

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

DEPARTMENT OF AUDIT
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State Auditors

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

McNAIRY COUNTY, TENNESSEE

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Audit Highlights

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

Results

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

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

Findings

The following are summaries of the audit findings:

McNAIRY COUNTY

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

OFFICE OF COUNTY MAYOR

- ◆ The Special Purpose Fund had a fund deficit of \$4,595 and a cash overdraft of \$28,142 at June 30, 2006.
 - ◆ Expenditures exceeded appropriations at the major category level of control in the General, Solid Waste/Sanitation, and Special Purpose Funds. Expenditures exceeded total appropriations in the Law Library and the Public Library Funds. Appropriations exceeded estimated available funding in the Special Purpose Fund.
 - ◆ The Solid Waste Office did not issue prenumbered receipts for garbage fees.
 - ◆ The office had deficiencies in computer system backup procedures. System backups were not stored off-site, and a backup log was not maintained.
-

OFFICE OF HIGHWAY COMMISSIONER

- ◆ The office did not issue purchase orders properly.
 - ◆ Payroll taxes were not always deposited timely.
-

OFFICE OF CIRCUIT COURT CLERK

- ◆ The office had deficiencies in maintaining the execution docket trial balance report. Also, execution docket trial balances did not reconcile with cash journal accounts.
-

OFFICE OF GENERAL SESSIONS COURT CLERK

- ◆ In several cases for the collection of bad checks, office employees paid the litigant before receiving the restitution. Also, the office had deficiencies in maintaining the execution docket trial balance report, and the execution docket trial balances did not reconcile with cash journal accounts.
 - ◆ Unclaimed funds were not reported and paid to the state Treasurer's Office in compliance with state statute.
-

OTHER FINDINGS

- ◆ County officials had not adopted a central system of accounting, budgeting, and purchasing.
- ◆ The trustee and register allowed individuals, who were not employees of their offices, unsupervised access to their offices after business hours.
- ◆ The trustee and county clerk did not obtain letters of agreement or file suit in Chancery Court to authorize the number and salaries of their deputies.
- ◆ Duties were not segregated adequately among the officials and employees in the Offices of Trustee and Sheriff.
- ◆ The county used a questionable method of funding rural fire protection.

INTRODUCTORY SECTION

McNairy County Officials

June 30, 2006

Officials

Wilburn Gene Ashe, County Mayor
Tom Hill, Highway Commissioner
Stanley Mitchell, Trustee
Betty Ashe, Assessor of Property
Ronnie Price, County Clerk
Ronnie Brooks, Circuit and General Sessions Courts Clerk
Fairy Hunter, Clerk and Master
Brian Dickey, Register
Ricky Roten, Sheriff

Board of County Commissioners

Wilburn Gene Ashe, Chairman	Anthony Knight
Jim Rickman, Chairman Pro-Tem	Glen Maness
Billy Brown	Kenneth McMahan
Neal Burks	Danny Montgomery
Guy Cox	Troy Moore
Tammy Dillon	Bobby Murphy
O. H. Freeland	Jimmy Phillips
Joe Henry	Anthony Smith
Ronald Henry	John Talbott
Steve Hunter	Jai Templeton
David Johnson	Carol Woods

FINANCIAL SECTION



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

INDEPENDENT AUDITOR'S REPORT

February 16, 2007

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

To the County Mayor and Board of County Commissioners:

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of McNairy 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 McNairy 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, McNairy 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 McNairy 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 McNairy County, Tennessee, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting prescribed by the Comptroller of the Treasury of the State of Tennessee.

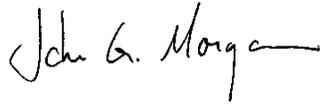
In accordance with Government Auditing Standards, we have also issued our report dated February 16, 2007, on our consideration of McNairy County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

As described in Note IV.B., McNairy County has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement 42, Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries.

The budgetary comparison information on pages 43 through 47 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 McNairy County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the General Debt Service Fund, and miscellaneous schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the General Debt Service Fund, and the miscellaneous schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Very truly yours,

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

John G. Morgan
Comptroller of the Treasury

JGM/sb

BASIC FINANCIAL STATEMENTS

Exhibit A

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

	Major Funds			Nonmajor	Total
	General	Highway / Public Works	General Debt Service	Other Govern- mental Funds	
<u>ASSETS</u>					
Cash	\$ 0	\$ 0	\$ 0	\$ 1,600	\$ 1,600
Equity in Pooled Cash and Investments	390,188	136,396	1,426,226	165,645	2,118,455
Accounts Receivable	2,594	2,939	0	4,300	9,833
Due from Other Governments	60,585	269,574	406	63,186	393,751
Due from Other Funds	1,600	0	269,873	0	271,473
Property Taxes Receivable	2,246,856	295,639	1,123,429	0	3,665,924
Allowance for Uncollectible Property Taxes	(91,403)	(12,027)	(45,701)	0	(149,131)
Total Assets	\$ 2,610,420	\$ 692,521	\$ 2,774,233	\$ 234,731	\$ 6,311,905
<u>LIABILITIES AND FUND BALANCES</u>					
<u>Liabilities</u>					
Accounts Payable	\$ 6,855	\$ 0	\$ 0	\$ 764	\$ 7,619
Payroll Deductions Payable	12,655	99	0	948	13,702
Cash Overdraft	0	0	0	28,142	28,142
Due to Other Funds	74,804	0	0	1,600	76,404
Due to State of Tennessee	0	1,766	0	0	1,766
Deferred Revenue - Current Property Taxes	2,023,601	266,263	1,011,801	0	3,301,665
Deferred Revenue - Delinquent Property Taxes	121,030	15,925	60,516	0	197,471
Other Deferred Revenues	8,778	114,642	0	26,580	150,000
Total Liabilities	\$ 2,247,723	\$ 398,695	\$ 1,072,317	\$ 58,034	\$ 3,776,769
<u>Fund Balances</u>					
Reserved for Alcohol and Drug Treatment	\$ 21,026	\$ 0	\$ 0	\$ 0	\$ 21,026
Reserved for Sexual Offender Registration	1,520	0	0	0	1,520
Reserved for Courtroom Security	268	0	0	0	268
Reserved for Computer System - Register	11,052	0	0	0	11,052
Reserved for Automation Purposes - Circuit Court	1,020	0	0	0	1,020
Reserved for Automation Purposes - General Sessions Court	20,192	0	0	0	20,192
Reserved for Automation Purposes - Sheriff	6,759	0	0	0	6,759
Reserved for Loan Program	44,191	0	0	0	44,191
Reserved for Other General Purposes	3,953	0	0	0	3,953
Unreserved, Reported In:					
General Fund	252,716	0	0	0	252,716
Special Revenue Funds	0	293,826	0	176,697	470,523
Debt Service Funds	0	0	1,701,916	0	1,701,916
Total Fund Balances	\$ 362,697	\$ 293,826	\$ 1,701,916	\$ 176,697	\$ 2,535,136
Total Liabilities and Fund Balances	\$ 2,610,420	\$ 692,521	\$ 2,774,233	\$ 234,731	\$ 6,311,905

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

Exhibit B

McNairy 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	Highway / Public Works	General Debt Service	Other Govern- mental Funds	
<u>Revenues</u>					
Local Taxes	\$ 2,534,268	\$ 317,467	\$ 1,599,134	\$ 166,275	\$ 4,617,144
Licenses and Permits	1,378	0	0	0	1,378
Fines, Forfeitures, and Penalties	178,858	0	0	57,371	236,229
Charges for Current Services	42,890	185	0	715,581	758,656
Other Local Revenues	104,527	45,967	148,967	24,337	323,798
Fees Received from County Officials	912,238	0	0	0	912,238
State of Tennessee	607,481	1,827,408	0	163,497	2,598,386
Federal Government	72,135	0	0	0	72,135
Other Governments and Citizens Groups	0	4,457	1,010,060	33,305	1,047,822
Total Revenues	\$ 4,453,775	\$ 2,195,484	\$ 2,758,161	\$ 1,160,366	\$ 10,567,786
<u>Expenditures</u>					
Current:					
General Government	\$ 560,528	\$ 0	\$ 0	\$ 95,371	\$ 655,899
Finance	424,718	0	0	0	424,718
Administration of Justice	399,904	0	0	0	399,904
Public Safety	1,568,826	0	0	39,497	1,608,323
Public Health and Welfare	107,579	0	0	894,234	1,001,813
Social, Cultural, and Recreational Services	17	0	0	115,015	115,032
Agricultural and Natural Resources	107,551	0	0	3,700	111,251
Other Operations	775,861	0	0	56,975	832,836
Highways	24,143	1,554,141	0	0	1,578,284
Debt Service:					
Principal on Debt	0	0	2,093,535	0	2,093,535
Interest on Debt	0	0	779,605	0	779,605
Other Debt Service	0	0	30,115	0	30,115
Total Expenditures	\$ 3,969,127	\$ 1,554,141	\$ 2,903,255	\$ 1,204,792	\$ 9,631,315
Excess (Deficiency) of Revenues Over Expenditures	\$ 484,648	\$ 641,343	\$ (145,094)	\$ (44,426)	\$ 936,471
<u>Other Financing Sources (Uses)</u>					
Insurance Recovery	\$ 22,370	\$ 0	\$ 0	\$ 0	\$ 22,370
Transfers In	0	0	780,275	151,650	931,925
Transfers Out	(151,650)	(780,275)	0	0	(931,925)
Total Other Financing Sources (Uses)	\$ (129,280)	\$ (780,275)	\$ 780,275	\$ 151,650	\$ 22,370
Net Change in Fund Balances	\$ 355,368	\$ (138,932)	\$ 635,181	\$ 107,224	\$ 958,841
Fund Balance, July 1, 2005	7,329	432,758	1,066,735	69,473	1,576,295
Fund Balance, June 30, 2006	\$ 362,697	\$ 293,826	\$ 1,701,916	\$ 176,697	\$ 2,535,136

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

Exhibit C

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

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash	\$ 488,586
Accounts Receivable	1,686
Due from Other Governments	<u>268,846</u>
Total Assets	<u><u>\$ 759,118</u></u>
<u>LIABILITIES</u>	
Due to Other Taxing Units	\$ 268,846
Due to Litigants, Heirs, and Others	<u>490,272</u>
Total Liabilities	<u><u>\$ 759,118</u></u>

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

McNairy 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.

McNairy 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. McNairy 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 McNairy County's auditor to issue an adverse opinion on the county's financial statements.

Although McNairy 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 McNairy County:

A. Reporting Entity

McNairy County is a public municipal corporation governed by an elected 21-member board. As required by GAAP, these financial statements present McNairy County (the primary government).

Blended Component Units – There are no legally separate component units of McNairy 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 McNairy 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 the government-wide financial statements to emphasize that they are legally separate from the county.

The McNairy County School Department operates the public school system in the county, and the voters of McNairy 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 McNairy County Airport Authority operates the county's only airport facility, and the McNairy County Commission appoints its governing body and approves its operating budget. The McNairy County Airport Authority is funded primarily through rentals and fuel sales.

