)			
	Principal	Interest	Other Fees	Total
2007	\$ 37,000	\$ 34,800	\$ 4,071	\$ 75,871
2008	39,000	33,320	3,949	76,269
2009	40,000	31,760	3,820	75,580
2010	43,000	30,160	3,688	76,848
2011	45,000	28,440	3,546	76,986
2012-2016	259,000	113,480	15,362	387,842
2017-2021	331,000	56,200	10,637	397,837
2022	76,000	3,040	1,451	80,491
Total	\$ 870,000	\$ 331,200	\$ 46,524	\$ 1,247,724

There is \$2,444,033 available in the General Debt Service Fund to service long-term debt. Total debt per capita, including notes, capital leases, and other loans, amounted to \$650, based on the 2000 federal census.

Changes in Long-term Liabilities

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

Governmental Activities:	Notes	Capital Leases
Balance, July 1, 2005	\$ 735,322	\$ 48,055
Additions	892,678	43,150
Deductions	(308,290)	(50,091)
Balance, June 30, 2006	<u>\$ 1,319,710</u>	<u>\$ 41,114</u>
Balance Due Within One Year	<u>\$ 316,718</u>	<u>\$ 21,007</u>
	Other	Landfill Closure/ Postclosure Care Costs
	Loans	
Balance, July 1, 2005	\$ 9,645,000	\$ 188,100
Deductions	(386,000)	(8,550)
Balance, June 30, 2006	<u>\$ 9,259,000</u>	<u>\$ 179,550</u>
Balance Due Within One Year	<u>\$ 406,000</u>	<u>\$ 8,550</u>

Landfill postclosure care costs will be paid from the Solid Waste/Sanitation Fund.

IV. OTHER INFORMATION

A. Risk Management

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

The county provides employee health coverage through commercial insurance.

B. Accounting Changes

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

The provisions of GASB Statement No. 44, Economic Condition Reporting: The Statistical Section (an amendment of NCGA Statement 1) became effective for the year ended June 30, 2006. GASB Statement No. 44 applies to the preparation of the statistical section. State and local governments may, but are not required to, prepare a statistical section to accompany basic financial statements. However, a statistical section is required to accompany a comprehensive annual financial report. Since Fentress 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 Fentress 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. Fentress County had no net assets restricted by enabling legislation to disclose as of June 30, 2006. But it is reasonably expected that Fentress County will be required to disclose net assets restricted by enabling legislation in subsequent years.

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

C. Subsequent Events

Frank Smith left the Office of Circuit and General Sessions Courts Clerk on August 31, 2006, and was succeeded by Tammy Smith.

Noel Ray Adkinson left the Office of Sheriff on August 31, 2006, and was succeeded by Charles Cravens.

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. Landfill Postclosure Care Costs

State and federal laws and regulations require the county to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. These closure and postclosure care costs generally are paid near or after the date that the landfill stops accepting waste. Fentress County closed its landfill on July 27, 1994, and has contracted with Scott County for its waste disposal. The Solid Waste/Sanitation Fund (special revenue fund) reports postclosure care costs as expenditures in each period in which they are incurred. The \$179,550 reported as landfill postclosure care liability at June 30, 2006, represents estimated postclosure care costs for the landfill based on the use of 100 percent of the landfill's capacity. Actual costs may vary from estimates due to inflation, changes in technology, or changes in regulations.

F. Joint Venture

The Eighth Judicial District Drug Task (DTF) is a joint venture formed by an interlocal agreement between the district attorney general of the Eighth Judicial District and the municipalities within in the district. The district is composed of Fentress, Campbell, Claiborne, Scott, and Union Counties. The purpose of the DTF is to provide multi-jurisdictional law enforcement to promote the investigation and prosecution of drug-related activities. Funds for the operations of the DTF come primarily from federal grants, drug fines, and the forfeiture of drug-related assets to the DTF. The DTF is overseen by the district attorney general and is governed by a board of directors including the district attorney general, sheriffs, and police chiefs of participating law enforcement agencies within each judicial district. Fentress County made no contributions to the DTF for the year ended June 30, 2006, and does not have an equity interest in this joint venture. Complete financial statements for the Eighth Judicial District Task Force can be obtained from its administrative office at the following address:

Administrative Office:

Eighth Judicial District Drug Task Force
P. O. Box 10
Huntsville, TN 37756

G. Retirement Commitments

Plan Description

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

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

Funding Policy

Fentress County requires employees to contribute five percent of earnable compensation. The county is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2006, was 4.77 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Fentress County is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2006, Fentress County's annual pension cost of \$157,685 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. Fentress County's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2003, was 14 years.

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6-30-06	\$157,685	100%	\$0
6-30-05	148,267	100	0
6-30-04	136,234	100	0

Required Supplementary Information
Schedule of Funding Progress for Fentress County

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll ((b-a)/c)
	(a)	(b)	(b) - (a)	(a/b)	(c)	
6-30-05	\$2,410	\$2,446	\$36	98.53%	\$3,030	1.19%
6-30-03	1,757	1,797	40	97.77	2,510	1.59
6-30-01	1,259	1,303	44	96.62	2,128	2.07

H. Office of Central Accounting, Budgeting, and Purchasing

Fentress County operates under provisions of the County Financial Management System of 1981 which provides for a central system of accounting, budgeting, and purchasing for all funds of the county. This act provides for the creation of a Finance Department operated under the direction of the finance director.

I. Purchasing Law

The County Financial Management System of 1981 provides for the finance director or a deputy appointed by her to serve as the county purchasing agent. The finance director serves as the purchasing agent for Fentress County. All purchase orders are issued by the Finance Department. Purchases exceeding \$5,000 for the Office of County Executive and \$10,000 for the Office of Road Supervisor are required to be competitively bid.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit D-1

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

	Actual (GAAP Basis)	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	\$ 2,669,270	\$ 0	\$ 2,669,270	\$ 2,692,060	\$ 2,692,060	\$ (22,790)
Licenses and Permits	24,866	0	24,866	27,500	27,500	(2,634)
Fines, Forfeitures, and Penalties	63,291	0	63,291	57,650	61,254	2,037
Charges for Current Services	1,172,976	0	1,172,976	1,134,911	1,221,552	(48,576)
Other Local Revenues	589,339	0	589,339	192,000	302,512	286,827
Fees Received from County Officials	572,770	0	572,770	511,000	511,000	61,770
State of Tennessee	480,437	0	480,437	465,500	476,654	3,783
Federal Government	69,613	0	69,613	12,000	115,632	(46,019)
Other Governments and Citizens Groups	22,800	0	22,800	15,200	15,200	7,600
Total Revenues	\$ 5,665,362	\$ 0	\$ 5,665,362	\$ 5,107,821	\$ 5,423,364	\$ 241,998
<u>Expenditures</u>						
<u>General Government</u>						
County Commission	\$ 78,269	\$ 0	\$ 78,269	\$ 91,400	\$ 91,400	\$ 13,131
Board of Equalization	184	0	184	1,500	1,500	1,316
Beer Board	1,500	0	1,500	1,500	1,500	0
County Mayor/Executive	129,174	0	129,174	133,728	134,628	5,454
Election Commission	91,026	0	91,026	103,305	199,250	108,224
Register of Deeds	135,776	0	135,776	139,291	139,291	3,515
Planning	9,850	0	9,850	11,300	11,300	1,450
County Buildings	150,403	0	150,403	147,586	161,591	11,188
<u>Finance</u>						
Accounting and Budgeting	260,487	0	260,487	262,677	262,677	2,190
Property Assessor's Office	121,865	0	121,865	128,708	128,208	6,343
Reappraisal Program	26,275	0	26,275	25,987	26,487	212
County Trustee's Office	162,305	0	162,305	157,072	164,573	2,268
County Clerk's Office	188,946	0	188,946	183,124	188,972	26

(Continued)

Exhibit D-1

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

	Actual (GAAP Basis)	Add: Encumbrances 6/30/2006	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Expenditures (Cont.)</u>						
<u>Administration of Justice</u>						
Circuit Court	\$ 184,835	\$ 0	\$ 184,835	\$ 189,142	\$ 189,142	\$ 4,307
General Sessions Court	102,083	0	102,083	105,554	105,554	3,471
Chancery Court	92,823	0	92,823	103,584	103,584	10,761
Juvenile Court	18,420	0	18,420	20,022	20,022	1,602
<u>Public Safety</u>						
Sheriff's Department	742,087	0	742,087	747,639	773,785	31,698
Administration of the Sexual Offender Registry	109	0	109	0	109	0
Jail	360,519	0	360,519	368,334	393,985	33,466
Fire Prevention and Control	132,581	425	133,006	137,640	143,340	10,334
Civil Defense	34,954	0	34,954	13,790	35,461	507
Rescue Squad	18,291	0	18,291	18,500	18,500	209
Other Emergency Management	142,700	0	142,700	142,700	142,700	0
County Coroner/Medical Examiner	16,162	0	16,162	21,670	21,670	5,508
Other Public Safety	3,604	0	3,604	0	3,604	0
<u>Public Health and Welfare</u>						
Local Health Center	40,595	0	40,595	41,002	41,002	407
Ambulance/Emergency Medical Services	1,051,263	0	1,051,263	995,125	1,066,787	15,524
Crippled Children Services	1,213	0	1,213	1,213	1,213	0
Other Local Health Services	84,413	0	84,413	162,200	162,200	77,787
Appropriation to State	34,000	0	34,000	34,000	34,000	0
General Welfare Assistance	0	0	0	1,500	1,500	1,500
Other Local Welfare Services	17,500	0	17,500	17,500	17,500	0
<u>Social, Cultural, and Recreational Services</u>						
Adult Activities	56,201	0	56,201	53,332	57,732	1,531
Libraries	97,328	0	97,328	91,642	102,684	5,356
Parks and Fair Boards	2,443	0	2,443	7,000	7,000	4,557

(Continued)

Exhibit D-1

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

	Actual (GAAP Basis)	Add: Encumbrances 6/30/2006	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Expenditures (Cont.)</u>						
<u>Agriculture & Natural Resources</u>						
Agriculture Extension Service	\$ 51,481	\$ 0	\$ 51,481	\$ 51,935	\$ 51,935	\$ 454
Soil Conservation	25,240	0	25,240	25,240	25,240	0
<u>Other Operations</u>						
Tourism	43,500	0	43,500	43,500	43,500	0
Industrial Development	33,000	0	33,000	33,000	33,000	0
Other Economic and Community Development	0	0	0	100	100	100
Veterans' Services	36,996	0	36,996	30,985	42,550	5,554
Contributions to Other Agencies	17,200	0	17,200	18,000	18,000	800
Miscellaneous	273,556	0	273,556	436,411	453,257	179,701
Total Expenditures	\$ 5,071,157	\$ 425	\$ 5,071,582	\$ 5,299,438	\$ 5,622,033	\$ 550,451
Excess (Deficiency) of Revenues						
Over Expenditures	\$ 594,205	\$ (425)	\$ 593,780	\$ (191,617)	\$ (198,669)	\$ 792,449
<u>Other Financing Sources (Uses)</u>						
Transfers In	\$ 3,000	\$ 0	\$ 3,000	\$ 0	\$ 43,411	\$ (40,411)
Transfers Out	0	0	0	0	(124,411)	124,411
Total Other Financing Sources (Uses)	\$ 3,000	\$ 0	\$ 3,000	\$ 0	\$ (81,000)	\$ 84,000
Net Change in Fund Balance						
Fund Balance, July 1, 2005	\$ 1,897,505	\$ (425)	\$ 1,897,505	\$ (191,617)	\$ (279,669)	\$ 876,449
Fund Balance, June 30, 2006	\$ 2,494,710	\$ (425)	\$ 2,494,285	\$ 2,001,860	\$ 1,913,808	\$ 580,477

Exhibit D-2

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 898,544	\$ 830,128	\$ 830,128	\$ 68,416
Charges for Current Services	155,228	145,800	145,800	9,428
Other Local Revenues	101,930	70,000	70,000	31,930
State of Tennessee	263,510	252,000	252,000	11,510
Total Revenues	<u>\$ 1,419,212</u>	<u>\$ 1,297,928</u>	<u>\$ 1,297,928</u>	<u>\$ 121,284</u>
<u>Expenditures</u>				
<u>Public Health and Welfare</u>				
Sanitation Management	\$ 100,699	\$ 108,190	\$ 108,190	\$ 7,491
Sanitation Education/Information	12,574	10,037	14,037	1,463
Waste Pickup	177,156	186,880	194,180	17,024
Convenience Centers	310,378	298,430	326,430	16,052
Problem Waste Centers	14,424	5,500	14,625	201
Recycling Center	570,650	682,370	662,945	92,295
Landfill Operation and Maintenance	338,408	385,000	354,700	16,292
Postclosure Care Costs	8,094	12,450	13,250	5,156
<u>Other Operations</u>				
Other Charges	46,584	50,500	51,000	4,416
Employee Benefits	411	600	600	189
Total Expenditures	<u>\$ 1,579,378</u>	<u>\$ 1,739,957</u>	<u>\$ 1,739,957</u>	<u>\$ 160,579</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (160,166)</u>	<u>\$ (442,029)</u>	<u>\$ (442,029)</u>	<u>\$ 281,863</u>
<u>Other Financing Sources (Uses)</u>				
Transfers Out	\$ (3,000)	\$ (3,000)	\$ (3,000)	\$ 0
Total Other Financing Sources (Uses)	<u>\$ (3,000)</u>	<u>\$ (3,000)</u>	<u>\$ (3,000)</u>	<u>\$ 0</u>
Net Change in Fund Balance	\$ (163,166)	\$ (445,029)	\$ (445,029)	\$ 281,863
Fund Balance, July 1, 2005	<u>828,555</u>	<u>848,764</u>	<u>848,764</u>	<u>(20,209)</u>
Fund Balance, June 30, 2006	<u>\$ 665,389</u>	<u>\$ 403,735</u>	<u>\$ 403,735</u>	<u>\$ 261,654</u>

Exhibit D-3

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Revenues</u>						
Local Taxes	\$ 58,657	\$ 0	\$ 58,657	\$ 49,000	\$ 49,000	\$ 9,657
Other Local Revenues	274,684	0	274,684	98,500	212,296	62,388
State of Tennessee	1,804,683	0	1,804,683	1,890,222	2,014,874	(210,191)
Federal Government	0	0	0	233,885	233,885	(233,885)
Total Revenues	\$ 2,138,024	\$ 0	\$ 2,138,024	\$ 2,271,607	\$ 2,510,055	\$ (372,031)
<u>Expenditures</u>						
<u>Highways</u>						
Administration	\$ 137,492	\$ 0	\$ 137,492	\$ 136,870	\$ 139,370	\$ 1,878
Highway and Bridge Maintenance	1,400,080	0	1,400,080	1,466,221	1,457,547	57,467
Operation and Maintenance of Equipment	572,116	0	572,116	435,615	586,240	14,124
Quarry Operations	53,070	0	53,070	66,300	70,300	17,230
Other Charges	100,298	0	100,298	101,739	101,739	1,441
Employee Benefits	53,857	0	53,857	64,000	64,000	10,143
Capital Outlay	299,226	(153,447)	145,779	275,215	365,212	219,433
<u>Principal on Debt</u>						
Highways and Streets	243,691	0	243,691	256,965	243,691	0
<u>Interest on Debt</u>						
Highways and Streets	34,456	0	34,456	34,624	47,898	13,442
Total Expenditures	\$ 2,894,286	\$ (153,447)	\$ 2,740,839	\$ 2,837,549	\$ 3,075,997	\$ 335,158
Excess (Deficiency) of Revenues Over Expenditures	\$ (756,262)	\$ 153,447	\$ (602,815)	\$ (565,942)	\$ (565,942)	\$ (36,873)
<u>Other Financing Sources (Uses)</u>						
Notes Issued	\$ 892,678	\$ 0	\$ 892,678	\$ 535,729	\$ 535,729	\$ 356,949
Transfers In	0	0	0	40,411	40,411	(40,411)
Total Other Financing Sources (Uses)	\$ 892,678	\$ 0	\$ 892,678	\$ 576,140	\$ 576,140	\$ 316,538
Net Change in Fund Balance	\$ 136,416	\$ 153,447	\$ 289,863	\$ 10,198	\$ 10,198	\$ 279,665
Fund Balance, July 1, 2005	177,127	(153,447)	23,680	408,517	408,517	(384,837)
Fund Balance, June 30, 2006	\$ 313,543	\$ 0	\$ 313,543	\$ 418,715	\$ 418,715	\$ (105,172)

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

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

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

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

Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

Capital Projects Fund

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

Community Development/Industrial Park Fund – The Community Development/Industrial Park Fund is used to account for funds held for maintaining and improving industrial park buildings.