The McNairy County Emergency Communications District provides a simplified means of securing emergency services through a uniform emergency number for the residents of McNairy County, and the McNairy 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 McNairy County School Department, the McNairy County Airport Authority, and the McNairy County Emergency Communications District issue separate financial statements from those of the county. The School Department's financial statements are published as a separate report but under the same cover as the county's financial statements. McNairy County Airport Authority's and McNairy County Emergency Communications District's financial statements are published as separate reports. Complete financial statements of the McNairy County Airport Authority and the McNairy County Emergency Communications District can be obtained from their administrative offices at the following addresses:

Administrative Offices:

McNairy County Airport Authority
2281 Airport Road
Selmer, TN 38375

McNairy County Emergency Communications District
300 Industrial Park Drive
Selmer, TN 38375

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

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

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

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

McNairy County reports the following major governmental funds:

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

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

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

Additionally, McNairy County reports the following fund types:

Capital Projects Fund – The Community Development/Industrial Park Fund accounts for transactions of the Cypress Creek Watershed.

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 McNairy 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 McNairy County and McNairy County School Department funds. Each fund’s portion of this pool is displayed on the balance sheets or statement of net assets as Equity in Pooled Cash and Investments. Most income from these pooled investments is assigned to the General Debt Service Fund. McNairy County and the McNairy 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 2.09 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. McNairy 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, McNairy County does not present government-wide statements.

4. Compensated Absences

It is the county's policy to permit employees to accumulate a limited amount of earned but unused vacation benefits which will be paid to employees upon separation from service. There is no liability for unpaid accumulated sick leave since McNairy County does not have a policy to pay any amounts when employees separate from service with the government. A liability for vacation pay is reported in governmental funds only if amounts have matured, for example, as a result of employee resignations and retirements.

5. Long-term Obligations

Only the matured portion (the portion that has come due for payment) of long-term indebtedness, including bonds payable, is recognized as a liability and expenditure in the governmental fund financial statements. Liabilities and expenditures for other long-term obligations, including compensated absences and 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 capital projects funds, which adopt project length budgets. All annual appropriations lapse at fiscal year end.

The county is required by state statute to adopt annual budgets. Annual budgets are prepared on the basis in which current available funds must be sufficient to meet current expenditures. Expenditures and encumbrances may not legally exceed appropriations authorized by the McNairy 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, Beer Board, Budget and Finance Committee, etc.). Management may make revisions within major categories, but only the McNairy 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 the GAAP basis is presented on the face of each budgetary schedule.

B. Fund Deficit

The Special Purpose Fund had a fund deficit (\$4,595) at June 30, 2006. This fund deficit resulted from expenditures exceeding available funds. The county expects to liquidate this deficit subsequent to June 30 by the receipt of revenues and contributions.

C. Cash Overdraft

The Special Purpose Fund had a cash overdraft (\$28,142) at June 30, 2006. This cash overdraft resulted from issuing warrants exceeding cash on deposit

with the county trustee. This cash overdraft was liquidated subsequent to June 30, 2006.

D. Expenditures Exceeded Appropriations

Expenditures exceeded total appropriations approved by the County Commission in the Law Library (\$1,690) and Public Library (\$32,558) Funds.

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

<u>Fund</u>	<u>Major Appropriation Category</u>	<u>Amount Overspent</u>
General	Chancery Court	\$ 956
General	Rural Fire Protection	53,047
General	Agricultural Extension Service	145
General	Other Uses - Transfers Out	47,924
Solid Waste/Sanitation	Other General Administration	466
Special Purpose	Other Facilities	204

Such overexpenditures are a violation of state statutes. Most of these overexpenditures were funded from other available funds; however, the Special Purpose Fund had a deficit fund balance at June 30, 2006.

E. Appropriations Exceeded Estimated Available Funds

The budget and subsequent amendments submitted to and approved by the County Commission for the Special Purpose Fund resulted in appropriations exceeding estimated available funding causing a budgeted fund deficit of \$24,850.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

Deposits

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

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

Investments

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

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental	\$ 1,600
General Debt Service	General	74,804
General Debt Service	Highway/Public Works	195,069

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

The receivable in the General Debt Service Fund (\$195,069) was in transit from the Highway/Public Works Fund at June 30, 2006.

Interfund Transfers:

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

Transfers Out	Transfers In	
	General Debt Service Fund	Nonmajor Governmental Funds
General Fund	\$ 0	\$ 151,650
Highway/Public Works Fund	780,275	0
Total	<u>\$ 780,275</u>	<u>\$ 151,650</u>

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

C. Long-term Debt

Since McNairy 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 McNairy County is not presenting government-wide financial statements.

General Obligation Bonds, Notes, and Other Loans

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

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

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

Type	Interest Rate	Original Amount of Issue	Balance 6-30-06
General Obligation Bonds	4.75 to 5.4%	\$ 1,183,250	\$ 865,967
General Obligation Bonds - Refunding	2 to 5	13,340,000	11,155,000
Capital Outlay Notes	0 to 5.41	812,620	234,160
Other Loans - Variable Rate	variable	9,910,300	7,575,300
Other Loans - Synthetic Fixed Rate by Swap	variable	6,000,000	630,000

During the 2003-04 year, McNairy County entered into a loan agreement with the Sevier County Public Building Authority. This loan agreement provided for the authority to make \$2,450,000 available for loan to McNairy County on an as-needed basis for the purchase of fire equipment and various construction projects. As of June 30, 2006, McNairy County had borrowed \$1,920,300. The loan's variable interest rate has historically approximated the Bond Market Association Municipal Index (BMA). In addition, the county pays various other fees (broker, auction agent, issuer, administrative, and quarterly) in connection with this loan. At June 30, 2006, the variable interest rate was 3.8 percent and other fees were .66 percent.

During the 1996-97 year, McNairy County entered into two loan agreements with the Sevier County Public Building Authority. Under these loan agreements, the authority loaned \$2,115,000 and \$875,000 to McNairy County for refinancing debt and for building construction. The variable interest rates of these loans have also historically approximated the BMA.

In addition, the county pays various other fees (liquidity, remarketing, administrative, issuer, and quarterly) in connection with these loans. At June 30, 2006, the variable interest rate for these loans was four percent, which approximates the BMA rate. Other fees were .80 percent of the outstanding loan principal of the \$2,115,000 loan and 1.09 percent of the outstanding loan principal of the \$875,000 loan.

During the 1998-99 year, McNairy County entered into two additional loan agreements with the Sevier County Public Building Authority. Under these loan agreements, the authority loaned \$6,000,000 and \$5,000,000 to McNairy County for road construction. The \$6,000,000 Series IV-B-9 loan was converted to a SWAP interest rate in the 2002-03 year, as discussed in the following paragraphs. The variable interest rate of the \$5,000,000 loan has historically approximated the Bond Market Association Municipal Index (BMA). In addition, the county pays various other fees (liquidity, remarketing, administrative, issuer, and quarterly) in connection with this loan. At June 30, 2006, the variable interest rate was four percent, which approximates the BMA rate, and other fees amounted to .54 percent of the outstanding loan principal.

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

Year Ending June 30	Bonds		Notes	
	Principal	Interest	Principal	Interest
2007	\$ 1,035,563	\$ 443,924	\$ 124,640	\$ 9,821
2008	1,052,139	417,118	79,479	6,642
2009	1,089,140	384,952	18,153	2,348
2010	1,126,237	350,780	11,888	542
2011	1,173,433	309,909	0	0
2012-2016	5,318,940	865,570	0	0
2017-2021	1,184,699	75,699	0	0
2022	40,816	2,110	0	0
Total	<u>\$ 12,020,967</u>	<u>\$ 2,850,062</u>	<u>\$ 234,160</u>	<u>\$ 19,353</u>

Year Ending June 30	Other Loans			Total
	Principal	Interest	Other Fees	
2007	\$ 1,110,000	\$ 324,371	\$ 50,983	\$ 1,485,354
2008	1,160,000	279,971	44,520	1,484,491
2009	1,170,000	233,571	37,743	1,441,314
2010	1,220,000	186,771	31,004	1,437,775
2011	1,270,000	137,971	23,960	1,431,931
2012-2016	1,265,000	390,307	73,089	1,728,396
2017-2018	1,010,300	56,393	10,117	1,076,810
Total	<u>\$ 8,205,300</u>	<u>\$ 1,609,355</u>	<u>\$ 271,416</u>	<u>\$ 10,086,071</u>

There is \$1,701,916 available in the General Debt Service Fund to service long-term debt. Bonded debt per capita totaled \$488, based on the 2000 federal census. Debt per capita, including bonds, notes, and other loans totaled \$830, based on the 2000 federal census.

Under its loan agreement, the Sevier County Public Building Authority, at the request of McNairy County, entered into an interest rate swap agreement during the 2002-03 year for all of the outstanding Local Government Improvement Bonds, Series IV-B-9.

Objective of the interest rate swap: To protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, McNairy County requested the authority, on its behalf, to enter into an interest rate swap in connection with its Series IV-B-9 variable-rate bonds. The intention of the swap was to effectively change the variable interest rate on the bonds to a synthetic fixed rate.

Terms. Under the swap, the authority pays the counterparty a fixed payment of 2.35 percent and receives a variable payment computed as 75 percent of the one month London Interbank Offered Rate (LIBOR). The swap has an outstanding notional amount of \$2.57 million, and the associated variable-rate bond has a \$2.57 million principal amount. The interest rate swap agreement is based on the same amortization schedule as the outstanding principal of the Series IV-B-9 Bonds. The bonds' variable-rates have historically approximated the Bond Market Association Municipal Index™ (BMA). The bonds and the related swap agreement mature on June 1, 2011. As of June 30, 2006, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest Rate Swap:		
Fixed payment to counterparty	Fixed	2.35%
Variable payment from counterparty	75% of LIBOR	<u>-4.00%</u>
Net interest rate swap payments		-1.65%
Variable-rate bond coupon payments		<u>3.97%</u>
Synthetic interest rate on bonds		<u><u>2.32%</u></u>

Fair value. As of June 30, 2006, the swap had a positive fair value of \$31,773. The positive fair value of the swap may be countered by increases in total interest payments required under the variable-rate bond, creating higher synthetic rates. Because the rates on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value, using the zero coupon method.

Credit risk. As of June 30, 2006, McNairy County's exposure to credit risk is equal to the amount of the swap's positive fair value. However, if interest rates change and the fair value of the swap becomes negative, McNairy County would no longer be exposed to credit risk. The swap counterparty was unrated at the time of the swap. In order to mitigate the potential for credit risk, the authority, on behalf of McNairy County, received a Financial Guarantee Insurance Policy for the swap agreement from Ambac Assurance Corporation, which was rated AAA by Standard and Poor's and Fitch and Aaa by Moody's Investor Service as of June 30, 2006. If Ambac's credit rating is downgraded, the counterparty is required to post collateral with a third-party custodian.

Basis risk. As noted above, the swap exposes McNairy County to basis risk should BMA increase to above 75 percent of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the BMA being below 75 percent of LIBOR, then the synthetic rate on the bonds will decrease. The effect of this difference in basis points is indicated by the difference between the rate paid to the counterparty of 2.35 percent and the difference between the synthetic rate paid to the counterparty of 2.32 percent at June 30, 2006. Also as of June 30, 2006, the BMA rate was 3.97 percent whereas 75 percent of LIBOR was four percent.

Termination risk. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination provision." The authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the authority would be liable

to the counterparty for a payment equal to the swap's fair value. Likewise, if the swap has a positive fair value at termination, the counterparty would be liable to the authority for a payment equal to the swap's fair value.

Swap payments and associated debt. As of June 30, 2006, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year Ending June 30	Variable Rate Bonds		Net Interest	Total
	Principal	Interest	Rate Swap Payment	
2007	\$ 115,000	\$ 25,011	\$ (10,395)	\$ 129,616
2008	125,000	20,446	(8,498)	136,948
2009	125,000	15,483	(6,435)	134,048
2010	130,000	10,520	(4,373)	136,147
2011	135,000	5,360	(2,227)	138,133
Total	\$ 630,000	\$ 76,820	\$ (31,928)	\$ 674,892

Changes in Long-term Liabilities

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

Governmental Activities:

	Bonds	Notes	Other Loans
Balance, July 1, 2005	\$ 12,983,147	\$ 358,246	\$ 9,305,300
Deductions	(962,180)	(124,086)	(1,100,000)
Balance, June 30, 2006	\$ 12,020,967	\$ 234,160	\$ 8,205,300
Balance Due Within One Year	\$ 1,035,563	\$ 124,640	\$ 1,110,000

Governmental Activities: (Cont.)

	Compensated Absences	Landfill Closure/ Postclosure Care Costs
Balance, July 1, 2005	\$ 23,803	\$ 759,802
Additions	72,420	0
Deductions	(70,971)	(50,629)
Balance, June 30, 2006	<u>\$ 25,252</u>	<u>\$ 709,173</u>
Balance Due Within One Year	<u>\$ 25,252</u>	<u>\$ 4,400</u>

Compensated absences payable will be paid from the employing funds, primarily the General Fund and the Highway/Public Works Fund. Landfill closure/postclosure care costs will be paid from the Solid Waste/Sanitation Fund.

D. Short-term Debt

McNairy County issued tax anticipation notes in advance of property tax collections and deposited the proceeds in the General Fund. The notes were necessary because funds were not available for general operating expenses coming due before current tax collections. Short-term debt activity for the year ended June 30, 2006, was as follows:

	Balance 7-1-05	Issued	Redeemed	Balance 6-30-06
Tax Anticipation Notes	\$ 100,000	\$ 600,000	\$ (700,000)	\$ 0

IV. OTHER INFORMATION

A. Risk Management

McNairy County is exposed to various risks related to general liability, property, and casualty losses. The county participates in the Local Government Property and Casualty Fund (LGPCF), which is a public entity risk pool established by the Tennessee County Services Association, an association of member counties. The county pays an annual premium to the LGPCF for its general liability, property, and casualty insurance coverage.

The creation of the LGPCF provides for it to be self-sustaining through member premiums. The LGPCF reinsures through commercial insurance companies for claims exceeding \$100,000 for each insured event.

McNairy County participates in the Local Government Workers' Compensation Fund (LGWCF), a public entity risk pool established under the provisions of Section 29-20-401, Tennessee Code Annotated, by the Tennessee County Services Association to provide a program of workers' compensation coverage to employees of local governments. The county pays an annual premium to the LGWCF for its workers' compensation insurance coverage. The LGWCF is to be self-sustaining through member premiums. The LGWCF reinsures through commercial insurance companies for claims exceeding \$300,000.

The employees of McNairy County are provided health insurance through the purchase of commercial insurance. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Accounting Changes

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

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

C. Subsequent Events

On August 31, 2006, Wilburn Gene Ashe left the Office of County Mayor and was succeeded by Jai Templeton, and Tom Hill left the Office of Highway Commissioner and was succeeded by Harvey Neal Smith.

D. Contingent Liabilities

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

E. Changes in Administration

Fairy Hunter left the Office of Clerk and Master on June 30, 2006, and was succeeded by Kim Harrison.

Tommy Riley left the office of Sheriff on January 31, 2006, and was succeeded by Ricky Roten.

F. Landfill Closure/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. McNairy County closed its Class I and II landfill in prior years and has contracted its waste management to a private vendor. McNairy County still operates a Class III and IV landfill. The Solid Waste/Sanitation Fund (special revenue fund) reports the operations of the Class III and IV landfill and the closure and postclosure care costs of the closed Class I and II landfill as expenditures in each period in which they are incurred. The \$709,173 reported as landfill closure and postclosure care liability at June 30, 2006, represents the accrued postclosure care costs of \$570,604 associated with the old Class I and II landfill, and accrued closure and postclosure care costs of \$138,569 associated with the Class III and IV landfill. The accrued closure and postclosure costs of the Class III and IV landfill (\$138,569) are based on the use of 51 percent of the estimated capacity of the landfill. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

G. Retirement Commitments

Plan Description

Employees of McNairy 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 McNairy 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

McNairy 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 2.85 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for McNairy County is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2006, McNairy County's annual pension cost of \$155,874 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), and (c) projected 3.5 percent annual increase in the Social Security wage base. 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. McNairy County's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2005, was eight years. An actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 2006.

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6-30-06	\$155,874	100%	\$0
6-30-05	147,843	100	0
6-30-04	51,108	100	0

Schedule of Funding Progress

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/c)
6-30-05	\$6,817	\$6,817	\$0	100%	\$4,980	0%
6-30-03	6,009	6,009	0	100	4,681	0
6-30-01	5,349	5,349	0	100	4,201	0

H. Purchasing Laws

Office of County Mayor

Chapter 171, Private Acts of 1990, provides for the county mayor to serve as purchasing agent for McNairy County and award all contracts for purchases for all departments, excluding purchases made from county highway or county education funds. Purchasing procedures for the County Mayor's Office are governed by the County Purchasing Law of 1983, Sections 5-14-201 through 5-14-206, Tennessee Code Annotated, (TCA) which provide for purchases exceeding \$5,000 to be made after public advertisement and solicitation of competitive bids.

Office of County Highway Commissioner

Section 54-7-113, TCA (Uniform Road Law), governs purchasing procedures for the Highway Department. This statute requires all purchases exceeding \$10,000 to be made after public advertisement and solicitation of competitive bids.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit D-1

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 2,534,268	\$ 2,462,666	\$ 2,497,166	\$ 37,102
Licenses and Permits	1,378	2,000	2,000	(622)
Fines, Forfeitures, and Penalties	178,858	135,550	163,050	15,808
Charges for Current Services	42,890	37,700	38,700	4,190
Other Local Revenues	104,527	70,000	86,000	18,527
Fees Received from County Officials	912,238	767,000	836,000	76,238
State of Tennessee	607,481	544,150	613,150	(5,669)
Federal Government	72,135	70,682	120,682	(48,547)
Total Revenues	\$ 4,453,775	\$ 4,089,748	\$ 4,356,748	\$ 97,027
<u>Expenditures</u>				
<u>General Government</u>				
County Commission	\$ 38,398	\$ 36,500	\$ 42,021	\$ 3,623
Board of Equalization	2,030	2,200	2,200	170
Beer Board	198	725	725	527
Budget and Finance Committee	0	1,750	1,750	1,750
Other Boards and Committees	2,858	2,500	2,858	0
County Mayor/Executive	116,029	117,823	118,692	2,663
County Attorney	2,400	2,400	2,400	0
Election Commission	81,390	66,174	82,904	1,514
Register of Deeds	108,884	108,061	109,271	387
County Buildings	208,341	203,510	212,330	3,989
<u>Finance</u>				
Property Assessor's Office	123,394	124,920	131,158	7,764
Reappraisal Program	35,363	38,750	39,201	3,838
County Trustee's Office	108,434	110,552	111,356	2,922
County Clerk's Office	157,527	150,028	160,108	2,581
<u>Administration of Justice</u>				
Circuit Court	133,405	135,290	137,685	4,280
General Sessions Court	101,804	103,733	103,968	2,164
Chancery Court	108,439	104,205	107,483	(956)
Juvenile Court	56,256	58,001	59,911	3,655
<u>Public Safety</u>				
Sheriff's Department	1,019,542	951,479	1,079,398	59,856
Jail	319,189	222,348	367,416	48,227
Fire Prevention and Control	79,103	82,763	95,065	15,962
Rural Fire Protection	53,047	0	0	(53,047)
Civil Defense	88,204	36,669	88,859	655
Inspection and Regulation	9,741	9,794	10,012	271
<u>Public Health and Welfare</u>				
Local Health Center	107,579	159,017	178,078	70,499
<u>Social, Cultural, and Recreational Services</u>				
Libraries	17	0	18	1

(Continued)

Exhibit D-1

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Expenditures (Cont.)</u>				
<u>Agriculture & Natural Resources</u>				
Agriculture Extension Service	\$ 65,944	\$ 54,881	\$ 65,799	\$ (145)
Soil Conservation	41,607	39,845	41,609	2
<u>Other Operations</u>				
Other Economic and Community Development	27,650	0	27,650	0
Airport	28,000	33,000	33,000	5,000
Veterans' Services	9,825	10,819	11,002	1,177
Other Charges	127,153	128,500	136,700	9,547
Contributions to Other Agencies	129,434	216,020	216,020	86,586
Employee Benefits	452,956	537,323	562,166	109,210
Miscellaneous	843	9,000	9,000	8,157
<u>Highways</u>				
Litter and Trash Collection	24,143	35,000	35,000	10,857
Total Expenditures	\$ 3,969,127	\$ 3,893,580	\$ 4,382,813	\$ 413,686
Excess (Deficiency) of Revenues Over Expenditures				
	\$ 484,648	\$ 196,168	\$ (26,065)	\$ 510,713
<u>Other Financing Sources (Uses)</u>				
Notes Issued	\$ 0	\$ 50,000	\$ 50,000	\$ (50,000)
Insurance Recovery	22,370	0	67,000	(44,630)
Transfers In	0	42,000	42,000	(42,000)
Transfers Out	(151,650)	(86,968)	(103,726)	(47,924)
Total Other Financing Sources (Uses)	\$ (129,280)	\$ 5,032	\$ 55,274	\$ (184,554)
Net Change in Fund Balance				
Fund Balance, July 1, 2005	\$ 355,368	\$ 201,200	\$ 29,209	\$ 326,159
	7,329	(28,897)	(28,897)	36,226
Fund Balance, June 30, 2006				
	\$ 362,697	\$ 172,303	\$ 312	\$ 362,385

Exhibit D-2

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 317,467	\$ 310,000	\$ 310,000	\$ 7,467
Charges for Current Services	185	0	0	185
Other Local Revenues	45,967	108,000	108,000	(62,033)
State of Tennessee	1,827,408	2,137,142	2,137,142	(309,734)
Other Governments and Citizens Groups	4,457	5,000	5,000	(543)
Total Revenues	<u>\$ 2,195,484</u>	<u>\$ 2,560,142</u>	<u>\$ 2,560,142</u>	<u>\$ (364,658)</u>
<u>Expenditures</u>				
<u>Highways</u>				
Administration	\$ 103,248	\$ 106,657	\$ 106,607	\$ 3,359
Highway and Bridge Maintenance	452,373	553,872	499,622	47,249
Operation and Maintenance of Equipment	258,654	259,050	279,150	20,496
Other Charges	54,170	60,700	61,900	7,730
Employee Benefits	282,342	265,000	292,000	9,658
Capital Outlay	403,354	747,000	753,000	349,646
Total Expenditures	<u>\$ 1,554,141</u>	<u>\$ 1,992,279</u>	<u>\$ 1,992,279</u>	<u>\$ 438,138</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 641,343</u>	<u>\$ 567,863</u>	<u>\$ 567,863</u>	<u>\$ 73,480</u>
<u>Other Financing Sources (Uses)</u>				
Transfers Out	<u>\$ (780,275)</u>	<u>\$ (780,275)</u>	<u>\$ (780,275)</u>	<u>\$ 0</u>
Total Other Financing Sources (Uses)	<u>\$ (780,275)</u>	<u>\$ (780,275)</u>	<u>\$ (780,275)</u>	<u>\$ 0</u>
Net Change in Fund Balance	\$ (138,932)	\$ (212,412)	\$ (212,412)	\$ 73,480
Fund Balance, July 1, 2005	<u>432,758</u>	<u>262,521</u>	<u>262,521</u>	<u>170,237</u>
Fund Balance, June 30, 2006	<u>\$ 293,826</u>	<u>\$ 50,109</u>	<u>\$ 50,109</u>	<u>\$ 243,717</u>

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

A. BUDGETARY INFORMATION

The county is required by state statute to adopt annual budgets. Annual budgets are prepared on the basis in which current available funds must be sufficient to meet current expenditures. Expenditures and encumbrances may not legally exceed appropriations authorized by the McNairy 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, Beer Board, Budget and Finance Committee, etc.). Management may make revisions within major categories, but only the McNairy County Commission may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

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

B. EXPENDITURES EXCEEDED APPROPRIATIONS

Expenditures and other uses exceeded appropriations approved by the County Commission in the following major appropriation categories (the legal level of control) in the General Fund.