Exhibit E-1

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

	<u>Special Revenue Funds</u>			<u>Capital</u> <u>Projects Fund</u>	<u>Total</u> <u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>
	<u>Drug</u> <u>Control</u>	<u>Constitu-</u> <u>tional</u> <u>Officers -</u> <u>Fees</u>	<u>Total</u>	<u>Community</u> <u>Development/</u> <u>Industrial</u> <u>Park</u>	
<u>ASSETS</u>					
Cash	\$ 0	\$ 12,542	\$ 12,542	\$ 0	\$ 12,542
Equity in Pooled Cash and Investments	153,001	0	153,001	10,925	163,926
Accounts Receivable	731	338	1,069	0	1,069
Total Assets	\$ 153,732	\$ 12,880	\$ 166,612	\$ 10,925	\$ 177,537
<u>LIABILITIES AND FUND BALANCES</u>					
<u>Liabilities</u>					
Due to Other Funds	\$ 0	\$ 12,880	\$ 12,880	\$ 0	\$ 12,880
Total Liabilities	\$ 0	\$ 12,880	\$ 12,880	\$ 0	\$ 12,880
<u>Fund Balances</u>					
Unreserved	\$ 153,732	\$ 0	\$ 153,732	\$ 10,925	\$ 164,657
Total Fund Balances	\$ 153,732	\$ 0	\$ 153,732	\$ 10,925	\$ 164,657
Total Liabilities and Fund Balances	\$ 153,732	\$ 12,880	\$ 166,612	\$ 10,925	\$ 177,537

Exhibit E-2

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

	Special Revenue Fund	Capital Projects Fund		Total Nonmajor Governmental Funds
	Drug Control	Community Development/ Industrial Park		
<u>Revenues</u>				
Fines, Forfeitures, and Penalties	\$ 149,568	\$ 0	\$	149,568
Other Local Revenues	4,713	0		4,713
State of Tennessee	9,749	0		9,749
Total Revenues	<u>\$ 164,030</u>	<u>\$ 0</u>	<u>\$</u>	<u>164,030</u>
<u>Expenditures</u>				
Current:				
Public Safety	\$ 107,481	\$ 0	\$	107,481
Public Health and Welfare	10,600	0		10,600
Total Expenditures	<u>\$ 118,081</u>	<u>\$ 0</u>	<u>\$</u>	<u>118,081</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 45,949</u>	<u>\$ 0</u>	<u>\$</u>	<u>45,949</u>
<u>Other Financing Sources (Uses)</u>				
Capital Leases Issued	\$ 43,150	\$ 0	\$	43,150
Total Other Financing Sources (Uses)	<u>\$ 43,150</u>	<u>\$ 0</u>	<u>\$</u>	<u>43,150</u>
Net Change in Fund Balances	\$ 89,099	\$ 0	\$	89,099
Fund Balance, July 1, 2005	64,633	10,925		75,558
Fund Balance, June 30, 2006	<u>\$ 153,732</u>	<u>\$ 10,925</u>	<u>\$</u>	<u>164,657</u>

Exhibit E-3

Fentress 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	\$ 149,568	\$ 78,200	\$ 81,981	\$ 67,587
Other Local Revenues	4,713	0	0	4,713
State of Tennessee	9,749	0	0	9,749
Total Revenues	<u>\$ 164,030</u>	<u>\$ 78,200</u>	<u>\$ 81,981</u>	<u>\$ 82,049</u>
<u>Expenditures</u>				
<u>Public Safety</u>				
Drug Enforcement	\$ 107,481	\$ 72,148	\$ 119,079	\$ 11,598
<u>Public Health and Welfare</u>				
Alcohol and Drug Programs	10,600	15,000	15,000	4,400
Total Expenditures	<u>\$ 118,081</u>	<u>\$ 87,148</u>	<u>\$ 134,079</u>	<u>\$ 15,998</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 45,949</u>	<u>\$ (8,948)</u>	<u>\$ (52,098)</u>	<u>\$ 98,047</u>
<u>Other Financing Sources (Uses)</u>				
Capital Leases Issued	\$ 43,150	\$ 0	\$ 43,150	\$ 0
Total Other Financing Sources (Uses)	<u>\$ 43,150</u>	<u>\$ 0</u>	<u>\$ 43,150</u>	<u>\$ 0</u>
Net Change in Fund Balance	\$ 89,099	\$ (8,948)	\$ (8,948)	\$ 98,047
Fund Balance, July 1, 2005	<u>64,633</u>	<u>63,196</u>	<u>63,196</u>	<u>1,437</u>
Fund Balance, June 30, 2006	<u>\$ 153,732</u>	<u>\$ 54,248</u>	<u>\$ 54,248</u>	<u>\$ 99,484</u>

Major Governmental Fund

General Debt Service Fund

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

Exhibit F

Fentress 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	\$ 517,546	\$ 468,065	\$ 468,065	\$ 49,481
Other Local Revenues	79,230	63,263	63,263	15,967
Other Governments and Citizens Groups	350,000	350,000	350,000	0
Total Revenues	<u>\$ 946,776</u>	<u>\$ 881,328</u>	<u>\$ 881,328</u>	<u>\$ 65,448</u>
<u>Expenditures</u>				
<u>Principal on Debt</u>				
General Government	\$ 106,581	\$ 106,581	\$ 106,581	\$ 0
Education	351,000	805,500	351,000	0
<u>Interest on Debt</u>				
General Government	41,777	9,326	54,576	12,799
Education	266,623	45,250	414,000	147,377
<u>Other Debt Service</u>				
General Government	12,012	8,800	13,300	1,288
Education	37,659	2,500	38,500	841
Total Expenditures	<u>\$ 815,652</u>	<u>\$ 977,957</u>	<u>\$ 977,957</u>	<u>\$ 162,305</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 131,124</u>	<u>\$ (96,629)</u>	<u>\$ (96,629)</u>	<u>\$ 227,753</u>
Net Change in Fund Balance	\$ 131,124	\$ (96,629)	\$ (96,629)	\$ 227,753
Fund Balance, July 1, 2005	<u>2,312,909</u>	<u>2,312,909</u>	<u>2,312,909</u>	<u>0</u>
Fund Balance, June 30, 2006	<u>\$ 2,444,033</u>	<u>\$ 2,216,280</u>	<u>\$ 2,216,280</u>	<u>\$ 227,753</u>

Fiduciary Funds

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

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

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

Exhibit G-1

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

	<u>Agency Funds</u>		
	Cities - Sales Tax	Constitu- tional Officers - Agency	Total
<u>ASSETS</u>			
Cash	\$ 0	\$ 425,161	\$ 425,161
Due from Other Governments	110,567	0	110,567
Total Assets	<u>\$ 110,567</u>	<u>\$ 425,161</u>	<u>\$ 535,728</u>
<u>LIABILITIES</u>			
Due to Other Taxing Units	\$ 110,567	\$ 0	\$ 110,567
Due to Litigants, Heirs, and Others	0	425,161	425,161
Total Liabilities	<u>\$ 110,567</u>	<u>\$ 425,161</u>	<u>\$ 535,728</u>

Exhibit G-2

Fentress 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	\$ 501,557	\$ 501,557	\$ 0
Due From Other Governments	89,981	110,567	89,981	110,567
Total Assets	<u>\$ 89,981</u>	<u>\$ 612,124</u>	<u>\$ 591,538</u>	<u>\$ 110,567</u>
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 89,981	\$ 612,124	\$ 591,538	\$ 110,567
Total Liabilities	<u>\$ 89,981</u>	<u>\$ 612,124</u>	<u>\$ 591,538</u>	<u>\$ 110,567</u>
<u>Constitutional Officers - Agency Fund</u>				
<u>Assets</u>				
Cash	\$ 679,432	\$ 9,172,231	\$ 9,426,502	\$ 425,161
Total Assets	<u>\$ 679,432</u>	<u>\$ 9,172,231</u>	<u>\$ 9,426,502</u>	<u>\$ 425,161</u>
<u>Liabilities</u>				
Due to Litigants, Heirs, and Others	\$ 679,432	\$ 9,172,231	\$ 9,426,502	\$ 425,161
Total Liabilities	<u>\$ 679,432</u>	<u>\$ 9,172,231</u>	<u>\$ 9,426,502</u>	<u>\$ 425,161</u>
<u>Totals - All Agency Funds</u>				
<u>Assets</u>				
Cash	\$ 679,432	\$ 9,172,231	\$ 9,426,502	\$ 425,161
Equity in Pooled Cash and Investments	0	501,557	501,557	0
Due From Other Governments	89,981	110,567	89,981	110,567
Total Assets	<u>\$ 769,413</u>	<u>\$ 9,784,355</u>	<u>\$ 10,018,040</u>	<u>\$ 535,728</u>
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 89,981	\$ 612,124	\$ 591,538	\$ 110,567
Due to Litigants, Heirs, and Others	679,432	9,172,231	9,426,502	425,161
Total Liabilities	<u>\$ 769,413</u>	<u>\$ 9,784,355</u>	<u>\$ 10,018,040</u>	<u>\$ 535,728</u>

MISCELLANEOUS SCHEDULES

Exhibit H-1

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

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-05	Issued During Period	Paid and/or Matured During Period	Outstanding 6-30-06
<u>NOTES PAYABLE</u>								
<u>Payable through General Debt Service Fund</u>								
Senior Citizens Building	\$ 378,000	2.7 %	6-2-05	6-2-10	\$ 378,000	\$ 0	\$ 71,581	\$ 306,419
<u>Payable through Highway/Public Works Fund</u>								
County Highway Improvements	1,250,000	2.7	6-2-05	6-2-10	\$ 357,322	\$ 892,678	\$ 236,709	\$ 1,013,291
Total Notes Payable					\$ 735,322	\$ 892,678	\$ 308,290	\$ 1,319,710
<u>OTHER LOANS PAYABLE</u>								
<u>Payable through General Debt Service Fund</u>								
School Construction - Allardt	5,300,000	Variable	6-1-1998	6-1-18	\$ 3,165,000	\$ 0	\$ 195,000	\$ 2,970,000
School Construction - Southern System Facility	6,000,000	Variable	10-25-01	5-25-26	5,575,000	0	156,000	5,419,000
Public Works Project	1,000,000	Variable	5-21-02	5-25-22	905,000	0	35,000	870,000
Total Other Loans Payable					\$ 9,645,000	\$ 0	\$ 386,000	\$ 9,259,000
<u>CAPITAL LEASES PAYABLE</u>								
<u>Payable through Highway/Public Works Fund</u>								
Tractor and Cutter	34,822	5.1	4-29-03	2-28-08	\$ 20,064	\$ 0	\$ 6,982	\$ 13,082
<u>Payable through Drug Control Fund and General Fund</u>								
Patrol Cars	84,000	3.14	4-22-04	4-22-06	\$ 27,991	\$ 0	\$ 27,991 (1)	\$ 0
<u>Payable through Drug Control Fund</u>								
Patrol Cars	43,150	5.2	12-13-05	12-13-07	\$ 0	\$ 43,150	\$ 15,118	\$ 28,032
Total Capital Leases Payable					\$ 48,055	\$ 43,150	\$ 50,091	\$ 41,114

(1) Payments on this lease were made from the General Fund (\$16,795) and the Drug Control Fund (\$11,196).

Exhibit H-2

Fentress County, Tennessee
Schedule of Transfers
For the Year Ended June 30, 2006

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Solid Waste/Sanitation	General	Administrative charge	<u>\$ 3,000</u>

Exhibit H-3

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

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
County Executive	Section 8-24-102, <u>TCA</u>	\$ 57,804	\$ 25,000	Western Surety Company
Road Supervisor	Section 8-24-102, <u>TCA</u>	55,052	100,000	"
Trustee	Section 8-24-102, <u>TCA</u>	50,048	502,400	"
Assessor of Property	Section 8-24-102, <u>TCA</u>	50,048	15,000	"
Finance Director	County Commission	38,000	50,000	"
County Clerk	Section 8-24-102, <u>TCA</u>	50,048	25,000	"
Circuit Court Clerk	Section 8-24-102, <u>TCA</u>	50,048	25,000	"
Clerk and Master	Section 8-24-102, <u>TCA</u> , and Chancery Court Judge	75,848 (1)	50,000	Ohio Farmers Insurance Company
Register	Section 8-24-102, <u>TCA</u>	50,048	15,000	Western Surety Company
Sheriff	Section 8-24-102, <u>TCA</u>	55,571 (2)	25,000	"
Employee Dishonesty Bond Coverage:				
General County and Highway Department Employees			150,000	Local Government Property and Casualty Fund

(1) Includes special commissioner fees of \$25,800.

(2) Includes law enforcement training supplement of \$519.