<u>Major Appropriation Category</u>	<u>Amount Overspent</u>
Chancery Court	\$ 956
Rural Fire Protection	53,047
Agriculture Extension Service	145
Other Uses: Transfers Out	47,924

Such overexpenditures are a violation of state statutes. These overexpenditures were funded from other available funds.

**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.

Law Library Fund – The Law Library Fund is used to account for a special tax levied by private act on litigation. Proceeds of the tax must be expended for the benefit of the county’s law library.

Public Library Fund – The Public Library Fund is used to account for the transactions of the Irving-Meek and Jack McConnico Libraries.

Solid Waste/Sanitation Fund – The Solid Waste/Sanitation Fund is used to account for the county’s garbage collection operations.

Special Purpose Fund – The Special Purpose Fund is used to account for transactions of a higher education center.

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

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

Capital Projects Fund

Capital Projects 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 the transactions of the Cypress Creek Watershed.

Exhibit E-1

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

	Special Revenue Funds						Capital Projects Fund	Total Nonmajor Governmental Funds
	Law Library	Public Library	Solid Waste / Sanitation	Special Purpose	Drug Control	Constitu- tional Officers - Fees	Community Development/ Industrial Park	
<u>ASSETS</u>								
Cash	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,600	\$ 0	\$ 1,600
Equity in Pooled Cash and Investments	2,367	1,388	45,666	0	115,143	0	1,081	165,645
Accounts Receivable	0	0	0	4,300	0	0	0	4,300
Due from Other Governments	0	0	35,431	27,755	0	0	0	63,186
Total Assets	<u>\$ 2,367</u>	<u>\$ 1,388</u>	<u>\$ 81,097</u>	<u>\$ 32,055</u>	<u>\$ 115,143</u>	<u>\$ 1,600</u>	<u>\$ 1,081</u>	<u>\$ 234,731</u>
<u>LIABILITIES AND FUND BALANCES</u>								
<u>Liabilities</u>								
Accounts Payable	\$ 0	\$ 0	\$ 764	\$ 0	\$ 0	\$ 0	\$ 0	\$ 764
Payroll Deductions Payable	0	261	607	80	0	0	0	948
Cash Overdraft	0	0	0	28,142	0	0	0	28,142
Due to Other Funds	0	0	0	0	0	1,600	0	1,600
Other Deferred Revenues	0	0	18,152	8,428	0	0	0	26,580
Total Liabilities	<u>\$ 0</u>	<u>\$ 261</u>	<u>\$ 19,523</u>	<u>\$ 36,650</u>	<u>\$ 0</u>	<u>\$ 1,600</u>	<u>\$ 58,034</u>	<u>\$ 58,034</u>
<u>Fund Balances</u>								
Unreserved (Deficit)	\$ 2,367	\$ 1,127	\$ 61,574	\$ (4,595)	\$ 115,143	\$ 0	\$ 1,081	\$ 176,697
Total Fund Balances	<u>\$ 2,367</u>	<u>\$ 1,127</u>	<u>\$ 61,574</u>	<u>\$ (4,595)</u>	<u>\$ 115,143</u>	<u>\$ 0</u>	<u>\$ 1,081</u>	<u>\$ 176,697</u>
Total Liabilities and Fund Balances	<u>\$ 2,367</u>	<u>\$ 1,388</u>	<u>\$ 81,097</u>	<u>\$ 32,055</u>	<u>\$ 115,143</u>	<u>\$ 1,600</u>	<u>\$ 1,081</u>	<u>\$ 234,731</u>

Exhibit E-2

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

	Special Revenue Funds						Capital Projects Fund	Total Nonmajor Governmental Funds
	Law Library	Public Library	Solid Waste / Sanitation	Special Purpose	Drug Control	Total	Community Development/ Industrial Park	
<u>Revenues</u>								
Local Taxes	\$ 3,690	\$ 0	\$ 162,585	\$ 0	\$ 0	\$ 166,275	\$ 0	\$ 166,275
Fines, Forfeitures, and Penalties	0	0	0	0	57,371	57,371	0	57,371
Charges for Current Services	0	11,793	702,288	1,500	0	715,581	0	715,581
Other Local Revenues	0	0	0	24,337	0	24,337	0	24,337
State of Tennessee	0	0	163,497	0	0	163,497	0	163,497
Other Governments and Citizens Groups	0	9,678	0	23,627	0	33,305	0	33,305
Total Revenues	<u>\$ 3,690</u>	<u>\$ 21,471</u>	<u>\$ 1,028,370</u>	<u>\$ 49,464</u>	<u>\$ 57,371</u>	<u>\$ 1,160,366</u>	<u>\$ 0</u>	<u>\$ 1,160,366</u>
<u>Expenditures</u>								
Current:								
General Government	\$ 0	\$ 0	\$ 466	\$ 94,905	\$ 0	\$ 95,371	\$ 0	\$ 95,371
Public Safety	0	0	0	0	39,497	39,497	0	39,497
Public Health and Welfare	0	0	894,234	0	0	894,234	0	894,234
Social, Cultural, and Recreational Services	5,030	109,985	0	0	0	115,015	0	115,015
Agricultural and Natural Resources	0	0	0	0	0	0	3,700	3,700
Other Operations	0	20,333	30,651	5,991	0	56,975	0	56,975
Total Expenditures	<u>\$ 5,030</u>	<u>\$ 130,318</u>	<u>\$ 925,351</u>	<u>\$ 100,896</u>	<u>\$ 39,497</u>	<u>\$ 1,201,092</u>	<u>\$ 3,700</u>	<u>\$ 1,204,792</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (1,340)</u>	<u>\$ (108,847)</u>	<u>\$ 103,019</u>	<u>\$ (51,432)</u>	<u>\$ 17,874</u>	<u>\$ (40,726)</u>	<u>\$ (3,700)</u>	<u>\$ (44,426)</u>
<u>Other Financing Sources (Uses)</u>								
Transfers In	\$ 0	\$ 103,718	\$ 0	\$ 47,932	\$ 0	\$ 151,650	\$ 0	\$ 151,650
Total Other Financing Sources (Uses)	<u>\$ 0</u>	<u>\$ 103,718</u>	<u>\$ 0</u>	<u>\$ 47,932</u>	<u>\$ 0</u>	<u>\$ 151,650</u>	<u>\$ 0</u>	<u>\$ 151,650</u>
Net Change in Fund Balances	\$ (1,340)	\$ (5,129)	\$ 103,019	\$ (3,500)	\$ 17,874	\$ 110,924	\$ (3,700)	\$ 107,224
Fund Balance, July 1, 2005	3,707	6,256	(41,445)	(1,095)	97,269	64,692	4,781	69,473
Fund Balance, June 30, 2006	<u>\$ 2,367</u>	<u>\$ 1,127</u>	<u>\$ 61,574</u>	<u>\$ (4,595)</u>	<u>\$ 115,143</u>	<u>\$ 175,616</u>	<u>\$ 1,081</u>	<u>\$ 176,697</u>

Exhibit E-3

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 3,690	\$ 3,400	\$ 3,400	\$ 290
Total Revenues	\$ 3,690	\$ 3,400	\$ 3,400	\$ 290
<u>Expenditures</u>				
<u>Social, Cultural, and Recreational Services</u>				
Libraries	\$ 5,030	\$ 3,340	\$ 3,340	\$ (1,690)
Total Expenditures	\$ 5,030	\$ 3,340	\$ 3,340	\$ (1,690)
Excess (Deficiency) of Revenues Over Expenditures	\$ (1,340)	\$ 60	\$ 60	\$ (1,400)
Net Change in Fund Balance	\$ (1,340)	\$ 60	\$ 60	\$ (1,400)
Fund Balance, July 1, 2005	3,707	3,867	3,867	(160)
Fund Balance, June 30, 2006	\$ 2,367	\$ 3,927	\$ 3,927	\$ (1,560)

Exhibit E-4

McNairy County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Public Library 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	\$ 11,793	\$ 0	\$ 0	\$ 11,793
Other Governments and Citizens Groups	9,678	10,800	10,800	(1,122)
Total Revenues	<u>\$ 21,471</u>	<u>\$ 10,800</u>	<u>\$ 10,800</u>	<u>\$ 10,671</u>
<u>Expenditures</u>				
<u>Social, Cultural, and Recreational Services</u>				
Libraries	\$ 109,985	\$ 69,875	\$ 69,875	\$ (40,110)
<u>Other Operations</u>				
Employee Benefits	20,333	27,885	27,885	7,552
Total Expenditures	<u>\$ 130,318</u>	<u>\$ 97,760</u>	<u>\$ 97,760</u>	<u>\$ (32,558)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (108,847)</u>	<u>\$ (86,960)</u>	<u>\$ (86,960)</u>	<u>\$ (21,887)</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 103,718	\$ 86,960	\$ 103,718	\$ 0
Total Other Financing Sources (Uses)	<u>\$ 103,718</u>	<u>\$ 86,960</u>	<u>\$ 103,718</u>	<u>\$ 0</u>
Net Change in Fund Balance	\$ (5,129)	\$ 0	\$ 16,758	\$ (21,887)
Fund Balance, July 1, 2005	<u>6,256</u>	<u>0</u>	<u>0</u>	<u>6,256</u>
Fund Balance, June 30, 2006	<u>\$ 1,127</u>	<u>\$ 0</u>	<u>\$ 16,758</u>	<u>\$ (15,631)</u>

Exhibit E-5

McNairy 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	\$ 162,585	\$ 200,000	\$ 155,000	\$ 7,585
Charges for Current Services	702,288	525,000	665,000	37,288
Other Local Revenues	0	5,000	0	0
State of Tennessee	163,497	154,000	167,000	(3,503)
Total Revenues	<u>\$ 1,028,370</u>	<u>\$ 884,000</u>	<u>\$ 987,000</u>	<u>\$ 41,370</u>
<u>Expenditures</u>				
<u>General Government</u>				
Other General Administration	\$ 466	\$ 0	\$ 0	\$ (466)
<u>Public Health and Welfare</u>				
Sanitation Management	730,001	630,250	744,647	14,646
Landfill Operation and Maintenance	164,233	169,749	168,539	4,306
<u>Other Operations</u>				
Employee Benefits	30,651	38,317	39,157	8,506
Total Expenditures	<u>\$ 925,351</u>	<u>\$ 838,316</u>	<u>\$ 952,343</u>	<u>\$ 26,992</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 103,019</u>	<u>\$ 45,684</u>	<u>\$ 34,657</u>	<u>\$ 68,362</u>
Net Change in Fund Balance	\$ 103,019	\$ 45,684	\$ 34,657	\$ 68,362
Fund Balance, July 1, 2005	(41,445)	20,583	20,583	(62,028)
Fund Balance, June 30, 2006	<u>\$ 61,574</u>	<u>\$ 66,267</u>	<u>\$ 55,240</u>	<u>\$ 6,334</u>

Exhibit E-6

McNairy County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Special Purpose 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	\$ 1,500	\$ 1,900	\$ 1,900	\$ (400)
Other Local Revenues	24,337	33,000	27,000	(2,663)
Other Governments and Citizens Groups	23,627	76,000	64,000	(40,373)
Total Revenues	<u>\$ 49,464</u>	<u>\$ 110,900</u>	<u>\$ 92,900</u>	<u>\$ (43,436)</u>
<u>Expenditures</u>				
<u>General Government</u>				
Other Facilities	\$ 94,905	\$ 86,363	\$ 94,701	\$ (204)
<u>Other Operations</u>				
Employee Benefits	5,991	6,320	6,799	808
Total Expenditures	<u>\$ 100,896</u>	<u>\$ 92,683</u>	<u>\$ 101,500</u>	<u>\$ 604</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (51,432)</u>	<u>\$ 18,217</u>	<u>\$ (8,600)</u>	<u>\$ (42,832)</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 47,932	\$ 0	\$ 0	\$ 47,932
Total Other Financing Sources (Uses)	<u>\$ 47,932</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 47,932</u>
Net Change in Fund Balance	\$ (3,500)	\$ 18,217	\$ (8,600)	\$ 5,100
Fund Balance, July 1, 2005	(1,095)	(16,250)	(16,250)	15,155
Fund Balance, June 30, 2006	<u>\$ (4,595)</u>	<u>\$ 1,967</u>	<u>\$ (24,850)</u>	<u>\$ 20,255</u>

Exhibit E-7

McNairy 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	\$ 57,371	\$ 29,200	\$ 29,200	\$ 28,171
Total Revenues	\$ 57,371	\$ 29,200	\$ 29,200	\$ 28,171
<u>Expenditures</u>				
<u>Public Safety</u>				
Drug Enforcement	\$ 39,497	\$ 37,900	\$ 44,674	\$ 5,177
Total Expenditures	\$ 39,497	\$ 37,900	\$ 44,674	\$ 5,177
Excess (Deficiency) of Revenues Over Expenditures	\$ 17,874	\$ (8,700)	\$ (15,474)	\$ 33,348
Net Change in Fund Balance	\$ 17,874	\$ (8,700)	\$ (15,474)	\$ 33,348
Fund Balance, July 1, 2005	97,269	41,408	41,408	55,861
Fund Balance, June 30, 2006	\$ 115,143	\$ 32,708	\$ 25,934	\$ 89,209

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

McNairy 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	\$ 1,599,134	\$ 1,535,108	\$ 1,551,650	\$ 47,484
Other Local Revenues	148,967	86,400	105,200	43,767
Other Governments and Citizens Groups	1,010,060	0	0	1,010,060
Total Revenues	<u>\$ 2,758,161</u>	<u>\$ 1,621,508</u>	<u>\$ 1,656,850</u>	<u>\$ 1,101,311</u>
<u>Expenditures</u>				
<u>Principal on Debt</u>				
General Government	\$ 404,369	\$ 504,353	\$ 441,187	\$ 36,818
Highways and Streets	1,017,866	1,026,150	1,026,150	8,284
Education	671,300	679,700	679,700	8,400
<u>Interest on Debt</u>				
General Government	136,290	298,858	278,784	142,494
Highways and Streets	283,985	301,667	301,667	17,682
Education	359,330	342,920	361,520	2,190
<u>Other Debt Service</u>				
General Government	30,115	20,000	48,236	18,121
Education	0	5,000	5,000	5,000
Total Expenditures	<u>\$ 2,903,255</u>	<u>\$ 3,178,648</u>	<u>\$ 3,142,244</u>	<u>\$ 238,989</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (145,094)</u>	<u>\$ (1,557,140)</u>	<u>\$ (1,485,394)</u>	<u>\$ 1,340,300</u>
<u>Other Financing Sources (Uses)</u>				
Bonds Issued	\$ 0	\$ 730,275	\$ 730,275	\$ (730,275)
Premiums on Debt Issued	0	1,013,380	1,013,380	(1,013,380)
Transfers In	780,275	1,793,655	1,793,655	(1,013,380)
Total Other Financing Sources (Uses)	<u>\$ 780,275</u>	<u>\$ 3,537,310</u>	<u>\$ 3,537,310</u>	<u>\$ (2,757,035)</u>
Net Change in Fund Balance	\$ 635,181	\$ 1,980,170	\$ 2,051,916	\$ (1,416,735)
Fund Balance, July 1, 2005	<u>1,066,735</u>	<u>796,751</u>	<u>796,751</u>	<u>269,984</u>
Fund Balance, June 30, 2006	<u>\$ 1,701,916</u>	<u>\$ 2,776,921</u>	<u>\$ 2,848,667</u>	<u>\$ (1,146,751)</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

McNairy 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	\$ 488,586	\$ 488,586
Accounts Receivable	0	1,686	1,686
Due from Other Governments	268,846	0	268,846
Total Assets	<u>\$ 268,846</u>	<u>490,272</u>	<u>\$ 759,118</u>
<u>LIABILITIES</u>			
Due to Other Taxing Units	\$ 268,846	\$ 0	\$ 268,846
Due to Litigants, Heirs, and Others	0	490,272	490,272
Total Liabilities	<u>\$ 268,846</u>	<u>\$ 490,272</u>	<u>\$ 759,118</u>

Exhibit G-2

McNairy 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	\$ 1,558,540	\$ 1,558,540	\$ 0
Due from Other Governments	248,966	268,846	248,966	268,846
Total Assets	\$ 248,966	\$ 1,827,386	\$ 1,807,506	\$ 268,846
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 248,966	\$ 1,827,386	\$ 1,807,506	\$ 268,846
Total Liabilities	\$ 248,966	\$ 1,827,386	\$ 1,807,506	\$ 268,846
<u>Constitutional Officers - Agency Fund</u>				
<u>Assets</u>				
Cash	\$ 600,354	\$ 4,606,358	\$ 4,718,126	\$ 488,586
Accounts Receivable	984	1,686	984	1,686
Total Assets	\$ 601,338	\$ 4,608,044	\$ 4,719,110	\$ 490,272
<u>Liabilities</u>				
Due to Component Unit	\$ 589	\$ 0	\$ 589	\$ 0
Due to Litigants, Heirs, and Others	600,749	4,608,044	4,718,521	490,272
Total Liabilities	\$ 601,338	\$ 4,608,044	\$ 4,719,110	\$ 490,272
<u>Totals - All Agency Funds</u>				
<u>Assets</u>				
Equity in Pooled Cash and Investments	\$ 0	\$ 1,558,540	\$ 1,558,540	\$ 0
Cash	600,354	4,606,358	4,718,126	488,586
Accounts Receivable	984	1,686	984	1,686
Due from Other Governments	248,966	268,846	248,966	268,846
Total Assets	\$ 850,304	\$ 6,435,430	\$ 6,526,616	\$ 759,118
<u>Liabilities</u>				
Due to Component Unit	\$ 589	\$ 0	\$ 589	\$ 0
Due to Other Taxing Units	248,966	1,827,386	1,807,506	268,846
Due to Litigants, Heirs, and Others	600,749	4,608,044	4,718,521	490,272
Total Liabilities	\$ 850,304	\$ 6,435,430	\$ 6,526,616	\$ 759,118

MISCELLANEOUS SCHEDULES

Exhibit H-1

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

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-05	Paid and/or Matured During Period	Outstanding 6-30-06
<u>NOTES PAYABLE</u>							
<u>Payable through General Fund</u>							
Patrol Cars	\$ 66,967	2.64%	11-13-03	11-13-06	\$ 44,645	22,322	\$ 22,323
Patrol Cars	68,000	3.75	10-24-03	10-24-06	45,333	22,667	22,666
Patrol Cars	72,000	3.89	4-15-05	4-15-08	72,000	24,000	48,000
Total Payable through General Fund					\$ 161,978	\$ 68,989	\$ 92,989
<u>Payable through General Debt Service Fund</u>							
Ag Extension Building Construction	107,000	4.5	5-15-01	5-15-10	\$ 59,444	11,889	\$ 47,555
Bridge Construction	250,000	5.35	10-9-1997	10-9-06	63,924	19,466	44,458
Total Payable through General Debt Service Fund					\$ 123,368	31,355	\$ 92,013
<u>Payable through Special Purpose Fund</u>							
Rural Economic Development Loan	196,666	0	8-27-1998	5-12-08	\$ 59,972	20,004	\$ 39,968
Rural Utilities Service Capital Outlay Notes, Series 1999	51,987	5.41	4-6-00	5-20-08	12,928	3,738	9,190
Total Payable through Special Purpose Fund					\$ 72,900	\$ 23,742	\$ 49,158
Total Notes Payable					\$ 358,246	124,086	\$ 234,160

(Continued)

Exhibit H-1

McNairy County, Tennessee
Schedule of Changes in Long-term Notes,
Other Loans, and Bonds (Cont.)

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-05	Paid and/or Matured During Period	Outstanding 6-30-06
<u>OTHER LOANS PAYABLE</u>							
<u>Payable through General Debt Service Fund</u>							
Local Government Public Improvement Loan Refinancing Loan	\$ (1)	Variable	10-15-03	10-15-19	\$ 1,920,300	\$ 0	\$ 1,920,300
Higher Education Building Construction Loan	2,115,000	Variable	4-24-1997	6-1-08	140,000	70,000	70,000
Local Government Public Improvement Loan	875,000	Variable	4-24-1997	6-1-17	625,000	40,000	585,000
Local Government Public Improvement Loan	5,000,000	Variable	5-27-1999	6-1-11	5,000,000	0	5,000,000
Local Government Public Improvement Loan	6,000,000	Variable	1-27-00	6-1-11	1,620,000	990,000	630,000
Total Other Loans Payable					<u>\$ 9,305,300</u>	<u>\$ 1,100,000</u>	<u>\$ 8,205,300</u>
<u>BONDS PAYABLE</u>							
<u>Payable through General Debt Service Fund</u>							
General Obligation Airport Bonds, Series 1995	290,000	5 to 5.4%	12-1-1995	2-1-11	\$ 135,000	\$ 20,000	\$ 115,000
USDA Rural Development Bonds	350,500	4.75	11-13-01	11-13-16	298,441	18,659	279,782
USDA Rural Development Bonds	217,750	4.75	5-1-02	5-1-22	196,451	7,459	188,992
USDA Rural Development Bonds	325,000	4.75	6-21-02	6-21-22	293,255	11,062	282,193
General Obligation Refunding Bonds, Series 2003	3,035,000	3 to 5	3-11-03	9-1-12	2,495,000	275,000	2,220,000
School Refunding Bonds, Series 2003	10,305,000	2 to 4	4-22-03	3-1-17	9,565,000	630,000	8,935,000
Total Bonds Payable					<u>\$ 12,983,147</u>	<u>\$ 962,180</u>	<u>\$ 12,020,967</u>

(1) - Total amount available under this Public Building Authority of Sevier County Loan Agreement is \$2,450,000, of which \$529,700 had not been drawn as of June 30, 2006.