Exhibit H-4

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

	Special Revenue Funds				Debt Service Fund	Total
	General	Solid Waste / Sanitation	Drug Control	Highway / Public Works	General Debt Service	
<u>Local Taxes</u>						
<u>County Property Taxes</u>						
Current Property Tax	\$ 1,993,353	\$ 287,176	\$ 0	\$ 0	\$ 185,793	\$ 2,466,322
Trustee's Collections - Prior Year	153,613	22,132	0	0	14,326	190,071
Circuit/Clerk & Master Collections - Prior Years	49,984	7,201	0	0	4,660	61,845
Interest and Penalty	23,896	3,442	0	0	2,228	29,566
Payments in-Lieu-of Taxes - Other	39,278	0	0	0	0	39,278
<u>County Local Option Taxes</u>						
Local Option Sales Tax	0	571,008	0	0	301,170	872,178
Hotel/Motel Tax	52,229	0	0	0	0	52,229
Litigation Tax - General	34,078	0	0	0	0	34,078
Litigation Tax - Jail, Workhouse, or Courthouse	12,182	0	0	0	0	12,182
Business Tax	47,738	7,585	0	0	9,369	64,692
Mineral Severance Tax	0	0	0	58,657	0	58,657
<u>Statutory Local Taxes</u>						
Bank Excise Tax	69,374	0	0	0	0	69,374
Wholesale Beer Tax	189,963	0	0	0	0	189,963
Beer Privilege Tax	1,140	0	0	0	0	1,140
Interstate Telecommunications Tax	2,442	0	0	0	0	2,442
Total Local Taxes	\$ 2,669,270	\$ 898,544	\$ 0	\$ 58,657	\$ 517,546	\$ 4,144,017
<u>Licenses and Permits</u>						
<u>Licenses</u>						
Cable TV Franchise	\$ 24,566	\$ 0	\$ 0	\$ 0	\$ 0	\$ 24,566
<u>Permits</u>						
Beer Permits	300	0	0	0	0	300
Total Licenses and Permits	\$ 24,866	\$ 0	\$ 0	\$ 0	\$ 0	\$ 24,866
<u>Fines, Forfeitures, and Penalties</u>						
<u>Circuit Court</u>						
Fines	\$ 6,107	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,107
Officers Costs	8,610	0	0	0	0	8,610

(Continued)

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

	Special Revenue Funds				Debt Service Fund	Total
	General	Solid Waste / Sanitation	Drug Control	Highway / Public Works	General Debt Service	
<u>Fines, Forfeitures, and Penalties (Cont.)</u>						
<u>General Sessions Court</u>						
Drug Control Fines	\$ 0	\$ 0	\$ 49,475	\$ 0	\$ 0	\$ 49,475
Fines	26,208	0	0	0	0	26,208
Officers Costs	13,177	0	0	0	0	13,177
Drug Control Fines	0	0	16,291	0	0	16,291
Drug Court Fees	618	0	0	0	0	618
Jail Fees	2,778	0	0	0	0	2,778
Data Entry Fee - General Sessions Court	356	0	0	0	0	356
<u>Other Courts - In-county</u>						
Fines	143	0	0	0	0	143
Officers Costs	3,604	0	0	0	0	3,604
DUI Treatment Fines	1,532	0	0	0	0	1,532
<u>Judicial District Drug Program</u>						
Data Entry Fee - Other Courts	158	0	0	0	0	158
<u>Other Fines, Forfeitures, and Penalties</u>						
Proceeds from Confiscated Property	0	0	83,802	0	0	83,802
Total Fines, Forfeitures, and Penalties	\$ 63,291	\$ 0	\$ 149,568	\$ 0	\$ 0	\$ 212,859
<u>Charges for Current Services</u>						
<u>General Service Charges</u>						
Tipping Fees	\$ 0	\$ 154,974	\$ 0	\$ 0	\$ 0	\$ 154,974
Solid Waste Disposal Fees	0	123	0	0	0	123
Patient Charges	1,151,238	0	0	0	0	1,151,238
<u>Fees</u>						
Copy Fees	12	0	0	0	0	12
Vending Machine Collections	664	131	0	0	0	795
Data Processing Fee - Register	19,962	0	0	0	0	19,962
Sexual Offender Registration Fees - Sheriff	1,100	0	0	0	0	1,100
Total Charges for Current Services	\$ 1,172,976	\$ 155,228	\$ 0	\$ 0	\$ 0	\$ 1,328,204

(Continued)

Exhibit H-4

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

	Special Revenue Funds				Debt Service Fund	Total
	General	Solid Waste / Sanitation	Drug Control	Highway / Public Works	General Debt Service	
<u>Other Local Revenues</u>						
<u>Recurring Items</u>						
Investment Income	\$ 127,822	\$ 0	\$ 0	\$ 0	\$ 0	\$ 127,822
Lease/Rentals	87,000	0	0	0	79,230	166,230
Sale of Gasoline	0	0	0	162,088	0	162,088
Sale of Recycled Materials	0	89,420	0	954	0	90,374
Miscellaneous Refunds	23,430	1,355	0	34,871	0	59,656
<u>Nonrecurring Items</u>						
Insurance Recovery	10,379	1,065	4,154	20,271	0	35,869
Sale of Equipment	4,302	10,090	0	0	0	14,392
Sale of Property	244,001	0	0	0	0	244,001
Contributions & Gifts	92,405	0	559	56,500	0	149,464
Total Other Local Revenues	\$ 589,339	\$ 101,930	\$ 4,713	\$ 274,684	\$ 79,230	\$ 1,049,896
<u>Fees Received from County Officials</u>						
<u>Fees-In-Lieu of Salary</u>						
County Clerk	\$ 157,458	\$ 0	\$ 0	\$ 0	\$ 0	\$ 157,458
Circuit Court Clerk	60,935	0	0	0	0	60,935
General Sessions Court Clerk	51,876	0	0	0	0	51,876
Clerk and Master	31,254	0	0	0	0	31,254
Register	107,242	0	0	0	0	107,242
Sheriff	4,423	0	0	0	0	4,423
Trustee	159,582	0	0	0	0	159,582
Total Fees Received from County Officials	\$ 572,770	\$ 0	\$ 0	\$ 0	\$ 0	\$ 572,770
<u>State of Tennessee</u>						
<u>General Government Grants</u>						
Juvenile Services Program	\$ 9,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 9,000
Aging Programs	6,597	0	0	0	0	6,597
State Reappraisal Grant	8,518	0	0	0	0	8,518
Solid Waste Grants	0	200,000	0	0	0	200,000
Other General Government Grants	1,154	0	0	0	0	1,154
<u>Public Safety Grants</u>						
Law Enforcement Training Programs	7,262	0	0	0	0	7,262

Exhibit H-4

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

	Special Revenue Funds				Debt Service Fund	Total
	General	Solid Waste / Sanitation	Drug Control	Highway / Public Works	General Debt Service	
<u>State of Tennessee (Cont.)</u>						
<u>Health and Welfare Grants</u>						
Health Department Programs	\$ 104,941	\$ 0	\$ 0	\$ 0	\$ 0	104,941
<u>Public Works Grants</u>						
State Aid Program	0	0	0	124,652	0	124,652
Litter Program	0	42,497	0	0	0	42,497
<u>Other State Revenues</u>						
Income Tax	20,993	0	0	0	0	20,993
Beer Tax	17,212	0	0	0	0	17,212
Alcoholic Beverage Tax	31,884	0	0	0	0	31,884
Contracted Prisoner Boarding	246,496	0	0	0	0	246,496
Gasoline and Motor Fuel Tax	0	0	0	1,666,657	0	1,666,657
Petroleum Special Tax	0	0	0	13,374	0	13,374
Registrar's Salary Supplement	16,380	0	0	0	0	16,380
Other State Grants	10,000	21,013	0	0	0	31,013
Other State Revenues	0	0	9,749	0	0	9,749
Total State of Tennessee	\$ 480,437	\$ 263,510	\$ 9,749	\$ 1,804,683	\$ 0	\$ 2,558,379
<u>Federal Government</u>						
<u>Federal Through State</u>						
Homeland Security Grants	\$ 61,905	\$ 0	\$ 0	\$ 0	\$ 0	61,905
Other Federal through State	7,302	0	0	0	0	7,302
<u>Direct Federal Revenue</u>						
Public Safety Partnership and Community Policing - COPS	406	0	0	0	0	406
Total Federal Government	\$ 69,613	\$ 0	\$ 0	\$ 0	\$ 0	69,613
<u>Other Governments and Citizens Groups</u>						
<u>Other Governments</u>						
Contributions	\$ 0	\$ 0	\$ 0	\$ 0	\$ 350,000	\$ 350,000
Contracted Services	22,800	0	0	0	0	22,800
Total Other Governments and Citizens Groups	\$ 22,800	\$ 0	\$ 0	\$ 0	\$ 350,000	\$ 372,800
Total	\$ 5,665,362	\$ 1,419,212	\$ 164,030	\$ 2,138,024	\$ 946,776	\$ 10,333,404

Exhibit H-5

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

General Fund

General Government

County Commission

Board and Committee Members Fees	\$	57,799	
Social Security		3,584	
Employer Medicare		838	
Audit Services		4,373	
Legal Services		10,048	
Other Charges		<u>1,627</u>	
Total County Commission	\$		78,269

Board of Equalization

Board and Committee Members Fees	\$	<u>184</u>	
Total Board of Equalization			184

Beer Board

Board and Committee Members Fees	\$	<u>1,500</u>	
Total Beer Board			1,500

County Mayor/Executive

County Official/Administrative Officer	\$	57,804	
Assistant(s)		27,943	
Clerical Personnel		18,564	
Social Security		6,276	
State Retirement		3,510	
Medical Insurance		4,802	
Unemployment Compensation		351	
Employer Medicare		1,468	
Communication		4,630	
Postal Charges		204	
Printing, Stationery, and Forms		703	
Office Supplies		2,032	
Premiums on Corporate Surety Bonds		175	
Other Equipment		<u>712</u>	
Total County Mayor/Executive			129,174

Election Commission

County Official/Administrative Officer	\$	42,541	
Deputy(ies)		23,850	
Clerical Personnel		210	
Election Commission		2,850	
Election Workers		60	
Social Security		4,214	

(Continued)

Exhibit H-5

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

General Fund (Cont.)

General Government (Cont.)

Election Commission (Cont.)

State Retirement	\$	3,200	
Medical Insurance		2,401	
Unemployment Compensation		284	
Employer Medicare		986	
Communication		1,052	
Data Processing Services		1,506	
Maintenance & Repair Services - Equipment		1,315	
Postal Charges		1,998	
Printing, Stationery, and Forms		1,937	
Office Supplies		2,622	
Total Election Commission			\$ 91,026

Register of Deeds

County Official/Administrative Officer	\$	50,048	
Deputy(ies)		23,450	
Clerical Personnel		20,226	
Social Security		5,459	
State Retirement		3,387	
Medical Insurance		7,203	
Unemployment Compensation		280	
Employer Medicare		1,277	
Communication		1,823	
Data Processing Services		10,982	
Postal Charges		801	
Printing, Stationery, and Forms		3,198	
Other Contracted Services		37	
Duplicating Supplies		4,390	
Office Supplies		3,115	
Premiums on Corporate Surety Bonds		100	
Total Register of Deeds			135,776

Planning

Board and Committee Members Fees	\$	1,350	
Dues and Memberships		8,500	
Total Planning			9,850

County Buildings

Custodial Personnel	\$	13,180	
Social Security		805	
State Retirement		635	

(Continued)

Exhibit H-5

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

General Fund (Cont.)

General Government (Cont.)

County Buildings (Cont.)

Medical Insurance	\$	200	
Unemployment Compensation		187	
Employer Medicare		188	
Communication		395	
Maintenance & Repair Services - Buildings		34,525	
Custodial Supplies		2,771	
Utilities		88,512	
Building Improvements		9,005	
Total County Buildings			\$ 150,403

Finance

Accounting and Budgeting

Supervisor/Director	\$	37,000	
Accountants/Bookkeepers		148,895	
Social Security		11,059	
State Retirement		8,960	
Medical Insurance		14,406	
Unemployment Compensation		1,353	
Employer Medicare		2,586	
Communication		3,600	
Data Processing Services		9,551	
Postal Charges		2,360	
Printing, Stationery, and Forms		596	
Other Contracted Services		9,458	
Office Supplies		10,488	
Premiums on Corporate Surety Bonds		175	
Total Accounting and Budgeting			260,487

Property Assessor's Office

County Official/Administrative Officer	\$	50,048	
Clerical Personnel		21,850	
Part-time Personnel		18,000	
Social Security		5,145	
State Retirement		4,333	
Medical Insurance		2,401	
Unemployment Compensation		280	
Employer Medicare		1,203	
Audit Services		9,735	
Communication		1,197	
Contracts with Government Agencies		4,292	

(Continued)

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

General Fund (Cont.)

Finance (Cont.)

Property Assessor's Office (Cont.)

Printing, Stationery, and Forms	\$	94	
Travel		1,530	
Office Supplies		1,244	
Premiums on Corporate Surety Bonds		150	
Office Equipment		363	
Total Property Assessor's Office			\$ 121,865

Reappraisal Program

Clerical Personnel	\$	20,226	
Social Security		1,254	
State Retirement		975	
Unemployment Compensation		140	
Employer Medicare		293	
Data Processing Services		2,369	
Postal Charges		1,010	
Office Supplies		8	
Total Reappraisal Program			26,275

County Trustee's Office

County Official/Administrative Officer	\$	50,048	
Deputy(ies)		46,000	
Clerical Personnel		19,747	
Social Security		6,751	
State Retirement		4,514	
Medical Insurance		2,401	
Unemployment Compensation		420	
Employer Medicare		1,579	
Communication		1,711	
Contracts with Government Agencies		3,651	
Postal Charges		4,222	
Printing, Stationery, and Forms		1,836	
Office Supplies		1,284	
Premiums on Corporate Surety Bonds		2,762	
Data Processing Equipment		15,379	
Total County Trustee's Office			162,305

County Clerk's Office

County Official/Administrative Officer	\$	50,048	
Deputy(ies)		83,676	
Clerical Personnel		17,917	

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Finance (Cont.)

County Clerk's Office (Cont.)

Social Security	\$	9,140	
State Retirement		6,445	
Medical Insurance		4,802	
Unemployment Compensation		864	
Employer Medicare		2,137	
Communication		1,909	
Data Processing Services		1,926	
Maintenance & Repair Services - Office Equipment		454	
Postal Charges		3,888	
Printing, Stationery, and Forms		2,642	
Office Supplies		2,016	
Premiums on Corporate Surety Bonds		280	
Office Equipment		802	
Total County Clerk's Office			\$ 188,946

Administration of Justice

Circuit Court

County Official/Administrative Officer	\$	50,048	
Deputy(ies)		75,951	
Clerical Personnel		19,198	
Jury and Witness Fees		6,652	
Social Security		8,680	
State Retirement		4,750	
Medical Insurance		4,802	
Unemployment Compensation		560	
Employer Medicare		2,030	
Communication		1,704	
Postal Charges		652	
Printing, Stationery, and Forms		4,316	
Office Supplies		2,265	
Premiums on Corporate Surety Bonds		125	
Office Equipment		3,102	
Total Circuit Court			184,835

General Sessions Court

Judge(s)	\$	62,628
Probation Officer(s)		21,994
Social Security		5,099
State Retirement		4,079
Medical Insurance		3,502

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Administration of Justice (Cont.)

General Sessions Court (Cont.)

Unemployment Compensation	\$	171	
Employer Medicare		1,192	
Communication		1,468	
Maintenance & Repair Services - Vehicles		20	
Travel		610	
Gasoline		513	
Law Enforcement Supplies		300	
Office Supplies		170	
Other Charges		337	
Total General Sessions Court			\$ 102,083

Chancery Court

County Official/Administrative Officer	\$	50,048	
Deputy(ies)		22,650	
Clerical Personnel		1,514	
Social Security		4,127	
State Retirement		3,504	
Medical Insurance		4,802	
Unemployment Compensation		170	
Employer Medicare		965	
Communication		437	
Postal Charges		691	
Office Supplies		3,465	
Premiums on Corporate Surety Bonds		450	
Total Chancery Court			92,823

Juvenile Court

Social Workers	\$	14,660	
Social Security		909	
State Retirement		707	
Unemployment Compensation		140	
Employer Medicare		213	
Communication		150	
Contracts with Other Public Agencies		600	
Office Supplies		591	
Office Equipment		450	
Total Juvenile Court			18,420

(Continued)

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

General Fund (Cont.)

Public Safety

Sheriff's Department

County Official/Administrative Officer	\$	55,052	
Deputy(ies)		389,355	
Salary Supplements		7,262	
Clerical Personnel		68,028	
In-Service Training		3,253	
Social Security		30,890	
State Retirement		24,293	
Medical Insurance		18,008	
Unemployment Compensation		3,056	
Employer Medicare		7,224	
Communication		9,262	
Legal Notices, Recording, and Court Costs		666	
Maintenance & Repair Services - Equipment		407	
Maintenance & Repair Services - Office Equipment		944	
Maintenance & Repair Services - Vehicles		17,021	
Postal Charges		1,553	
Rentals		1,706	
Gasoline		56,994	
Law Enforcement Supplies		7,728	
Office Supplies		3,206	
Tires and Tubes		5,298	
Uniforms		1,963	
Premiums on Corporate Surety Bonds		3,438	
Other Charges		1,388	
Principal on Capital Leases		16,795	
Interest on Capital Leases		575	
Law Enforcement Equipment		3,204	
Motor Vehicles		2,000	
Office Equipment		1,518	
Total Sheriff's Department			\$ 742,087

Administration of the Sexual Offender Registry

Office Supplies	\$	109	
Total Administration of the Sexual Offender Registry			109

Jail

Guards	\$	151,989	
Cafeteria Personnel		17,215	
Social Security		10,235	
State Retirement		7,390	

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Public Safety (Cont.)

Jail (Cont.)

Medical Insurance	\$	3,701	
Unemployment Compensation		1,562	
Employer Medicare		2,394	
Contracts with Government Agencies		8,155	
Maintenance & Repair Services - Buildings		8,796	
Medical and Dental Services		76,147	
Transportation - Other than Students		400	
Custodial Supplies		2,939	
Food Supplies		30,860	
Uniforms		205	
Utilities		15,399	
Other Supplies and Materials		3,140	
Other Charges		1,009	
Building Improvements		16,619	
Furniture and Fixtures		1,441	
Office Equipment		923	
Total Jail			\$ 360,519

Fire Prevention and Control

In-Service Training	\$	500	
Other Per Diem & Fees		30,913	
Contracts with Government Agencies		2,000	
Maintenance & Repair Services - Buildings		11,293	
Maintenance & Repair Services - Vehicles		10,145	
Gasoline		8,183	
Utilities		18,179	
Other Equipment		51,368	
Total Fire Prevention and Control			132,581

Civil Defense

Supervisor/Director	\$	3,000	
Social Security		186	
State Retirement		11	
Unemployment Compensation		60	
Employer Medicare		43	
Communication		2,410	
Maintenance & Repair Services - Vehicles		2,402	
Gasoline		4,028	
Other Supplies and Materials		1,143	
Other Capital Outlay		21,671	
Total Civil Defense			34,954

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Public Safety (Cont.)

Rescue Squad

Communication	\$	1,586	
Contributions		4,000	
Maintenance & Repair Services - Vehicles		4,038	
Gasoline		2,202	
Other Supplies and Materials		3,066	
Other Equipment		3,399	
Total Rescue Squad			\$ 18,291

Other Emergency Management

Contributions	\$	142,700	
Total Other Emergency Management			142,700

County Coroner/Medical Examiner

Other Contracted Services	\$	15,929	
Gasoline		63	
Premiums on Corporate Surety Bonds		170	
Total County Coroner/Medical Examiner			16,162

Other Public Safety

Remittance of Revenue Collected	\$	3,604	
Total Other Public Safety			3,604

Public Health and Welfare

Local Health Center

Custodial Personnel	\$	8,061	
Social Security		500	
Unemployment Compensation		112	
Employer Medicare		117	
Communication		3,939	
Maintenance & Repair Services - Buildings		7,093	
Postal Charges		1,357	
Drugs and Medical Supplies		1,995	
Office Supplies		4,981	
Utilities		12,440	
Total Local Health Center			40,595

Ambulance/Emergency Medical Services

Supervisor/Director	\$	37,427	
Medical Personnel		659,977	
In-Service Training		5,032	

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Public Health and Welfare (Cont.)

Ambulance/Emergency Medical Services (Cont.)

Social Security	\$	40,214	
State Retirement		31,100	
Medical Insurance		32,814	
Unemployment Compensation		3,605	
Employer Medicare		9,405	
Communication		8,700	
Data Processing Services		1,908	
Maintenance & Repair Services - Vehicles		16,200	
Postal Charges		1,753	
Travel		1,664	
Other Contracted Services		1,697	
Custodial Supplies		2,982	
Drugs and Medical Supplies		32,842	
Gasoline		38,996	
Office Supplies		5,119	
Uniforms		7,630	
Utilities		10,979	
Refunds		8,719	
Motor Vehicles		92,500	
Total Ambulance/Emergency Medical Services			\$ 1,051,263

Crippled Children Services

Contracts with Government Agencies	\$	1,213	
Total Crippled Children Services			1,213

Other Local Health Services

Medical Personnel	\$	57,072	
Social Security		3,443	
State Retirement		2,537	
Medical Insurance		2,401	
Unemployment Compensation		347	
Employer Medicare		805	
Travel		8,584	
Instructional Supplies and Materials		9,224	
Total Other Local Health Services			84,413

Appropriation to State

Other Contracted Services	\$	34,000	
Total Appropriation to State			34,000

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Public Health and Welfare (Cont.)

Other Local Welfare Services

Contributions	\$ 17,500	
Total Other Local Welfare Services		\$ 17,500

Social, Cultural, and Recreational Services

Adult Activities

Other Salaries & Wages	\$ 29,447	
Social Security	1,500	
State Retirement	1,072	
Medical Insurance	2,401	
Unemployment Compensation	283	
Employer Medicare	351	
Communication	941	
Postal Charges	78	
Travel	1,253	
Office Supplies	247	
Utilities	17,974	
Other Supplies and Materials	100	
Premiums on Corporate Surety Bonds	100	
Office Equipment	454	
Total Adult Activities		56,201

Libraries

Librarians	\$ 63,111	
Social Security	3,913	
State Retirement	1,772	
Medical Insurance	400	
Unemployment Compensation	513	
Employer Medicare	915	
Contributions	26,704	
Total Libraries		97,328

Parks and Fair Boards

Contributions	\$ 2,000	
Maintenance & Repair Services - Equipment	443	
Total Parks and Fair Boards		2,443

Agriculture & Natural Resources

Agriculture Extension Service

Communication	\$ 2,790	
Contributions	42,706	

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Agriculture & Natural Resources (Cont.)

Agriculture Extension Service (Cont.)

Custodial Supplies	\$	292	
Office Supplies		2,125	
Office Equipment		3,568	
Total Agriculture Extension Service			\$ 51,481

Soil Conservation

Contributions	\$	25,240	
Total Soil Conservation			25,240

Other Operations

Tourism

Contributions	\$	43,500	
Total Tourism			43,500

Industrial Development

Contributions	\$	33,000	
Total Industrial Development			33,000

Veterans' Services

Supervisor/Director	\$	24,720	
Social Security		1,533	
State Retirement		1,192	
Unemployment Compensation		177	
Employer Medicare		358	
Communication		550	
Contracts with Government Agencies		6,314	
Postal Charges		135	
Office Supplies		577	
Office Equipment		1,440	
Total Veterans' Services			36,996

Contributions to Other Agencies

Contributions	\$	7,522	
Dues and Memberships		9,678	
Total Contributions to Other Agencies			17,200

Miscellaneous

Travel	\$	6,631	
Liability Insurance		73,065	
Trustee's Commission		51,181	

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Other Operations (Cont.)

Miscellaneous (Cont.)

Vehicle and Equipment Insurance	\$	37,366	
Workers' Compensation Insurance		60,426	
Other Charges		17,840	
Building Construction		11,401	
Other Capital Outlay		15,646	
Total Miscellaneous			\$ 273,556

Total General Fund \$ 5,071,157

Solid Waste/Sanitation Fund

Public Health and Welfare

Sanitation Management

Assistant(s)	\$	47,624	
Supervisor/Director		30,500	
Social Security		4,580	
State Retirement		1,470	
Medical Insurance		4,802	
Unemployment Compensation		420	
Employer Medicare		1,071	
Communication		3,173	
Maintenance & Repair Services - Office Equipment		277	
Postal Charges		841	
Travel		1,615	
Office Supplies		1,286	
Other Supplies and Materials		2,940	
Premiums on Corporate Surety Bonds		100	
Total Sanitation Management			\$ 100,699

Sanitation Education/Information

Advertising	\$	3,009	
Instructional Supplies and Materials		4,599	
Other Supplies and Materials		4,966	
Total Sanitation Education/Information			12,574

Waste Pickup

Truck Drivers	\$	77,663	
Laborers		22,131	
Social Security		6,097	
State Retirement		1,278	
Medical Insurance		2,400	

(Continued)

Exhibit H-5

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

Solid Waste/Sanitation Fund (Cont.)
Public Health and Welfare (Cont.)
Waste Pickup (Cont.)

Unemployment Compensation	\$	1,004	
Employer Medicare		1,522	
Communication		600	
Maintenance & Repair Services - Vehicles		23,599	
Gasoline		31,651	
Tires and Tubes		1,472	
Uniforms		1,159	
Other Supplies and Materials		1,940	
Solid Waste Equipment		4,640	
Total Waste Pickup			\$ 177,156

Convenience Centers

Attendants	\$	238,981	
Social Security		13,640	
State Retirement		2,337	
Medical Insurance		2,000	
Unemployment Compensation		5,000	
Employer Medicare		3,093	
Communication		3,497	
Maintenance & Repair Services - Equipment		2,171	
Permits		1,000	
Uniforms		3,078	
Utilities		7,719	
Other Supplies and Materials		9,000	
Other Equipment		18,862	
Total Convenience Centers			310,378

Problem Waste Centers

Advertising	\$	1,932	
Other Supplies and Materials		12,492	
Total Problem Waste Centers			14,424

Recycling Center

Foremen	\$	23,356	
Truck Drivers		19,250	
Laborers		71,816	
Social Security		6,533	
State Retirement		4,020	
Unemployment Compensation		829	
Employer Medicare		1,528	

(Continued)

Exhibit H-5

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

Solid Waste/Sanitation Fund (Cont.)

Public Health and Welfare (Cont.)

Recycling Center (Cont.)

Communication	\$	721	
Contracts with Private Agencies		22,931	
Maintenance & Repair Services - Buildings		387,740	
Maintenance & Repair Services - Equipment		483	
Maintenance & Repair Services - Vehicles		2,805	
Gasoline		7,564	
Tires and Tubes		162	
Uniforms		1,972	
Utilities		6,513	
Other Supplies and Materials		8,427	
Solid Waste Equipment		4,000	
Total Recycling Center			\$ 570,650

Landfill Operation and Maintenance

Contracts with Private Agencies	\$	338,408	
Total Landfill Operation and Maintenance			338,408

Postclosure Care Costs

Communication	\$	100	
Engineering Services		6,475	
Utilities		1,519	
Total Postclosure Care Costs			8,094

Other Operations

Other Charges

Liability Insurance	\$	5,292	
Trustee's Commission		12,330	
Vehicle and Equipment Insurance		5,500	
Workers' Compensation Insurance		23,462	
Total Other Charges			46,584

Employee Benefits

Medical and Dental Services	\$	411	
Total Employee Benefits			411

Total Solid Waste/Sanitation Fund \$ 1,579,378

(Continued)

Exhibit H-5

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

Drug Control Fund

Public Safety

Drug Enforcement

Other Salaries & Wages	\$	13,723	
Social Security		851	
State Retirement		631	
Unemployment Compensation		15	
Employer Medicare		199	
Confidential Drug Enforcement Payments		8,000	
Maintenance & Repair Services - Equipment		853	
Maintenance & Repair Services - Vehicles		3,158	
Veterinary Services		453	
Animal Food and Supplies		175	
Law Enforcement Supplies		2,529	
Principal on Capital Leases		26,314	
Interest on Capital Leases		306	
Law Enforcement Equipment		134	
Motor Vehicles		50,140	
Total Drug Enforcement			\$ 107,481

Public Health and Welfare

Alcohol and Drug Programs

Contributions	\$	10,000	
Other Supplies and Materials		600	
Total Alcohol and Drug Programs			10,600

Total Drug Control Fund \$ 118,081

Highway/Public Works Fund

Highways

Administration

County Official/Administrative Officer	\$	55,052	
Clerical Personnel		54,104	
Social Security		6,750	
State Retirement		5,261	
Employer Medicare		1,109	
Communication		6,410	
Dues and Memberships		2,952	
Licenses		35	
Postal Charges		159	
Printing, Stationery, and Forms		8	
Travel		433	
Other Contracted Services		252	

(Continued)

Exhibit H-5

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

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Administration (Cont.)

Custodial Supplies	\$	1,032	
Office Supplies		995	
Other Charges		2,496	
Office Equipment		444	
Total Administration			\$ 137,492

Highway and Bridge Maintenance

Foremen	\$	94,241	
Equipment Operators		129,737	
Truck Drivers		82,320	
Laborers		192,717	
Social Security		34,025	
State Retirement		20,457	
Employer Medicare		2,489	
Rentals		12,086	
Other Contracted Services		1,306	
Asphalt - Cold Mix		978	
Asphalt - Hot Mix		615,068	
Asphalt - Liquid		150,717	
Crushed Stone		32,497	
Other Road Supplies		4,227	
Pipe - Metal		13,696	
Road Signs		4,318	
Salt		7,616	
Other Charges		1,585	
Total Highway and Bridge Maintenance			1,400,080

Operation and Maintenance of Equipment

Foremen	\$	33,744	
Mechanic(s)		30,174	
Nightwatchmen		51,806	
Social Security		6,949	
State Retirement		4,886	
Employer Medicare		1,080	
Freight Expenses		664	
Maintenance & Repair Services - Vehicles		25,857	
Diesel Fuel		158,385	
Electricity		4,419	
Equipment and Machinery Parts		77,460	
Garage Supplies		8,439	

(Continued)

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

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Operation and Maintenance of Equipment (Cont.)

Gasoline	\$	125,941	
Lubricants		9,543	
Natural Gas		1,216	
Tires and Tubes		28,495	
Other Supplies and Materials		1,043	
Other Charges		2,015	
Total Operation and Maintenance of Equipment	\$		572,116

Quarry Operations

Operating Lease Payments	\$	6,000	
Licenses		150	
Explosives and Drilling Supplies		28,129	
Other Charges		18,791	
Total Quarry Operations			53,070

Other Charges

Water and Sewer	\$	322	
Liability Insurance		31,000	
Premiums on Corporate Surety Bonds		582	
Trustee's Commission		17,455	
Workers' Compensation Insurance		50,939	
Total Other Charges			100,298

Employee Benefits

Medical Insurance	\$	46,642	
Unemployment Compensation		7,215	
Total Employee Benefits			53,857

Capital Outlay

Bridge Construction	\$	102,140	
Building Improvements		223	
Communication Equipment		2,216	
Highway Construction		153,447	
Highway Equipment		37,200	
Surplus Equipment		4,000	
Total Capital Outlay			299,226

Principal on Debt

Highways and Streets

Principal on Notes	\$	236,709	
--------------------	----	---------	--

(Continued)

Exhibit H-5

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

Highway/Public Works Fund (Cont.)