Exhibit H-2

McNairy County, Tennessee
Schedule of Bond and Interest Requirements By Year

Year Ending June 30	Bond Requirements	Interest Requirements	Total Requirements
2007	\$ 1,035,563	\$ 443,924	\$ 1,479,487
2008	1,052,139	417,118	1,469,257
2009	1,089,140	384,952	1,474,092
2010	1,126,237	350,780	1,477,017
2011	1,173,433	309,909	1,483,342
2012	1,190,734	264,208	1,454,942
2013	1,243,144	212,298	1,455,442
2014	925,668	167,574	1,093,242
2015	958,312	130,130	1,088,442
2016	1,001,082	91,360	1,092,442
2017	1,039,488	50,354	1,089,842
2018	33,816	8,823	42,639
2019	35,422	7,217	42,639
2020	37,105	5,534	42,639
2021	38,868	3,771	42,639
2022	40,816	2,110	42,926
Total	\$ 12,020,967	\$ 2,850,062	\$ 14,871,029

Exhibit H-3

McNairy 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>
General	Public Library	To provide funds for operations	\$ 103,718
General	Special Purpose	To provide funds for operations	47,932
Highway/Public Works	General Debt Service	To provide funds for debt retirement	<u>780,275</u>
Total Transfers			<u><u>\$ 931,925</u></u>

Exhibit H-4

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

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
County Mayor	Section 8-24-102, <u>TCA</u>	\$ 62,424	\$ 50,000	The Ohio Casualty Insurance Company
Highway Commissioner	Section 8-24-102, <u>TCA</u>	59,452	100,000	"
Trustee	Section 8-24-102, <u>TCA</u>	54,048	678,200	"
Assessor of Property	Section 8-24-102, <u>TCA</u>	54,048	10,000	West American Insurance Company
County Clerk	Section 8-24-102, <u>TCA</u>	54,048	50,000	The Ohio Casualty Insurance Company
Circuit Court Clerk	Section 8-24-102, <u>TCA</u>	54,048	50,000	"
Clerk and Master	Section 8-24-102, <u>TCA</u>	54,048	65,000	United States Fidelity and Guaranty Company
Register	Section 8-24-102, <u>TCA</u>	54,048	25,000	The Ohio Casualty Insurance Company
Sheriff:				
Tommy Riley (7-1-05 through 1-31-06)	Section 8-24-102, <u>TCA</u>	34,680	25,000	"
Ricky Roten (2-1-06 through 6-30-06)	Section 8-24-102, <u>TCA</u>	24,772	25,000	"
Employee Bonds:				
County Employees			100,000	The Ohio Casualty Insurance Company

Exhibit H-5

McNairy 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	Law Library	Public Library	Solid Waste / Sanitation	Special Purpose	Drug Control	Highway / Public Works	General Debt Service	
<u>Local Taxes</u>									
<u>County Property Taxes</u>									
Current Property Tax	\$ 2,145,227	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 282,595	\$ 1,073,820	\$ 3,501,642
Trustee's Collections - Prior Year	126,794	0	0	0	0	0	17,220	23,406	167,420
Circuit/Clerk & Master Collections - Prior Years	33,130	0	0	0	0	0	5,439	7,417	45,986
Interest and Penalty	20,128	0	0	0	0	0	2,763	4,859	27,750
Payments in-Lieu-of Taxes - T.V.A.	802	0	0	0	0	0	100	401	1,303
<u>County Local Option Taxes</u>									
Local Option Sales Tax	0	0	0	162,585	0	0	0	0	162,585
Wheel Tax	0	0	0	0	0	0	0	485,555	485,555
Litigation Tax - General	134,598	0	0	0	0	0	0	0	134,598
Litigation Tax - Special Purpose	0	3,690	0	0	0	0	0	0	3,690
Business Tax	21,174	0	0	0	0	0	0	0	21,174
Mineral Severance Tax	0	0	0	0	0	0	6,654	0	6,654
<u>Statutory Local Taxes</u>									
Bank Excise Tax	16,420	0	0	0	0	0	2,696	3,676	22,792
Wholesale Beer Tax	35,995	0	0	0	0	0	0	0	35,995
Total Local Taxes	\$ 2,534,268	\$ 3,690	\$ 0	\$ 162,585	\$ 0	\$ 0	\$ 317,467	\$ 1,599,134	\$ 4,617,144
<u>Licenses and Permits</u>									
<u>Permits</u>									
Beer Permits	\$ 1,378	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,378
Total Licenses and Permits	\$ 1,378	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,378
<u>Fines, Forfeitures, and Penalties</u>									
<u>Circuit Court</u>									
Fines	\$ 11,531	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 11,531
Officers Costs	917	0	0	0	0	0	0	0	917
Drug Control Fines	2,555	0	0	0	0	0	0	0	2,555
Jail Fees	821	0	0	0	0	0	0	0	821
Judicial Commissioner Fees	4,966	0	0	0	0	0	0	0	4,966
DUI Treatment Fines	95	0	0	0	0	0	0	0	95
Data Entry Fee - Circuit Court	186	0	0	0	0	0	0	0	186
Courtroom Security Fee	268	0	0	0	0	0	0	0	268

(Continued)

Exhibit H-5

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

	Special Revenue Funds							Debt Service Fund	Total
	General	Law Library	Public Library	Solid Waste / Sanitation	Special Purpose	Drug Control	Highway / Public Works	General Debt Service	
<u>Fines, Forfeitures, and Penalties (Cont.)</u>									
<u>Criminal Court</u>									
Drug Control Fines	\$ 95	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	95
<u>General Sessions Court</u>									
Fines	90,122	0	0	0	0	36,105	0	0	126,227
Officers Costs	42	0	0	0	0	0	0	0	42
Game and Fish Fines	1,019	0	0	0	0	0	0	0	1,019
Drug Control Fines	16,664	0	0	0	0	0	0	0	16,664
Jail Fees	26,740	0	0	0	0	0	0	0	26,740
DUI Treatment Fines	8,570	0	0	0	0	0	0	0	8,570
Data Entry Fee - General Sessions Court	11,639	0	0	0	0	0	0	0	11,639
<u>Juvenile Court</u>									
Fines	2,606	0	0	0	0	0	0	0	2,606
<u>Chancery Court</u>									
Officers Costs	22	0	0	0	0	0	0	0	22
<u>Other Fines, Forfeitures, and Penalties</u>									
Proceeds from Confiscated Property	0	0	0	0	0	21,266	0	0	21,266
Total Fines, Forfeitures, and Penalties	\$ 178,858	\$ 0	\$ 0	\$ 0	\$ 0	\$ 57,371	\$ 0	\$ 0	236,229
<u>Charges for Current Services</u>									
<u>General Service Charges</u>									
Residential Waste Collection Charge	\$ 0	\$ 0	\$ 0	\$ 560,926	\$ 0	\$ 0	\$ 0	\$ 0	560,926
Tipping Fees	0	0	0	141,362	0	0	0	0	141,362
<u>Fees</u>									
Copy Fees	1,918	0	0	0	200	0	0	0	2,118
Library Fees	0	0	11,793	0	0	0	0	0	11,793
Telephone Commissions	25,664	0	0	0	0	0	0	0	25,664
Vending Machine Collections	1,454	0	0	0	1,300	0	185	0	2,939
Data Processing Fee - Register	12,754	0	0	0	0	0	0	0	12,754
Sexual Offender Registration Fees - Sheriff	1,100	0	0	0	0	0	0	0	1,100
Total Charges for Current Services	\$ 42,890	\$ 0	\$ 11,793	\$ 702,288	\$ 1,500	\$ 0	\$ 185	\$ 0	758,656

(Continued)

Exhibit H-5

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

	Special Revenue Funds							Debt Service Fund	Total
	General	Law Library	Public Library	Solid Waste / Sanitation	Special Purpose	Drug Control	Highway / Public Works	General Debt Service	
<u>Other Local Revenues</u>									
<u>Recurring Items</u>									
Investment Income	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 123,767	\$ 123,767
Lease/Rentals	0	0	0	0	23,831	0	0	25,200	49,031
Sale of Materials and Supplies	9,414	0	0	0	0	0	479	0	9,893
Sale of Gasoline	0	0	0	0	0	0	22,947	0	22,947
Miscellaneous Refunds	37,029	0	0	0	506	0	6,978	0	44,513
<u>Nonrecurring Items</u>									
Sale of Equipment	0	0	0	0	0	0	15,563	0	15,563
<u>Other Local Revenues</u>									
Other Local Revenues	58,084	0	0	0	0	0	0	0	58,084
Total Other Local Revenues	\$ 104,527	\$ 0	\$ 0	\$ 0	\$ 24,337	\$ 0	\$ 45,967	\$ 148,967	\$ 323,798
<u>Fees Received from County Officials</u>									
<u>Fees-In-Lieu of Salary</u>									
County Clerk	\$ 165,624	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 165,624
Circuit Court Clerk	35,763	0	0	0	0	0	0	0	35,763
General Sessions Court Clerk	205,245	0	0	0	0	0	0	0	205,245
Clerk and Master	76,715	0	0	0	0	0	0	0	76,715
Register	149,303	0	0	0	0	0	0	0	149,303
Sheriff	18,927	0	0	0	0	0	0	0	18,927
Trustee	260,661	0	0	0	0	0	0	0	260,661
Total Fees Received from County Officials	\$ 912,238	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 912,238
<u>State of Tennessee</u>									
<u>General Government Grants</u>									
Juvenile Services Program	\$ 9,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 9,000
State Reappraisal Grant	10,586	0	0	0	0	0	0	0	10,586
Solid Waste Grants	0	0	0	12,881	0	0	0	0	12,881
<u>Public Safety Grants</u>									
Law Enforcement Training Programs	7,781	0	0	0	0	0	0	0	7,781
<u>Health and Welfare Grants</u>									
Health Department Programs	41,434	0	0	0	0	0	0	0	41,434

(Continued)