Principal on Debt (Cont.)

Highways and Streets (Cont.)

Principal on Capital Leases	\$ 6,982	
Total Highways and Streets		\$ 243,691

Interest on Debt

Highways and Streets

Interest on Notes	\$ 33,599	
Interest on Capital Leases	857	
Total Highways and Streets		34,456

Total Highway/Public Works Fund		\$ 2,894,286
---------------------------------	--	--------------

General Debt Service Fund

Principal on Debt

General Government

Principal on Notes	\$ 71,581	
Principal on Other Loans	35,000	
Total General Government		\$ 106,581

Education

Principal on Other Loans	\$ 351,000	
Total Education		351,000

Interest on Debt

General Government

Interest on Notes	\$ 13,389	
Interest on Other Loans	28,388	
Total General Government		41,777

Education

Interest on Other Loans	\$ 266,623	
Total Education		266,623

Other Debt Service

General Government

Trustee's Commission	\$ 7,789	
Other Debt Service	4,223	
Total General Government		12,012

Education

Other Debt Service	\$ 37,659	
Total Education		37,659

Total General Debt Service Fund		815,652
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Total Governmental Funds - Primary Government		<u>\$ 10,478,554</u>
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Exhibit H-6

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

	Cities - Sales Tax Fund
<hr/>	
<u>Cash Receipts</u>	
Local Option Sales Tax	\$ 501,557
Total Cash Receipts	<u>\$ 501,557</u>
 <u>Cash Disbursements</u>	
Remittance of Revenues Collected	\$ 496,110
Trustee's Commission	5,447
Total Cash Disbursements	<u>\$ 501,557</u>
 Excess of Cash Receipts Over (Under) Cash Disbursements	 \$ 0
Cash Balance, July 1, 2005	<u>0</u>
 Cash Balance, June 30, 2006	 <u>\$ 0</u>

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

DEPARTMENT OF AUDIT
JOHN G. MORGAN
Comptroller of the Treasury

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

ARTHUR L. ALEXANDER
Director

CARL LOWE, CGFM
Audit Manager

ANITA SCARLETT, CPA
Auditor 4

RODNEY MALIN, CGFM
KELLEY J. McNEAL, CPA, CGFM
State Auditors

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

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

Scope

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

Results

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

Our audit resulted in two findings and recommendations, which we have reviewed with Fentress County School Department management. Detailed findings and recommendations are included in the Single Audit Report.

Findings

The following are summaries of the audit findings:

FENTRESS COUNTY SCHOOL DEPARTMENT

- ◆ Government-wide financial statements were not presented in accordance with generally accepted accounting principles, resulting in an adverse opinion.
- ◆ Duties were not segregated adequately among the official and employees at the School Department.

INTRODUCTORY SECTION

Fentress County School Officials
June 30, 2006

Official

Homer Lee Linder, Jr., Director of Schools

Board of Education

Eddie Cook, Chairman
JoElla Allred
Boyd Brown
Karen Cooper
Mark Howard
Kent Norris
H. Russell Stephens
Mike Stowers
Gary Tinch
Derwin Wright

FINANCIAL SECTION



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

INDEPENDENT AUDITOR'S REPORT

September 11, 2006

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

To the Director of Schools and Board of Education:

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Fentress County School Department, a component unit of Fentress County, Tennessee, as of and for the year ended June 30, 2006, as shown on pages 15 through 31, which collectively comprise a portion of the Fentress County School Department's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Fentress County School Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the School Department's governmental activities are not reasonably determinable.

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

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

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

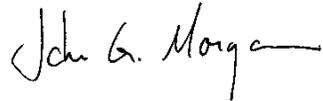
In accordance with Government Auditing Standards, we have also issued our report dated September 11, 2006, on our consideration of the Fentress County School Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The budgetary comparison information on pages 35 through 39 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Very truly yours,

A handwritten signature in cursive script that reads "John G. Morgan". The signature is written in black ink and is positioned above the typed name.

John G. Morgan
Comptroller of the Treasury

JGM/sb

BASIC FINANCIAL STATEMENTS

Exhibit A

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

	<u>Major Funds</u>		<u>Nonmajor</u>	<u>Total</u>
	<u>General</u>	<u>School</u>	<u>Fund</u>	
	<u>Purpose</u>	<u>Federal</u>	<u>Central</u>	<u>Governmental</u>
	<u>School</u>	<u>Projects</u>	<u>Cafeteria</u>	<u>Funds</u>
<u>ASSETS</u>				
Equity in Pooled Cash and Investments	\$ 2,277,845	\$ 17,738	\$ 292,053	\$ 2,587,636
Due from Other Governments	284,439	119,570	1,188	405,197
Due from Other Funds	0	90,189	972	91,161
Property Taxes Receivable	777,801	0	0	777,801
Allowance for Uncollectible Property Taxes	(33,908)	0	0	(33,908)
Prepaid Items	5,246	0	0	5,246
Total Assets	\$ 3,311,423	\$ 227,497	\$ 294,213	\$ 3,833,133
<u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities</u>				
Due to Other Funds	\$ 90,189	\$ 0	\$ 0	\$ 90,189
Deferred Revenue - Current Property Taxes	705,241	0	0	705,241
Deferred Revenue - Delinquent Property Taxes	30,527	0	0	30,527
Other Deferred Revenues	143,676	0	0	143,676
Total Liabilities	\$ 969,633	\$ 0	\$ 0	\$ 969,633
<u>Fund Balances</u>				
Reserved for Career Ladder - Extended Contract	\$ 110,924	\$ 0	\$ 0	\$ 110,924
Reserved for Career Ladder Program	3,876	0	0	3,876
Reserved for Basic Education Program	799,545	0	0	799,545
Reserved for Title I Grants to Local Education Agencies	0	92,025	0	92,025
Reserved for Innovative Education Program Strategies	0	1,525	0	1,525
Reserved for Special Education - Grants to States	0	132,360	0	132,360
Other Federal Reserves	0	1,587	0	1,587
Unreserved, Reported In:				
General Fund	1,427,445	0	0	1,427,445
Special Revenue Funds	0	0	294,213	294,213
Total Fund Balances	\$ 2,341,790	\$ 227,497	\$ 294,213	\$ 2,863,500
Total Liabilities and Fund Balances	\$ 3,311,423	\$ 227,497	\$ 294,213	\$ 3,833,133

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

Exhibit B

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

	Major Funds		Nonmajor	Total
	General Purpose School	School Federal Projects	Fund Central Cafeteria	
<u>Revenues</u>				
Local Taxes	\$ 2,648,206	\$ 0	\$ 0	\$ 2,648,206
Licenses and Permits	1,558	0	0	1,558
Charges for Current Services	0	0	217,429	217,429
Other Local Revenues	204,165	1,298	21,033	226,496
State of Tennessee	10,988,753	0	15,143	11,003,896
Federal Government	154,256	1,678,491	793,498	2,626,245
Total Revenues	<u>\$ 13,996,938</u>	<u>\$ 1,679,789</u>	<u>\$ 1,047,103</u>	<u>\$ 16,723,830</u>
<u>Expenditures</u>				
Current:				
Instruction	\$ 8,728,511	\$ 1,188,251	\$ 0	\$ 9,916,762
Support Services	4,758,133	439,280	0	5,197,413
Operation of Non-Instructional Services	348,910	0	1,057,659	1,406,569
Capital Outlay	96,406	0	0	96,406
Debt Service:				
Principal on Debt	299,000	0	0	299,000
Interest on Debt	142,975	0	0	142,975
Total Expenditures	<u>\$ 14,373,935</u>	<u>\$ 1,627,531</u>	<u>\$ 1,057,659</u>	<u>\$ 17,059,125</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (376,997)</u>	<u>\$ 52,258</u>	<u>\$ (10,556)</u>	<u>\$ (335,295)</u>
<u>Other Financing Sources (Uses)</u>				
Capital Leases Issued	\$ 345,000	\$ 0	\$ 0	\$ 345,000
Transfers In	8,004	0	0	8,004
Transfers Out	0	(8,004)	0	(8,004)
Total Other Financing Sources (Uses)	<u>\$ 353,004</u>	<u>\$ (8,004)</u>	<u>\$ 0</u>	<u>\$ 345,000</u>
Net Change in Fund Balances	\$ (23,993)	\$ 44,254	\$ (10,556)	\$ 9,705
Fund Balance, July 1, 2005	<u>2,365,783</u>	<u>183,243</u>	<u>304,769</u>	<u>2,853,795</u>
Fund Balance, June 30, 2006	<u>\$ 2,341,790</u>	<u>\$ 227,497</u>	<u>\$ 294,213</u>	<u>\$ 2,863,500</u>

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

A. Reporting Entity

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

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

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

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

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

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

Property taxes for the period levied, in-lieu-of tax payments, sales taxes, interest, and miscellaneous taxes are all considered to be susceptible to accrual and have been recognized as revenues of the current period. Applicable business taxes, litigation taxes, state-shared excise taxes, fines, forfeitures, and penalties are not susceptible to accrual since they are not measurable (reasonably estimable). All other revenue items are considered to be measurable and available only when the School Department receives cash.

The School Department reports the following major governmental funds:

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

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

C. Assets, Liabilities, and Equity

1. Deposits and Investments

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

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

2. Receivables and Payables

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

Property taxes receivable are shown with an allowance for uncollectibles. The allowance for uncollectible property taxes is equal to 2.29 percent of total taxes levied.

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

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

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

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

3. Prepaid Items

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items in the fund financial statements.

4. Capital Assets

Governmental funds do not capitalize the cost of capital outlays; these funds report capital outlays as expenditures upon acquisition. The School Department does not maintain capital assets records, as required by generally accepted accounting principles. Capital assets

should be reported in the government-wide statement of net assets; however, as previously noted, the School Department does not present government-wide statements.

5. Compensated Absences

The School Department's policy does not permit employees to accumulate earned but unused vacation leave benefits. The School Department's sick leave policy permits the unlimited accumulation of unused sick leave days for all full-time and classified personnel. Accumulated sick days are paid to the employee upon leaving employment. A liability for sick pay is reported in governmental funds only if amounts have matured, for example, as a result of employee resignations and retirements.

6. Long-term Obligations

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

7. Fund Equity

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all governmental funds. All annual appropriations lapse at fiscal year end.

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

The budgetary level of control is at the major category level established by the State Uniform Chart of Accounts, as prescribed by the Comptroller of the Treasury of the State of Tennessee. Major categories are at the department level (examples of General Purpose School Fund major categories: Regular Instruction Program, Special Education Program, Vocational Education Program, Adult Education Program, etc.). Management may make revisions

within major categories, but only the Fentress County Commission may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

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

B. Expenditures Exceeded Appropriations

Expenditures exceeded appropriations approved by the Fentress County Commission in the Instruction – Vocational Education Program (\$4,370), Support Services – Health Services (\$6,990), and Support Services – Special Education Program (\$17,599) major appropriation categories (legal level of control) of the School Federal Projects Fund. Such overexpenditures are a violation of state statutes. These overexpenditures were funded from available fund balance.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Fentress County and the Fentress 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, depositing, and investing most county funds. Each fund's portion of this pool is displayed on the balance sheets as Equity in Pooled Cash and Investments.

Deposits

Legal Provisions. All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public fund accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for 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. Fentress County, the School Department’s primary government, is 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. Fentress County had no pooled and nonpooled investments as of June 30, 2006.

B. Interfund Receivables, Payables, and Transfers

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

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
School Federal Projects	General Purpose School	\$ 90,189
Nonmajor governmental	General Purpose School	972

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

The receivable in the nonmajor Central Cafeteria Fund (\$972) was in transit from the General Purpose School Fund.

Interfund Transfers:

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

<u>Transfers Out</u>	<u>Transfers In</u> General Purpose School Fund
School Federal Projects Fund	\$ 8,004

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

C. Capital Leases

On February 15, 2006, the School Department entered into a four-year lease-purchase agreement for a building to house the central office. The terms of the agreement require total lease payments of \$345,000 at zero percent interest. Title to the building transfers to the School Department at the end of the lease period. The lease payments are made by the General Purpose School Fund.

Future minimum lease payments and the net present value of these minimum lease payments as of June 30, 2006, were as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Governmental</u> <u>Funds</u>
2007	\$ 69,000
2008	69,000
2009	69,000
2010	<u>69,000</u>
Total Minimum Lease Payments	\$ 276,000
Amounts Representing Interest	<u>0</u>
Present Value of Minimum Lease Payments	<u>\$ 276,000</u>

D. Long-term Debt

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

General Obligation Bonds

The county issues general obligation bonds on behalf of the School Department to provide funds for the acquisition and construction of major capital facilities. In addition, general obligation bonds have been issued to refund other general obligation bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds outstanding were issued for original terms of up to 20 years. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All bonds included in long-term debt as of June 30, 2006, will be retired from the General Purpose School Fund.

General obligation bonds outstanding as of June 30, 2006, are as follows:

Type	Interest Rate	Original Amount of Issue	Balance 6-30-06
General Obligation Bonds	4.5 to 5.7 %	\$ 4,500,000	\$ 475,000
General Obligation Bonds - Refunding	4.4 to 4.8	2,355,000	2,245,000

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

Year Ending June 30	Bonds	
	Principal	Interest
2007	\$ 245,000	\$ 129,850
2008	260,000	116,770
2009	270,000	102,635
2010	285,000	90,620
2011	300,000	77,795
2012-2015	1,360,000	165,465
Total	<u>\$ 2,720,000</u>	<u>\$ 683,135</u>

Bonded debt per capita amounted to \$164, based on the 2000 federal census. Total debt per capital, including bonds and the capital lease amounted to \$180, bases on the 2000 federal census.

Changes in Long-term Liabilities

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

Governmental Activities:	Bonds	Capital Lease
	<u> </u>	<u> </u>
Balance, July 1, 2005	\$ 2,950,000	\$ 0
Additions	0	345,000
Deductions	<u>(230,000)</u>	<u>(69,000)</u>
Balance, June 30, 2006	<u>\$ 2,720,000</u>	<u>\$ 276,000</u>
Balance Due Within One Year	<u>\$ 245,000</u>	<u>\$ 69,000</u>

IV. OTHER INFORMATION

A. Risk Management

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

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

B. Accounting Changes

The provisions of Governmental Accounting Standards Board (GASB) Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries became effective for the year

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

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

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

The provisions of GASB Statement No. 47, Accounting for Termination Benefits became effective for the year ended June 30, 2006. GASB Statement No. 47 provides accounting and reporting guidance for state and local

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

C. Contingent Liabilities

The management of the School Department and their attorney are not aware of any pending or threatened lawsuits.

D. Retirement Commitments

Plan Description

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

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

Funding Policy

The Fentress County School Department requires employees to contribute five percent of earnable compensation. The county is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2006, was .87 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Fentress County School Department is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2006, the Fentress County School Department's annual pension cost of \$12,372 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. The Fentress County School Department's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2003, was 12 years.

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6-30-06	\$12,372	100%	\$0
6-30-05	12,200	100	0
6-30-04	0	100	0

Required Supplementary Information

Schedule of Funding Progress for the Fentress County School Department

(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	\$4,404	\$4,404	\$0	100%	\$1,272	0%
6-30-03	4,178	4,178	0	100	1,215	0
6-30-01	4,007	4,007	0	100	1,139	0

SCHOOL TEACHERS

Plan Description

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson

Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at <http://www.treasury.state.tn.us/tcrs/Schools/>.

Funding Policy

Most teachers are required by state statute to contribute five percent of their salaries to the plan. The employer contribution rate for the Fentress 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 Fentress 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 \$440,863, \$424,262, and \$243,466, respectively, equal to the required contributions for each year.

E. Other Post-employment Benefits

In addition to the retirement commitments described above, the School Department provides post-retirement health care benefits for teachers retiring after July 1, 1997, who retire with 30 years of active teaching with at least ten of those years teaching in Fentress County. This benefit is in force until the participant is eligible for Medicare benefits. Currently, 25 school retirees meet the eligibility requirements. The School Department pays 100 percent of medical premiums for the retirees. During the year, expenditures totaling \$56,803 were recognized for post-employment health care.

F. Office of Central Accounting and Budgeting

Fentress County and the School Department operate under provisions of the County Financial Management System of 1981 which provides for a central system of accounting, budgeting, and purchasing for all funds of the county. This act provides for the creation of a Finance Department operated under the direction of the finance director.

G. Purchasing Law

Purchasing procedures for the School Department are governed by purchasing laws of The County Financial Management System of 1981, which provides for the finance director or a deputy appointed by her to serve as the purchasing agent. The finance director serves as the purchasing agent for Fentress County and the School Department. All purchase orders are issued by the Finance Department. Purchases exceeding \$5,000 for the School Department are required to be competitively bid.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit C-1

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Revenues</u>						
Local Taxes	\$ 2,648,206	\$ 0	\$ 2,648,206	\$ 2,479,420	\$ 2,506,286	\$ 141,920
Licenses and Permits	1,558	0	1,558	1,800	1,800	(242)
Other Local Revenues	204,165	0	204,165	175,400	217,975	(13,810)
State of Tennessee	10,988,753	0	10,988,753	10,476,320	10,909,600	79,153
Federal Government	154,256	0	154,256	148,230	143,114	11,142
Total Revenues	\$ 13,996,938	\$ 0	\$ 13,996,938	\$ 13,281,170	\$ 13,778,775	\$ 218,163
<u>Expenditures</u>						
<u>Instruction</u>						
Regular Instruction Program	\$ 7,543,625	\$ 0	\$ 7,543,625	\$ 7,645,100	\$ 7,575,369	\$ 31,744
Alternative Instruction Program	102,121	0	102,121	97,960	102,751	630
Special Education Program	859,517	0	859,517	832,350	895,025	35,508
Vocational Education Program	149,962	0	149,962	134,480	150,400	438
Adult Education Program	73,286	0	73,286	80,000	74,717	1,431
<u>Support Services</u>						
Attendance	98,649	0	98,649	97,680	99,712	1,063
Health Services	42,751	0	42,751	61,160	43,710	959
Other Student Support	177,176	0	177,176	178,270	178,047	871
Regular Instruction Program	506,595	0	506,595	486,900	511,466	4,871
Special Education Program	116,102	0	116,102	116,800	119,821	3,719
Vocational Education Program	68,664	0	68,664	68,880	68,880	216
Adult Programs	60,232	0	60,232	60,580	61,464	1,232
Board of Education	1,149,179	0	1,149,179	732,770	1,163,136	13,957
Director of Schools	130,698	0	130,698	134,360	135,162	4,464
Office of the Principal	528,944	0	528,944	564,653	536,112	7,168
Fiscal Services	69,400	0	69,400	83,450	75,030	5,630

(Continued)

Exhibit C-1

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Expenditures (Cont.)</u>						
<u>Support Services (Cont.)</u>						
Operation of Plant	\$ 952,864	\$ 0	\$ 952,864	\$ 904,670	\$ 963,174	\$ 10,310
Maintenance of Plant	190,095	0	190,095	150,920	193,501	3,406
Transportation	666,784	0	666,784	674,210	697,519	30,735
<u>Operation of Non-Instructional Services</u>						
Early Childhood Education	348,910	0	348,910	0	350,243	1,333
<u>Capital Outlay</u>						
Regular Capital Outlay	96,406	(4,907)	91,499	168,470	136,434	44,935
<u>Principal on Debt</u>						
Education	299,000	0	299,000	0	299,000	0
<u>Interest on Debt</u>						
Education	142,975	0	142,975	0	142,975	0
<u>Other Debt Service</u>						
Education	0	0	0	371,800	825	825
Total Expenditures	\$ 14,373,935	\$ (4,907)	\$ 14,369,028	\$ 13,645,463	\$ 14,574,473	\$ 205,445
Excess (Deficiency) of Revenues						
Over Expenditures	\$ (376,997)	\$ 4,907	\$ (372,090)	\$ (364,293)	\$ (795,698)	\$ 423,608
<u>Other Financing Sources (Uses)</u>						
Capital Leases Issued	\$ 345,000	\$ 0	\$ 345,000	\$ 0	\$ 345,000	\$ 0
Transfers In	8,004	0	8,004	0	84,000	(75,996)
Total Other Financing Sources (Uses)	\$ 353,004	\$ 0	\$ 353,004	\$ 0	\$ 429,000	\$ (75,996)
Net Change in Fund Balance						
Fund Balance, July 1, 2005	\$ (23,993)	\$ 4,907	\$ (19,086)	\$ (364,293)	\$ (366,698)	\$ 347,612
	2,365,783	(4,907)	2,360,876	2,387,777	2,387,777	(26,901)
Fund Balance, June 30, 2006						
	\$ 2,341,790	\$ 0	\$ 2,341,790	\$ 2,023,484	\$ 2,021,079	\$ 320,711

Exhibit C-2

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Revenues</u>						
Other Local Revenues	\$ 1,298	\$ 0	\$ 1,298	\$ 0	\$ 0	\$ 1,298
Federal Government	1,678,491	0	1,678,491	1,793,387	1,793,387	(114,896)
Total Revenues	\$ 1,679,789	\$ 0	\$ 1,679,789	\$ 1,793,387	\$ 1,793,387	\$ (113,598)
<u>Expenditures</u>						
<u>Instruction</u>						
Regular Instruction Program	\$ 787,643	\$ (1,293)	\$ 786,350	\$ 917,793	\$ 919,578	\$ 133,228
Special Education Program	269,670	0	269,670	320,348	320,348	50,678
Vocational Education Program	130,938	(22,113)	108,825	93,648	104,455	(4,370)
<u>Support Services</u>						
Health Services	61,790	0	61,790	54,800	54,800	(6,990)
Other Student Support	66,664	0	66,664	80,236	72,099	5,435
Regular Instruction Program	168,423	0	168,423	211,577	213,754	45,331
Special Education Program	110,199	0	110,199	92,600	92,600	(17,599)
Vocational Education Program	733	0	733	3,365	733	0
Office of the Principal	0	0	0	4,000	0	0
Transportation	31,471	0	31,471	44,100	44,100	12,629
Total Expenditures	\$ 1,627,531	\$ (23,406)	\$ 1,604,125	\$ 1,822,467	\$ 1,822,467	\$ 218,342
Excess (Deficiency) of Revenues Over Expenditures	\$ 52,258	\$ 23,406	\$ 75,664	\$ (29,080)	\$ (29,080)	\$ 104,744
<u>Other Financing Sources (Uses)</u>						
Transfers Out	\$ (8,004)	\$ 0	\$ (8,004)	\$ (8,375)	\$ (8,375)	\$ 371
Total Other Financing Sources (Uses)	\$ (8,004)	\$ 0	\$ (8,004)	\$ (8,375)	\$ (8,375)	\$ 371
Net Change in Fund Balance	\$ 44,254	\$ 23,406	\$ 67,660	\$ (37,455)	\$ (37,455)	\$ 105,115
Fund Balance, July 1, 2005	183,243	(23,406)	159,837	183,243	183,243	(23,406)
Fund Balance, June 30, 2006	\$ 227,497	\$ 0	\$ 227,497	\$ 145,788	\$ 145,788	\$ 81,709

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

A. BUDGETARY INFORMATION

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

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

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

B. EXPENDITURES EXCEEDED APPROPRIATIONS

Expenditures exceeded appropriations approved by the Fentress County Commission in the Instruction – Vocational Education Program (\$4,370), Support Services – Health Services (\$6,990), and Support Services – Special Education Program (\$17,599) major appropriation categories (legal level of control) of the School Federal Projects Fund. Such overexpenditures are a violation of state statutes. These overexpenditures were funded from available fund balance.

**INDIVIDUAL FUND
FINANCIAL SCHEDULE**

Nonmajor Governmental Fund

Special Revenue Fund

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

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

Exhibit D

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Charges for Current Services	\$ 217,429	\$ 250,000	\$ 250,000	\$ (32,571)
Other Local Revenues	21,033	10,000	10,000	11,033
State of Tennessee	15,143	20,000	20,000	(4,857)
Federal Government	793,498	850,000	850,000	(56,502)
Total Revenues	<u>\$ 1,047,103</u>	<u>\$ 1,130,000</u>	<u>\$ 1,130,000</u>	<u>\$ (82,897)</u>
<u>Expenditures</u>				
<u>Operation of Non-Instructional Services</u>				
Food Service	\$ 1,057,659	\$ 1,130,000	\$ 1,130,000	\$ 72,341
Total Expenditures	<u>\$ 1,057,659</u>	<u>\$ 1,130,000</u>	<u>\$ 1,130,000</u>	<u>\$ 72,341</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (10,556)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (10,556)</u>
Net Change in Fund Balance	\$ (10,556)	\$ 0	\$ 0	\$ (10,556)
Fund Balance, July 1, 2005	<u>304,769</u>	<u>0</u>	<u>0</u>	<u>304,769</u>
Fund Balance, June 30, 2006	<u>\$ 294,213</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 294,213</u>

MISCELLANEOUS SCHEDULES

Exhibit E-1

Fentress County, Tennessee
Schedule of Changes in Long-term Capital Leases and Bonds
Fentress County School Department
For the Year Ended June 30, 2006

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-05	Issued During Period	Paid and/or Matured During Period	Outstanding 6-30-06
<u>CAPITAL LEASE</u>								
<u>Payable through General Purpose School Fund</u>								
Central Office Building	\$ 345,000	0 %	2-15-06	2-15-10	\$ 0	\$ 345,000	\$ 69,000	\$ 276,000
<u>BONDS PAYABLE</u>								
<u>Payable through General Purpose School Fund</u>								
School	4,500,000	4.5 to 5.7	4-5-1995	5-1-15	\$ 690,000	\$ 0	\$ 215,000	\$ 475,000
School Refunding Series 1998	2,355,000	4.4 to 4.8	7-15-1998	5-1-15	2,260,000	0	15,000	2,245,000
Total Bonds Payable					<u>\$ 2,950,000</u>	<u>\$ 0</u>	<u>\$ 230,000</u>	<u>\$ 2,720,000</u>

Exhibit E-2

Fentress County, Tennessee
Schedule of Bond and Interest Requirements by Year
Fentress County School Department

Year Ending June 30	Bond Requirements	Interest Requirements	Total Requirements
2007	\$ 245,000	\$ 129,850	\$ 374,850
2008	260,000	116,770	376,770
2009	270,000	102,635	372,635
2010	285,000	90,620	375,620
2011	300,000	77,795	377,795
2012	315,000	64,145	379,145
2013	330,000	49,655	379,655
2014	350,000	34,145	384,145
2015	365,000	17,520	382,520
	<u>\$ 2,720,000</u>	<u>\$ 683,135</u>	<u>\$ 3,403,135</u>

Exhibit E-3

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

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
School Federal Projects	General Purpose School	Indirect costs	<u>\$ 8,004</u>

Exhibit E-4

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

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
Director of Schools	State Board of Education and Fentress County Board of Education	\$ 75,886	\$ 150,000	Western Surety Company
Employee Dishonesty Bond Coverage: School Department Employees			150,000	Tennessee School Boards Risk Management Trust

Exhibit E-5

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

	General Purpose School	School Federal Projects	Central Cafeteria	Total
<u>Local Taxes</u>				
<u>County Property Taxes</u>				
Current Property Tax	\$ 709,484	\$ 0	\$ 0	\$ 709,484
Trustee's Collections - Prior Year	54,678	0	0	54,678
Circuit/Clerk & Master Collections - Prior Years	17,791	0	0	17,791
Interest and Penalty	8,504	0	0	8,504
<u>County Local Option Taxes</u>				
Local Option Sales Tax	1,426,886	0	0	1,426,886
Wheel Tax	389,212	0	0	389,212
Business Tax	19,184	0	0	19,184
Mineral Severance Tax	19,831	0	0	19,831
<u>Statutory Local Taxes</u>				
Interstate Telecommunications Tax	2,636	0	0	2,636
Total Local Taxes	\$ 2,648,206	\$ 0	\$ 0	\$ 2,648,206
<u>Licenses and Permits</u>				
<u>Licenses</u>				
Marriage Licenses	\$ 1,558	\$ 0	\$ 0	\$ 1,558
Total Licenses and Permits	\$ 1,558	\$ 0	\$ 0	\$ 1,558
<u>Charges for Current Services</u>				
<u>Education Charges</u>				
Lunch Payments - Children	\$ 0	\$ 0	\$ 120,037	\$ 120,037
Lunch Payments - Adults	0	0	36,298	36,298
Income from Breakfast	0	0	27,050	27,050
A la carte Sales	0	0	34,044	34,044
Total Charges for Current Services	\$ 0	\$ 0	\$ 217,429	\$ 217,429
<u>Other Local Revenues</u>				
<u>Recurring Items</u>				
Investment Income	\$ 127,822	\$ 0	\$ 5,094	\$ 132,916
Miscellaneous Refunds	75,047	1,298	15,939	92,284
<u>Nonrecurring Items</u>				
Damages Recovered from Individuals	825	0	0	825
<u>Other Local Revenues</u>				
Other Local Revenues	471	0	0	471
Total Other Local Revenues	\$ 204,165	\$ 1,298	\$ 21,033	\$ 226,496
<u>State of Tennessee</u>				
<u>State Education Funds</u>				
Basic Education Program	\$ 10,011,065	\$ 0	\$ 0	\$ 10,011,065
School Food Service	0	0	15,143	15,143
Driver Education	1,237	0	0	1,237
Other State Education Funds	343,217	0	0	343,217
Career Ladder Program	158,442	0	0	158,442
Career Ladder - Extended Contract	68,789	0	0	68,789
<u>Other State Revenues</u>				
State Revenue Sharing - T.V.A.	359,152	0	0	359,152
Other State Grants	46,851	0	0	46,851
Total State of Tennessee	\$ 10,988,753	\$ 0	\$ 15,143	\$ 11,003,896

(Continued)

Exhibit E-5

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

	General Purpose School	School Federal Projects	Central Cafeteria	Total
<u>Federal Government</u>				
<u>Federal Through State</u>				
USDA School Lunch Program	\$ 0	\$ 0	\$ 537,744	\$ 537,744
Breakfast	0	0	226,338	226,338
Adult Education State Grant Program	67,045	0	0	67,045
Vocational Education - Basic Grants to States	0	89,013	0	89,013
Title I Grants to Local Education Agencies	0	672,800	0	672,800
Innovative Education Program Strategies	0	81,075	0	81,075
Special Education - Grants to States	27,622	513,497	0	541,119
Eisenhower Professional Development State Grants	0	286,304	0	286,304
Job Training Partnership Act	0	17,286	0	17,286
Other Federal through State	8,032	18,516	29,416	55,964
<u>Direct Federal Revenue</u>				
ROTC Reimbursement	51,557	0	0	51,557
Total Federal Government	\$ 154,256	\$ 1,678,491	\$ 793,498	\$ 2,626,245
Total	\$ 13,996,938	\$ 1,679,789	\$ 1,047,103	\$ 16,723,830

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

General Purpose School Fund

Instruction

Regular Instruction Program

Teachers	\$ 5,027,825	
Career Ladder Program	114,500	
Career Ladder Extended Contracts	43,500	
Homebound Teachers	38,254	
Educational Assistants	180,479	
Other Salaries & Wages	107,856	
Certified Substitute Teachers	99,755	
Social Security	333,372	
State Retirement	290,384	
Medical Insurance	709,009	
Unemployment Compensation	7,192	
Employer Medicare	77,966	
Maintenance & Repair Services - Equipment	62,313	
Instructional Supplies and Materials	176,474	
Textbooks	187,726	
Other Supplies and Materials	46,279	
Other Charges	7,766	
Regular Instruction Equipment	32,975	
Total Regular Instruction Program		\$ 7,543,625

Alternative Instruction Program

Teachers	\$ 80,732	
Social Security	4,646	
State Retirement	4,440	
Medical Insurance	11,156	
Unemployment Compensation	60	
Employer Medicare	1,087	
Total Alternative Instruction Program		102,121

Special Education Program

Teachers	\$ 504,913
Career Ladder Program	4,000
Educational Assistants	55,490
Certified Substitute Teachers	2,408
Social Security	34,064
State Retirement	28,624
Medical Insurance	121,743
Unemployment Compensation	900
Employer Medicare	7,969

(Continued)

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

General Purpose School Fund (Cont.)