Exhibit H-5

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

	Special Revenue Funds							Debt Service Fund	Total
	General	Law Library	Public Library	Solid Waste / Sanitation	Special Purpose	Drug Control	Highway / Public Works	General Debt Service	
<u>State of Tennessee (Cont.)</u>									
<u>Public Works Grants</u>									
Litter Program	\$ 37,629	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 37,629
<u>Other State Revenues</u>									
Income Tax	5,236	0	0	0	0	0	0	0	5,236
Beer Tax	17,212	0	0	0	0	0	0	0	17,212
Alcoholic Beverage Tax	40,610	0	0	0	0	0	0	0	40,610
Mixed Drink Tax	1,080	0	0	0	0	0	0	0	1,080
State Revenue Sharing - T.V.A.	0	0	0	150,616	0	0	0	0	150,616
Prisoner Transportation	63,757	0	0	0	0	0	0	0	63,757
Contracted Prisoner Boarding	308,205	0	0	0	0	0	0	0	308,205
Gasoline and Motor Fuel Tax	0	0	0	0	0	0	1,809,226	0	1,809,226
Petroleum Special Tax	0	0	0	0	0	0	18,182	0	18,182
Registrar's Salary Supplement	20,475	0	0	0	0	0	0	0	20,475
Other State Grants	43,458	0	0	0	0	0	0	0	43,458
Other State Revenues	1,018	0	0	0	0	0	0	0	1,018
Total State of Tennessee	\$ 607,481	\$ 0	\$ 0	\$ 163,497	\$ 0	\$ 0	\$ 1,827,408	\$ 0	\$ 2,598,386
<u>Federal Government</u>									
<u>Federal Through State</u>									
Homeland Security Grants	\$ 72,135	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 72,135
Total Federal Government	\$ 72,135	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 72,135
<u>Other Governments and Citizens Groups</u>									
<u>Other Governments</u>									
Paving and Maintenance	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,457	\$ 0	\$ 4,457
Contributions	0	0	9,678	0	23,627	0	0	1,010,060	1,043,365
Total Other Governments and Citizens Groups	\$ 0	\$ 0	\$ 9,678	\$ 0	\$ 23,627	\$ 0	\$ 4,457	\$ 1,010,060	\$ 1,047,822
Total	\$ 4,453,775	\$ 3,690	\$ 21,471	\$ 1,028,370	\$ 49,464	\$ 57,371	\$ 2,195,484	\$ 2,758,161	\$ 10,567,786

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

General FundGeneral GovernmentCounty Commission

Board and Committee Members Fees	\$	15,432	
Audit Services		15,649	
Dues and Memberships		2,940	
Legal Services		4,151	
Travel		226	
Total County Commission			\$ 38,398

Board of Equalization

Board and Committee Members Fees	\$	2,030	
Total Board of Equalization			2,030

Beer Board

Periodicals	\$	198	
Total Beer Board			198

Other Boards and Committees

Board and Committee Members Fees	\$	2,858	
Total Other Boards and Committees			2,858

County Mayor/Executive

County Official/Administrative Officer	\$	62,424	
Accountants/Bookkeepers		20,585	
Secretary(ies)		18,134	
Communication		2,514	
Dues and Memberships		1,450	
Maintenance Agreements		679	
Maintenance & Repair Services - Office Equipment		165	
Printing, Stationery, and Forms		608	
Travel		608	
Other Contracted Services		6,936	
Office Supplies		1,788	
Other Charges		138	
Total County Mayor/Executive			116,029

County Attorney

County Official/Administrative Officer	\$	2,400	
Total County Attorney			2,400

Election Commission

County Official/Administrative Officer	\$	45,941	
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(Continued)

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

General Fund (Cont.)

General Government (Cont.)

Election Commission (Cont.)

Other Salaries & Wages	\$	7,285	
Election Commission		4,464	
Election Workers		10,672	
In-Service Training		631	
Communication		1,909	
Legal Notices, Recording, and Court Costs		3,540	
Maintenance & Repair Services - Equipment		1,011	
Printing, Stationery, and Forms		456	
Rentals		390	
Travel		112	
Office Supplies		452	
Periodicals		700	
Office Equipment		3,827	
Total Election Commission			\$ 81,390

Register of Deeds

County Official/Administrative Officer	\$	54,048	
Deputy(ies)		20,584	
Secretary(ies)		15,233	
Communication		2,010	
Data Processing Services		11,841	
Dues and Memberships		458	
Maintenance Agreements		822	
Postal Charges		136	
Printing, Stationery, and Forms		2,405	
Travel		332	
Office Supplies		1,015	
Total Register of Deeds			108,884

County Buildings

Custodial Personnel	\$	13,555	
Maintenance & Repair Services - Buildings		5,317	
Maintenance & Repair Services - Office Equipment		130	
Pest Control		220	
Postal Charges		24,963	
Custodial Supplies		5,355	
Electricity		86,938	
Natural Gas		28,542	
Periodicals		506	
Water and Sewer		16,601	

(Continued)

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

General Fund (Cont.)

General Government (Cont.)

County Buildings (Cont.)

Other Supplies and Materials	\$	8,196	
Building and Contents Insurance		17,458	
Premiums on Corporate Surety Bonds		560	
Total County Buildings			\$ 208,341

Finance

Property Assessor's Office

County Official/Administrative Officer	\$	54,048	
Assistant(s)		12,212	
Deputy(ies)		33,238	
Communication		733	
Contracts with Private Agencies		19,810	
Dues and Memberships		1,141	
Maintenance Agreements		683	
Maintenance & Repair Services - Office Equipment		16	
Printing, Stationery, and Forms		169	
Travel		494	
Periodicals		66	
Other Supplies and Materials		784	
Total Property Assessor's Office			123,394

Reappraisal Program

Part-time Personnel	\$	20,100	
Data Processing Services		13,273	
Gasoline		593	
Other Charges		1,397	
Total Reappraisal Program			35,363

County Trustee's Office

County Official/Administrative Officer	\$	54,048	
Deputy(ies)		20,585	
Clerical Personnel		15,233	
Part-time Personnel		6,614	
Communication		1,575	
Data Processing Services		4,899	
Dues and Memberships		348	
Maintenance Agreements		417	
Printing, Stationery, and Forms		2,707	
Office Supplies		304	
Periodicals		1,704	
Total County Trustee's Office			108,434

(Continued)

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

General Fund (Cont.)

Finance (Cont.)

County Clerk's Office

County Official/Administrative Officer	\$	54,048	
Deputy(ies)		19,984	
Secretary(ies)		30,838	
Clerical Personnel		26,275	
Communication		1,347	
Dues and Memberships		348	
Maintenance & Repair Services - Office Equipment		100	
Printing, Stationery, and Forms		2,381	
Travel		99	
Periodicals		27	
Data Processing Equipment		22,080	
Total County Clerk's Office			\$ 157,527

Administration of Justice

Circuit Court

County Official/Administrative Officer	\$	54,048	
Deputy(ies)		17,823	
Clerical Personnel		16,767	
Part-time Personnel		14,647	
Jury and Witness Fees		12,531	
Communication		2,391	
Contracts with Government Agencies		6,999	
Dues and Memberships		348	
Maintenance Agreements		3,654	
Printing, Stationery, and Forms		2,045	
Duplicating Supplies		110	
Office Supplies		1,910	
Periodicals		132	
Total Circuit Court			133,405

General Sessions Court

Judge(s)	\$	78,259	
Part-time Personnel		16,899	
Other Salaries & Wages		2,816	
Communication		1,447	
Contracts with Government Agencies		1,710	
Travel		673	
Total General Sessions Court			101,804

(Continued)

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

General Fund (Cont.)

Administration of Justice (Cont.)

Chancery Court

County Official/Administrative Officer	\$	54,048	
Deputy(ies)		40,568	
Communication		1,002	
Data Processing Services		6,469	
Dues and Memberships		348	
Printing, Stationery, and Forms		3,495	
Travel		705	
Office Supplies		1,259	
Premiums on Corporate Surety Bonds		545	
Total Chancery Court			\$ 108,439

Juvenile Court

County Official/Administrative Officer	\$	24,957	
Youth Service Officer(s)		15,735	
Clerical Personnel		12,275	
Communication		888	
Maintenance Agreements		1,497	
Travel		292	
Office Supplies		477	
Office Equipment		135	
Total Juvenile Court			56,256

Public Safety

Sheriff's Department

County Official/Administrative Officer	\$	59,452	
Deputy(ies)		360,512	
Accountants/Bookkeepers		17,021	
Salary Supplements		27,674	
Guards		165,973	
Secretary(ies)		17,021	
Part-time Personnel		39,928	
In-Service Training		7,781	
Communication		22,707	
Maintenance Agreements		1,203	
Maintenance & Repair Services - Equipment		24,162	
Maintenance & Repair Services - Vehicles		24,057	
Printing, Stationery, and Forms		975	
Tow-in Services		3,805	
Travel		3,163	
Gasoline		70,380	

(Continued)

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

General Fund (Cont.)

Public Safety (Cont.)

Sheriff's Department (Cont.)

Office Supplies	\$	2,023	
Periodicals		1,617	
Tires and Tubes		486	
Uniforms		3,608	
Other Supplies and Materials		595	
Vehicle and Equipment Insurance		48,672	
Workers' Compensation Insurance		40,611	
Principal on Notes		68,989	
Interest on Notes		5,815	
Law Enforcement Equipment		1,312	
Total Sheriff's Department			\$ 1,019,542

Jail

Medical Personnel	\$	19,323	
Salary Supplements		385	
Custodial Personnel		53,325	
Dues and Memberships		1,450	
Maintenance Agreements		264	
Maintenance & Repair Services - Buildings		7,401	
Maintenance & Repair Services - Equipment		4,669	
Maintenance & Repair Services - Office Equipment		900	
Maintenance & Repair Services - Vehicles		703	
Medical and Dental Services		96,827	
Custodial Supplies		5,971	
Drugs and Medical Supplies		32,196	
Food Preparation Supplies		11,892	
Food Supplies		79,016	
Office Supplies		1,679	
Prisoners Clothing		1,046	
Other Supplies and Materials		1,153	
Law Enforcement Equipment		989	
Total Jail			319,189

Fire Prevention and Control

Supervisor/Director	\$	20,436	
Communication		1,885	
Maintenance & Repair Services - Vehicles		2,026	
Tow-in Services		85	
Gasoline		7,836	
Instructional Supplies and Materials		153	

(Continued)

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

General Fund (Cont.)

Public Safety (Cont.)

Fire Prevention and Control (Cont.)

Office Supplies	\$	302	
Periodicals		132	
Tires and Tubes		260	
Liability Insurance		21,448	
Workers' Compensation Insurance		12,706	
Other Equipment		11,834	
Total Fire Prevention and Control			\$ 79,103

Rural Fire Protection

Contracts with Government Agencies	\$	53,047	
Total Rural Fire Protection			53,047

Civil Defense

Supervisor/Director	\$	34,364	
Communication		1,323	
Maintenance & Repair Services - Equipment		285	
Maintenance & Repair Services - Vehicles		57	
Travel		35	
Office Supplies		471	
Other Supplies and Materials		51,669	
Total Civil Defense			88,204

Inspection and Regulation

Supervisor/Director	\$	9,696	
Travel		45	
Total Inspection and Regulation			9,741

Public Health and Welfare

Local Health Center

Supervisor/Director	\$	30,752	
Custodial Personnel		7,602	
Communication		4,276	
Contracts with Government Agencies		23,398	
Maintenance & Repair Services - Buildings		20,060	
Maintenance & Repair Services - Equipment		575	
Pest Control		315	
Postal Charges		1,141	
Travel		3,197	
Other Contracted Services		592	
Custodial Supplies		564	

(Continued)

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

General Fund (Cont.)

Public Health and Welfare (Cont.)

Local Health Center (Cont.)