Instruction (Cont.)

Special Education Program (Cont.)

Contracts with Other Public Agencies	\$	32,477	
Contracts with Other School Systems		3,300	
Contracts with Private Agencies		2,220	
Other Contracted Services		53,249	
Instructional Supplies and Materials		1,213	
Other Supplies and Materials		818	
Other Charges		2,971	
Special Education Equipment		950	
Other Equipment		2,208	
Total Special Education Program	\$		859,517

Vocational Education Program

Teachers	\$	117,371	
Career Ladder Program		1,000	
Social Security		7,260	
State Retirement		6,510	
Medical Insurance		15,151	
Unemployment Compensation		39	
Employer Medicare		1,698	
Travel		101	
Other Contracted Services		28	
Instructional Supplies and Materials		804	
Total Vocational Education Program			149,962

Adult Education Program

Teachers	\$	25,525	
Career Ladder Program		1,000	
Other Salaries & Wages		13,987	
Social Security		2,507	
State Retirement		593	
Medical Insurance		146	
Unemployment Compensation		109	
Employer Medicare		586	
Instructional Supplies and Materials		16,887	
In Service/Staff Development		200	
Other Equipment		11,746	
Total Adult Education Program			73,286

(Continued)

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

General Purpose School Fund (Cont.)

Support Services

Attendance

Supervisor/Director	\$	58,738	
Career Ladder Program		3,600	
Other Salaries & Wages		18,330	
Social Security		5,001	
State Retirement		3,588	
Medical Insurance		4,463	
Unemployment Compensation		60	
Employer Medicare		1,170	
Travel		999	
Other Contracted Services		2,700	
Total Attendance			\$ 98,649

Health Services

Medical Personnel	\$	32,706	
Social Security		2,058	
State Retirement		216	
Unemployment Compensation		94	
Employer Medicare		456	
Travel		282	
Drugs and Medical Supplies		4,772	
Other Supplies and Materials		1,483	
Other Charges		684	
Total Health Services			42,751

Other Student Support

Career Ladder Program	\$	2,000	
Guidance Personnel		126,509	
Career Ladder Extended Contracts		2,000	
Social Security		7,373	
State Retirement		7,178	
Medical Insurance		23,120	
Unemployment Compensation		90	
Employer Medicare		1,724	
Evaluation and Testing		7,182	
Total Other Student Support			177,176

Regular Instruction Program

Supervisor/Director	\$	59,938	
Career Ladder Program		8,800	

(Continued)

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Regular Instruction Program (Cont.)

Career Ladder Extended Contracts	\$	2,500	
Librarians		178,998	
Materials Supervisor		58,738	
Instructional Computer Personnel		47,300	
Social Security		22,861	
State Retirement		20,834	
Medical Insurance		38,501	
Unemployment Compensation		242	
Employer Medicare		5,347	
Consultants		1,000	
Maintenance & Repair Services - Equipment		100	
Travel		14,998	
Other Contracted Services		1,073	
Other Supplies and Materials		3,588	
In Service/Staff Development		41,320	
Other Charges		457	
Total Regular Instruction Program			\$ 506,595

Special Education Program

Supervisor/Director	\$	63,400	
Career Ladder Program		3,000	
Psychological Personnel		8,202	
Career Ladder Extended Contracts		2,000	
Other Salaries & Wages		1,504	
Social Security		4,681	
State Retirement		4,172	
Medical Insurance		5,064	
Unemployment Compensation		42	
Employer Medicare		1,095	
Travel		5,771	
In Service/Staff Development		12,694	
Other Equipment		4,477	
Total Special Education Program			116,102

Vocational Education Program

Supervisor/Director	\$	48,154	
Career Ladder Program		3,600	
Social Security		3,183	
State Retirement		2,846	

(Continued)

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Vocational Education Program (Cont.)

Medical Insurance	\$	4,870	
Unemployment Compensation		30	
Employer Medicare		744	
Travel		5,237	
Total Vocational Education Program			\$ 68,664

Adult Programs

Supervisor/Director	\$	43,879	
Social Security		2,477	
State Retirement		2,413	
Medical Insurance		7,789	
Unemployment Compensation		30	
Employer Medicare		579	
Travel		3,065	
Total Adult Programs			60,232

Board of Education

Board and Committee Members Fees	\$	1,350	
Social Security		84	
Medical Insurance		56,803	
Employer Medicare		20	
Audit Services		4,000	
Contributions		86,405	
Dues and Memberships		12,530	
Legal Services		16,738	
Liability Insurance		141,203	
Premiums on Corporate Surety Bonds		1,305	
Trustee's Commission		65,380	
Workers' Compensation Insurance		114,122	
Other Charges		4,239	
Debt Service Contribution to Primary Government		300,000	
Building Purchases		345,000	
Total Board of Education			1,149,179

Director of Schools

County Official/Administrative Officer	\$	75,886	
Secretary(ies)		8,793	
Social Security		5,176	
State Retirement		4,250	

(Continued)

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Director of Schools (Cont.)

Medical Insurance	\$	9,943	
Unemployment Compensation		28	
Employer Medicare		1,210	
Communication		25,412	
Total Director of Schools			\$ 130,698

Office of the Principal

Principals	\$	271,915	
Career Ladder Program		6,000	
Career Ladder Extended Contracts		8,000	
Secretary(ies)		150,459	
Social Security		26,149	
State Retirement		16,319	
Medical Insurance		35,475	
Unemployment Compensation		487	
Employer Medicare		6,116	
Communication		8,024	
Total Office of the Principal			528,944

Fiscal Services

Accountants/Bookkeepers	\$	44,110	
Social Security		2,691	
State Retirement		211	
Unemployment Compensation		60	
Employer Medicare		629	
Data Processing Services		1,080	
Office Supplies		8,632	
Other Supplies and Materials		485	
Other Charges		5,748	
Administration Equipment		5,754	
Total Fiscal Services			69,400

Operation of Plant

Custodial Personnel	\$	237,314	
Social Security		14,665	
State Retirement		1,771	
Medical Insurance		613	
Unemployment Compensation		709	
Employer Medicare		3,430	

(Continued)

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Operation of Plant (Cont.)

Disposal Fees	\$	19,475	
Electricity		404,396	
Natural Gas		186,869	
Water and Sewer		25,460	
Other Supplies and Materials		58,162	
Total Operation of Plant			\$ 952,864

Maintenance of Plant

Supervisor/Director	\$	25,800	
Other Salaries & Wages		31,799	
Social Security		3,488	
State Retirement		420	
Unemployment Compensation		109	
Employer Medicare		816	
Other Contracted Services		41,090	
Equipment and Machinery Parts		81,032	
Other Supplies and Materials		1,058	
Other Charges		4,325	
Maintenance Equipment		158	
Total Maintenance of Plant			190,095

Transportation

Supervisor/Director	\$	20,300	
Mechanic(s)		27,042	
Bus Drivers		255,224	
Other Salaries & Wages		1,814	
Social Security		19,030	
State Retirement		2,662	
Medical Insurance		724	
Unemployment Compensation		859	
Employer Medicare		4,445	
Contracts with Parents		32,830	
Maintenance & Repair Services - Vehicles		689	
Rentals		2,087	
Other Contracted Services		389	
Equipment and Machinery Parts		2,341	
Gasoline		119,106	
Lubricants		1,540	
Tires and Tubes		13,982	

(Continued)

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Transportation (Cont.)

Vehicle Parts	\$	44,042	
Other Supplies and Materials		989	
Other Charges		7,965	
Transportation Equipment		108,724	
Total Transportation			\$ 666,784

Operation of Non-Instructional Services

Early Childhood Education

Teachers	\$	140,004	
Educational Assistants		28,013	
Certified Substitute Teachers		1,120	
Social Security		10,214	
State Retirement		7,940	
Medical Insurance		20,069	
Unemployment Compensation		234	
Employer Medicare		2,389	
Travel		3,639	
Food Supplies		1,068	
Instructional Supplies and Materials		33,691	
Other Supplies and Materials		39,556	
In Service/Staff Development		434	
Other Charges		3,053	
Other Equipment		57,486	
Total Early Childhood Education			348,910

Capital Outlay

Regular Capital Outlay

Other Contracted Services	\$	9,000	
Building Improvements		87,406	
Total Regular Capital Outlay			96,406

Principal on Debt

Education

Principal on Bonds	\$	230,000	
Principal on Capital Leases		69,000	
Total Education			299,000

(Continued)

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

General Purpose School Fund (Cont.)

Interest on Debt

Education

Interest on Bonds	\$ 142,975	
Total Education		\$ 142,975

Total General Purpose School Fund \$ 14,373,935

School Federal Projects Fund

Instruction

Regular Instruction Program

Teachers	\$ 551,418	
Certified Substitute Teachers	18,882	
In-Service Training	11,248	
Social Security	33,100	
State Retirement	30,937	
Medical Insurance	103,010	
Unemployment Compensation	551	
Employer Medicare	7,741	
Maintenance & Repair Services - Equipment	11,526	
Instructional Supplies and Materials	12,920	
In Service/Staff Development	6,310	
Total Regular Instruction Program		\$ 787,643

Special Education Program

Teachers	\$ 88,438	
Educational Assistants	94,921	
Certified Substitute Teachers	1,135	
Social Security	10,204	
State Retirement	5,125	
Unemployment Compensation	208	
Employer Medicare	2,384	
Other Contracted Services	55,771	
Instructional Supplies and Materials	11,484	
Total Special Education Program		269,670

Vocational Education Program

Teachers	\$ 15,766	
Educational Assistants	8,648	
Social Security	1,514	
State Retirement	74	
Unemployment Compensation	61	

(Continued)

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

School Federal Projects Fund (Cont.)

Instruction (Cont.)

Vocational Education Program (Cont.)

Employer Medicare	\$	354	
Travel		7,027	
Instructional Supplies and Materials		39,292	
Vocational Instruction Equipment		58,202	
Total Vocational Education Program			\$ 130,938

Support Services

Health Services

Medical Personnel	\$	56,437	
Social Security		3,469	
State Retirement		450	
Unemployment Compensation		105	
Employer Medicare		837	
Travel		492	
Total Health Services			61,790

Other Student Support

Guidance Personnel	\$	46,495	
Social Security		2,883	
State Retirement		2,557	
Medical Insurance		4,477	
Unemployment Compensation		22	
Employer Medicare		674	
Evaluation and Testing		4,513	
Maintenance & Repair Services - Equipment		589	
Travel		236	
Other Charges		4,218	
Total Other Student Support			66,664

Regular Instruction Program

Supervisor/Director	\$	59,002	
Secretary(ies)		13,745	
Social Security		4,716	
State Retirement		3,551	
Medical Insurance		5,613	
Unemployment Compensation		54	
Employer Medicare		1,103	
Maintenance & Repair Services - Equipment		700	
Travel		12,616	

(Continued)

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

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Regular Instruction Program (Cont.)

Library Books/Media	\$	8,153	
Other Supplies and Materials		10,463	
In Service/Staff Development		32,387	
Other Charges		15,805	
Other Equipment		515	
Total Regular Instruction Program			\$ 168,423

Special Education Program

Psychological Personnel	\$	43,444	
Secretary(ies)		20,750	
Other Salaries & Wages		25,684	
Social Security		5,724	
State Retirement		4,116	
Medical Insurance		3,533	
Unemployment Compensation		77	
Employer Medicare		1,339	
Travel		5,532	
Total Special Education Program			110,199

Vocational Education Program

Travel	\$	733	
Total Vocational Education Program			733

Transportation

Bus Drivers	\$	8,456	
Other Salaries & Wages		12,673	
Social Security		1,118	
State Retirement		74	
Unemployment Compensation		83	
Employer Medicare		266	
Contracts with Parents		8,801	
Total Transportation			31,471

Total School Federal Projects Fund \$ 1,627,531

Central Cafeteria Fund

Operation of Non-Instructional Services

Food Service

Secretary(ies)	\$	19,293	
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(Continued)

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

Central Cafeteria Fund (Cont.)

Operation of Non-Instructional Services (Cont.)

Food Service (Cont.)

Cafeteria Personnel	\$	310,525	
Social Security		19,493	
State Retirement		2,461	
Unemployment Compensation		925	
Employer Medicare		4,559	
Communication		2,225	
Maintenance & Repair Services - Equipment		28,820	
Travel		3,118	
Other Contracted Services		6,931	
Food Supplies		599,334	
Uniforms		2,360	
Other Supplies and Materials		48,387	
Other Charges		3,246	
Food Service Equipment		5,982	
Total Food Service			\$ <u>1,057,659</u>

Total Central Cafeteria Fund \$ 1,057,659

Total Governmental Funds - Fentress County School Department \$ 17,059,125

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

DEPARTMENT OF AUDIT
JOHN G. MORGAN
Comptroller of the Treasury

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

ARTHUR L. ALEXANDER
Director

CARL LOWE, CGFM
Audit Manager

ANITA SCARLETT, CPA
Auditor 4

RODNEY MALIN, CGFM
STEPHEN ALRED
KELLEY J. McNEAL, CPA, CGFM
State Auditors

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

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

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

September 11, 2006

Fentress County Executive, Board of County Commissioners,
Director of Schools, and Board of Education
Fentress County, Tennessee

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

We have audited the financial statements of each major fund and the aggregate remaining fund information of Fentress County, Tennessee, and the Fentress County School Department as of and for the year ended June 30, 2006, which collectively comprise a portion of Fentress County's and the Fentress County School Department's basic financial statements and have issued our reports thereon dated September 11, 2006. Our reports on the financial statements of Fentress County, Tennessee, and the Fentress County School Department express adverse opinions because the government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Fentress County's and the Fentress County School Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06.02(A,B), 06.03, 06.06, and 06.09.

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 Fentress County's and the Fentress County School Department's financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and are described in the accompanying Schedule of Findings and Questioned Costs as items 06.01, 06.02(C), 06.04, 06.05, 06.07, and 06.08.

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

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

Very truly yours,



John G. Morgan
Comptroller of the Treasury

JGM/sb



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

September 11, 2006

Fentress County Executive, Board of County Commissioners,
Director of Schools, and Board of Education
Fentress County, Tennessee

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

Compliance

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

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

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

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

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Fentress County School Department's ability to administer major federal programs in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06.09 and 06.10.

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

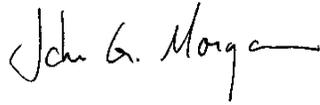
Schedule of Federal Awards

We have audited the financial statements of each major fund and the aggregate remaining fund information of Fentress County, Tennessee, and the Fentress County School Department as of and for the year ended June 30, 2006, and have issued our reports thereon dated September 11, 2006. Our reports on the financial statements of Fentress County and the Fentress County School Department express adverse opinions because the

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

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

Very truly yours,

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

John G. Morgan
Comptroller of the Treasury

JGM/sb

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

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Passed-through Entity Identifying Number	Expenditures
U.S. Department of Agriculture:			
Passed-through State Department of Agriculture:			
Food Donation (Noncash Assistance)	10.550	N/A	\$ 64,217
Passed-through State Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	226,338
National School Lunch Program	10.555	N/A	537,744
Passed through East Tennessee Human Resource Agency:			
Summer Food Service Program for Children	10.559	Z-05-020568-02	26,071
Total U.S. Department of Agriculture			<u>\$ 854,370</u>
U.S. Department of Interior:			
Direct Program:			
Payments in-Lieu-of Taxes	15.226	N/A	<u>\$ 39,278</u>
U.S. Department of Justice:			
Passed through Hamilton County Sheriff's Department:			
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	2005-DD-BX-1144	<u>\$ 406</u>
U.S. Department of Labor:			
Passed-through Upper Cumberland Human Resource Agency:			
WIA Youth Activities	17.259	06-07-049-003-09-82	<u>\$ 17,151</u>
U.S. Department of Education:			
Passed-through State Department of Labor and Workforce Development:			
Adult Education - State Grant Program	84.002	(3)	\$ 67,045
Passed-through State Department of Education:			
Title I Grants to Local Education Agencies	84.010	N/A	606,362
Special Education Cluster:			
Special Education - Grants to States	84.027	N/A	476,367
Special Education - Preschool Grants	84.173	N/A	29,360
Vocational Education - Basic Grants to States	84.048	N/A	115,493
Safe and Drug Free Schools and Communities - State Grant	84.186	(2)	15,185
State Grants for Innovative Programs	84.298	N/A	8,153
Education Technology State Grants	84.318	(2)	100,925
Rural Education	84.358	N/A	98,773
Improving Teacher Quality State Grants	84.367	N/A	195,386
Total U.S. Department of Education			<u>\$ 1,713,049</u>

(Continued)

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

Federal/Pass-through Agency/Program Title	Federal CFDA Number	Passed-through Entity Identifying Number	Expenditures
U.S. Department of Health and Human Services:			
Passed-through Upper Cumberland Development District:			
Special Programs for the Aging - Title III, Part B Grants for Supportive Services and Senior Centers	93.044	(2)	\$ 7,302
Passed-through State Department of Labor and Workforce Development:			
Temporary Assistance for Needy Families	93.558	Z-06-02718-00	8,032
Total U.S. Department of Health and Human Services			<u>\$ 15,334</u>
U.S. Department of Homeland Security:			
Passed through State Department of Military:			
State Domestic Preparedness Equipment Support Program	97.004	Z-04-020091-01	\$ 61,905
Total Expenditures of Federal Awards			<u>\$ 2,701,493</u>
<u>State Grants</u>		<u>Contract Number</u>	
Adult Education - State Department of Labor and Workforce Development	N/A	(2)	\$ 17,822
Aging Program - Upper Cumberland Development District	N/A	(2)	6,597
Families First - State Department of Labor and Workforce Development	N/A	(2)	14,916
Health Access Community Initiative Project - State Department of Health	N/A	(2)	104,941
Juvenile Services Program - State Commission on Children and Youth	N/A	(2)	9,000
Law Enforcement Training - State Department of Safety	N/A	(2)	7,262
Litter Program - State Department of Transportation	N/A	(2)	42,497
Imagination Library Program - State Department of Economic and Community Development	N/A	(2)	10,000
Safe Schools Act of 2003 - State Department of Education	N/A	(2)	11,352
Voluntary Pre K for Tennessee - State Department of Education	N/A	(2)	331,865
State Reappraisal Program - Comptroller of the Treasury	N/A	(2)	8,518
Used Oil Grant - State Department of Environment and Conservation	N/A	(2)	8,000
Waste Reduction Grant - State Department of Environment and Conservation	N/A	(2)	200,000
Waste Tire Grant - State Department of Environment and Conservation	N/A	(2)	13,013
Total State Grants			<u>\$ 785,783</u>

CFDA = Catalog of Federal Domestic Assistance

N/A = Not Applicable

- (1) Presented in conformity with generally accepted accounting principles using the modified accrual basis of accounting.
- (2) Information not available.
- (3) Z-05-022217-00: \$6,134; Z-06-027770-00: \$60,911

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

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

FENTRESS COUNTY AND FENTRESS COUNTY SCHOOL DEPARTMENT

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

OFFICE OF COUNTY EXECUTIVE

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
05.04	15	Bids were not solicited in compliance with state statutes
05.06	16	The office did not properly maintain inventory records and controls over assets

OFFICE OF DIRECTOR OF SCHOOLS

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
05.08(C)	17	Expenditures exceeded appropriations in major appropriation categories of the School Federal Projects Fund
05.10	19	Inventory records of School Department assets were not updated or verified

OFFICE OF GENERAL SESSIONS COURT CLERK

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
05.11	19	Bank statements were not reconciled with the general ledger
05.12	19	Unclaimed funds were not reported and paid to the State
05.14	20	The clerk did not require a depository to adequately collateralize funds

OTHER FINDING

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
05.15	21	Duties were not segregated adequately in the Offices of County Executive, Road Supervisor, Director of Schools, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2006

PART I, SUMMARY OF AUDITOR'S RESULTS

1. Adverse opinions were issued on the financial statements of Fentress County and the Fentress County School Department.
2. The audit of the financial statements of Fentress County and the Fentress County School Department disclosed reportable conditions in internal control. None of these conditions were considered to be a material weakness.
3. The audit disclosed one instance of noncompliance that was material to the financial statements of Fentress County and the Fentress County School Department.
4. The audit disclosed one reportable condition in internal control over major programs.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit revealed one finding that is required to be reported under Section 510(a) of OMB Circular A-133.
7. The Child Nutrition Cluster: the School Breakfast Program, the National School Lunch Program, and the Summer Food Service Program (CFDA Nos. 10.553, 10.555, and 10.559); the Title I Grants to Local Educational Agencies (CFDA No. 84.010); and the Special Education Cluster: Special Education - Grants to States and the Special Education – Preschool Grants (CFDA Nos. 84.027 and 84.173) were determined to be major programs.
8. A threshold of \$300,000 was used to distinguish between Type A and Type B federal programs.
9. Fentress County and the Fentress County School Department did not qualify as low-risk auditees.

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

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

FENTRESS COUNTY AND FENTRESS COUNTY SCHOOL DEPARTMENT

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

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

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

RECOMMENDATION

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

FINANCE DEPARTMENT

FINDING 06.02 **THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES**

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

Our examination of purchasing procedures revealed the following deficiencies:

- A. In some instances, the Finance Department used a signature stamp to affix the signature of the finance director to purchase orders and warrants. Tennessee Code Annotated (TCA), does not provide authority for the use of a signature stamp.
- B. In a few instances, purchase orders were not issued for applicable purchases. Purchase orders are necessary to control who has authority to make purchases and to document purchasing commitments.
- C. Competitive bids were not solicited for the purchase of bullet-proof vests (\$7,728). Section 5-21-120, TCA, requires competitive bids solicited through public advertisement for purchases exceeding \$5,000.

RECOMMENDATION

The Finance Office should discontinue the use of any signature stamps. Purchase orders should be issued for all applicable purchases. Competitive bids should be solicited for all general government purchases exceeding \$5,000.

FINDING 06.03 **THE OFFICE DID NOT PROPERLY MAINTAIN INVENTORY RECORDS AND CONTROL OVER ASSETS**

(Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination of inventory records and controls revealed the following deficiencies:

- A. The Finance Office maintained inventory records of assets owned by the general county government. However, all assets were not tagged or otherwise clearly identified as county property. In addition, some inventory records did not contain sufficient information such as the assets serial number or other form of identification that would allow the asset to be physically inspected and reconciled with the inventory record. If assets are not identified as county property, the county's inventory controls are weakened.

- B. School Department officials maintained inventory records of department assets; however, these records had not been updated or verified in five years, with the exception of assets purchased through grant funds. As a result, the inventory did not accurately reflect the department's assets.
- C. The Finance Office did not have procedures to ensure that persons independent of inventory recordkeeping verified the inventory.

Generally accepted accounting principles require accountability for all county-owned assets, such as equipment, furniture, and vehicles.

RECOMMENDATION

The Finance Office should maintain current inventory records of all departments of Fentress County. All assets should be tagged or otherwise identified as county property. Also, inventory records should include specific identification, such as serial numbers, to allow assets to be periodically verified by personnel independent of maintaining these records. County officials should improve controls over assets by establishing policies and procedures to ensure tagging or labeling of all assets as county property, adequate describing and recording of serial numbers for all equipment, verifying of inventory by personnel independent of recordkeeping, and maintaining inventory records of all assets on a current basis.

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

The office will update all inventory records.

FINDING 06.04 **EXPENDITURES EXCEEDED APPROPRIATIONS**
(Noncompliance Under Government Auditing Standards)

Expenditures exceeded appropriations approved by the County Commission in the Instruction – Vocational Education (\$4,370), Support Services – Health Services (\$6,990), and Support Services – Special Education (\$17,599) major appropriation categories (the legal level of control) of the School Federal Projects Fund. 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 – DIRECTOR OF SCHOOLS (DIRECT QUOTE)

The vocational director has been assigned the responsibility of working on her bookkeeping from 8:00 to 9:00 a.m. daily in order to maintain a correct budget.

OFFICE OF COUNTY CLERK

FINDING 06.05 MOTOR VEHICLE TITLES AND REGISTRATIONS WERE NOT REPORTED AND PAID TO THE STATE CURRENTLY
(Noncompliance Under Government Auditing Standards)

Remittances to the Department of Safety were not made on a current basis. Section 55-6-105(a)(5), Tennessee Code Annotated (TCA), states that the clerk must forward all applications with the appropriate fee to the state within five working days, with an additional five days allowed for any clerk who issues titles under contract with the state. The county clerk was delinquent in submitting remittance reports to the state on ten separate occasions during August and December 2005.

RECOMMENDATION

State reports should be prepared currently, and applicable funds should be remitted promptly.

OFFICE OF GENERAL SESSIONS COURT CLERK

FINDING 06.06 BANK STATEMENTS WERE NOT RECONCILED WITH THE GENERAL LEDGER
(Internal Control – Reportable Condition Under Government Auditing Standards)

Attempts were made each month to reconcile bank statements with the general ledger; however, these reconciliations did not balance. Therefore, any errors that would have been identified by properly reconciling the bank statements with the general ledger were not identified and corrected.

RECOMMENDATION

Bank statements should be reconciled with the general ledger monthly, and any errors noted should be corrected promptly.

FINDING 06.07 UNCLAIMED FUNDS WERE NOT REPORTED AND PAID TO THE STATE
(Noncompliance Under Government Auditing Standards)

The clerk did not report and pay to the state unclaimed funds (old outstanding checks) totaling \$6,416. The Unclaimed Property Act, Section 66-29-101, et seq., Tennessee Code Annotated, provides that any funds held by the court for more than one year and unclaimed by the owner are considered abandoned. These statutes further provide for the funds to be reported and paid to the state Treasurer's Office.

RECOMMENDATION

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

FINDING 06.08 THE CLERK DID NOT REQUIRE A DEPOSITORY TO ADEQUATELY COLLATERALIZE FUNDS
(Noncompliance Under Government Auditing Standards)

The clerk did not require a depository holding county funds to pledge adequate securities to protect funds that exceeded Federal Deposit Insurance Corporation (FDIC) coverage. At June 30, 2006, deposits at this depository exceeded FDIC coverage by \$91,833. Section 5-8-201, Tennessee Code Annotated, provides for county officials to require any bank that is a depository of county funds to deposit in an escrow account in a second bank collateral security equal to 105 percent of such county funds.

RECOMMENDATION

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

OTHER FINDING

FINDING 06.09 DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF COUNTY EXECUTIVE, FINANCE DEPARTMENT, ROAD SUPERVISOR, DIRECTOR OF SCHOOLS, TRUSTEE, COUNTY CLERK, CIRCUIT AND GENERAL SESSIONS COURTS CLERK, CLERK AND MASTER, REGISTER, AND SHERIFF
(Internal Control – Reportable Condition Under Government Auditing Standards and OMB Circular A-133)

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

MANAGEMENT'S RESPONSE – FINANCE DIRECTOR (DIRECT QUOTE)

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

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

We will attempt to reassign our office staff duties in a way that will further segregate receipting and depositing responsibilities.

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

Federal/Pass-through Agencies	Finding Number	Federal CFDA Number	Criteria	Explanation	Amount Questioned
U.S. Department of Agriculture: Passed-through State Department of Education:	06.10		Circular A-133, Section 500 (c)(3)	Reportable Condition in Internal Control See Finding 06.09 - Duties were not adequately segregated in the Finance Department and Office of Director of Schools	\$ 0
Child Nutrition Cluster:					
School Breakfast Program		10.553			
School Lunch Program		10.555			
Passed-through State Department of Human Services:					
Summer Food Service Program for Children		10.559			
U.S. Department of Education: Passed-through State Department of Education:					
Title 1 Grant to Local Educational Agencies		84.010			
Special Education Cluster:					
Special Education - Grants to States		84.027			
Special Education - Preschool Grants		84.173			

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

There was one finding relative to federal awards presented in the current year audit's Schedule of Findings and Questioned Costs and one audit finding relative to federal awards presented in the prior audit's Schedule of Findings and Questioned Costs.

Finance Director – Corrective Action Plan for Current-year Finding

FINDINGS 06.09 AND 06.10

Contact Person: Marilyn Joyce Crabtree

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

Anticipated completion date: None

County Executive – Summary Schedule of Prior Year Audit Finding

The State Department of Economic and Community Development allowed Fentress County to complete the Community Development Block Grant for upgrading the county's emergency communications infrastructure.