Drugs and Medical Supplies	\$	1,314	
Electricity		5,521	
Natural Gas		3,123	
Office Supplies		3,675	
Periodicals		98	
Water and Sewer		1,376	
Total Local Health Center			\$ 107,579

Social, Cultural, and Recreational Services

Libraries

Periodicals	\$	17	
Total Libraries			17

Agriculture & Natural Resources

Agriculture Extension Service

Salary Supplements	\$	58,175	
Communication		1,855	
Maintenance Agreements		1,707	
Travel		192	
Other Supplies and Materials		4,015	
Total Agriculture Extension Service			65,944

Soil Conservation

County Official/Administrative Officer	\$	22,570	
Secretary(ies)		18,237	
Contributions		800	
Total Soil Conservation			41,607

Other Operations

Other Economic and Community Development

Consultants	\$	27,650	
Total Other Economic and Community Development			27,650

Airport

Other Charges	\$	28,000	
Total Airport			28,000

Veterans' Services

Supervisor/Director	\$	8,202	
Communication		522	

(Continued)

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

General Fund (Cont.)

Other Operations (Cont.)

Veterans' Services (Cont.)

Travel	\$	60	
Office Supplies		869	
Periodicals		108	
Furniture and Fixtures		64	
Total Veterans' Services			\$ 9,825

Other Charges

Liability Insurance	\$	74,050	
Trustee's Commission		53,103	
Total Other Charges			127,153

Contributions to Other Agencies

Contributions	\$	129,434	
Total Contributions to Other Agencies			129,434

Employee Benefits

Social Security	\$	116,359	
State Retirement		39,574	
Medical Insurance		234,682	
Unemployment Compensation		14,120	
Employer Medicare		27,315	
Workers' Compensation Insurance		20,906	
Total Employee Benefits			452,956

Miscellaneous

Other Supplies and Materials	\$	843	
Total Miscellaneous			843

Highways

Litter and Trash Collection

Part-time Personnel	\$	16,470	
Gasoline		1,090	
Instructional Supplies and Materials		759	
Periodicals		1,458	
Other Supplies and Materials		4,366	
Total Litter and Trash Collection			24,143

Total General Fund \$ 3,969,127

(Continued)

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

Law Library Fund

Social, Cultural, and Recreational Services

Libraries

Clerical Personnel	\$ 1,800	
Library Books/Media	3,192	
Trustee's Commission	38	
Total Libraries	5,030	\$ 5,030

Total Law Library Fund \$ 5,030

Public Library Fund

Social, Cultural, and Recreational Services

Libraries

County Official/Administrative Officer	\$ 37,249	
Part-time Personnel	41,214	
Communication	4,056	
Maintenance & Repair Services - Buildings	983	
Pest Control	65	
Postal Charges	74	
Travel	26	
Electricity	7,722	
Library Books/Media	2,079	
Natural Gas	1,089	
Office Supplies	3,804	
Water and Sewer	1,281	
Other Supplies and Materials	4,568	
Building and Contents Insurance	1,488	
Data Processing Equipment	4,287	
Total Libraries	109,985	\$ 109,985

Other Operations

Employee Benefits

Social Security	\$ 4,865	
State Retirement	1,667	
Medical Insurance	12,663	
Employer Medicare	1,138	
Total Employee Benefits	20,333	20,333

Total Public Library Fund 130,318

(Continued)

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

Solid Waste/Sanitation Fund

General Government

Other General Administration

Other Charges	\$ 466	
Total Other General Administration		\$ 466

Public Health and Welfare

Sanitation Management

Contracts with Private Agencies	\$ 689,566	
Legal Services	11,204	
Other Contracted Services	18,168	
Building and Contents Insurance	4,979	
Trustee's Commission	3,084	
Vehicle and Equipment Insurance	3,000	
Total Sanitation Management		730,001

Landfill Operation and Maintenance

Supervisor/Director	\$ 18,347	
Data Processing Personnel	12,994	
Foremen	28,304	
Equipment Operators	19,562	
Overtime Pay	5,037	
Communication	3,969	
Contracts with Government Agencies	3,104	
Evaluation and Testing	2,783	
Maintenance & Repair Services - Equipment	17,060	
Postal Charges	5,331	
Travel	357	
Diesel Fuel	27,330	
Electricity	575	
Fertilizer, Lime, and Seed	1,656	
Lubricants	3,193	
Office Supplies	5,269	
Periodicals	148	
Tires and Tubes	528	
Water and Sewer	730	
Refunds	272	
Data Processing Equipment	7,684	
Total Landfill Operation and Maintenance		164,233

Other Operations

Employee Benefits

Social Security	\$ 5,093	
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(Continued)

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

Solid Waste/Sanitation Fund (Cont.)

Other Operations (Cont.)

Employee Benefits (Cont.)

State Retirement	\$	2,232	
Medical Insurance		16,618	
Employer Medicare		1,208	
Workers' Compensation Insurance		5,500	
Total Employee Benefits			\$ 30,651

Total Solid Waste/Sanitation Fund \$ 925,351

Special Purpose Fund

General Government

Other Facilities

Custodial Personnel	\$	15,845	
Communication		12,018	
Maintenance Agreements		1,644	
Maintenance & Repair Services - Buildings		9,136	
Travel		1,135	
Other Contracted Services		664	
Custodial Supplies		2,903	
Electricity		18,638	
Gasoline		222	
Natural Gas		1,252	
Periodicals		913	
Water and Sewer		1,748	
Building and Contents Insurance		3,720	
Principal on Notes		23,742	
Interest on Notes		1,325	
Total Other Facilities			\$ 94,905

Other Operations

Employee Benefits

Social Security	\$	982	
State Retirement		318	
Medical Insurance		4,461	
Employer Medicare		230	
Total Employee Benefits			5,991

Total Special Purpose Fund 100,896

(Continued)

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

Drug Control Fund

Public Safety

Drug Enforcement

Confidential Drug Enforcement Payments	\$	5,650	
Veterinary Services		127	
Animal Food and Supplies		171	
Other Supplies and Materials		2,126	
Motor Vehicles		22,300	
Other Equipment		9,123	
Total Drug Enforcement			\$ 39,497

Total Drug Control Fund \$ 39,497

Highway/Public Works Fund

Highways

Administration

County Official/Administrative Officer	\$	59,452	
Accountants/Bookkeepers		23,605	
Board and Committee Members Fees		1,325	
Communication		2,339	
Dues and Memberships		2,535	
Postal Charges		191	
Printing, Stationery, and Forms		1,364	
Travel		1,127	
Electricity		5,140	
Office Supplies		593	
Water and Sewer		558	
Office Equipment		5,019	
Total Administration			\$ 103,248

Highway and Bridge Maintenance

Foremen	\$	39,440	
Equipment Operators		92,376	
Truck Drivers		77,356	
Laborers		142,407	
Other Contracted Services		6,125	
Concrete		1,727	
Crushed Stone		81,836	
General Construction Materials		1,016	
Pipe - Metal		6,666	
Road Signs		3,424	
Total Highway and Bridge Maintenance			452,373

(Continued)

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

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Operation and Maintenance of Equipment

Mechanic(s)	\$	58,370	
Licenses		85	
Maintenance & Repair Services - Equipment		433	
Diesel Fuel		93,388	
Equipment and Machinery Parts		30,077	
Garage Supplies		11,414	
Gasoline		45,501	
Lubricants		5,927	
Propane Gas		292	
Tires and Tubes		13,167	
Total Operation and Maintenance of Equipment	\$		258,654

Other Charges

Other Contracted Services	\$	592	
Trustee's Commission		24,462	
Vehicle and Equipment Insurance		29,116	
Total Other Charges			54,170

Employee Benefits

Social Security	\$	38,984	
State Retirement		13,917	
Employee and Dependent Insurance		169,288	
Unemployment Compensation		5,261	
Workers' Compensation Insurance		54,892	
Total Employee Benefits			282,342

Capital Outlay

Bridge Construction	\$	18,800	
Highway Construction		329,198	
Highway Equipment		55,356	
Total Capital Outlay			403,354

Total Highway/Public Works Fund \$ 1,554,141

General Debt Service Fund

Principal on Debt

General Government

Principal on Bonds	\$	332,180	
Principal on Notes		11,889	

(Continued)

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

General Debt Service Fund (Cont.)

Principal on Debt (Cont.)

General Government (Cont.)

Principal on Other Loans	\$ 60,300	
Total General Government		\$ 404,369

Highways and Streets

Principal on Notes	\$ 19,466	
Principal on Other Loans	998,400	
Total Highways and Streets		1,017,866

Education

Principal on Bonds	\$ 630,000	
Principal on Other Loans	41,300	
Total Education		671,300

Interest on Debt

General Government

Interest on Bonds	\$ 129,482	
Interest on Notes	2,749	
Interest on Other Loans	4,059	
Total General Government		136,290

Highways and Streets

Interest on Notes	\$ 3,569	
Interest on Other Loans	280,416	
Total Highways and Streets		283,985

Education

Interest on Bonds	\$ 337,950	
Interest on Other Loans	21,380	
Total Education		359,330

Other Debt Service

General Government

Trustee's Commission	\$ 28,236	
Other Debt Service	1,879	
Total General Government		30,115

Total General Debt Service Fund		\$ 2,903,255
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(Continued)

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

<u>Community Development/Industrial Park Fund</u>		
<u>Agriculture & Natural Resources</u>		
<u>Flood Control</u>		
Workers' Compensation Insurance	\$ 2,200	
Land	<u>1,500</u>	
Total Flood Control		<u>\$ 3,700</u>
Total Community Development/Industrial Park Fund		<u>\$ 3,700</u>
Total Governmental Funds - Primary Government		<u><u>\$ 9,631,315</u></u>

Exhibit H-7

McNairy 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	<u>\$ 1,558,540</u>
Total Cash Receipts	<u>\$ 1,558,540</u>
 <u>Cash Disbursements</u>	
Remittance of Revenues Collected	\$ 1,542,953
Trustee's Commission	<u>15,587</u>
Total Cash Disbursements	<u>\$ 1,558,540</u>
 Excess of Cash Receipts Over (Under)	
Cash Disbursements	\$ 0
Cash Balance, July 1, 2005	<u>0</u>
 Cash Balance, June 30, 2006	<u><u>\$ 0</u></u>

ANNUAL FINANCIAL REPORT
McNAIRY COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF McNAIRY 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

NORMAN R. NORMENT, CGFM
Audit Manager

HORACE B. WISEMAN, CGFM
Auditor 4

VICKY BARBER, CFE
ELISHA CROWELL, CFE
State Auditors

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

**McNAIRY COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF McNAIRY COUNTY, TENNESSEE
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Audit Highlights

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

Scope

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

Results

Our report on the McNairy 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 three findings and recommendations, which we have reviewed with McNairy County School Department management. Detailed findings, recommendations, and management's responses are included in the Single Audit Report.

Findings

The following are summaries of the audit findings:

McNAIRY COUNTY SCHOOL DEPARTMENT

- ◆ Government-wide financial statements were not presented in accordance with generally accepted accounting principles, resulting in an adverse opinion.
- ◆ A cash overdraft of \$256,695 existed in the School Federal Projects Fund at June 30, 2006.
- ◆ County officials had not adopted a central system of accounting, budgeting, and purchasing.

INTRODUCTORY SECTION

McNairy County School Officials
June 30, 2006

Official

Charlie Miskelly, Director of Schools

Board of Education

Tony Chapman, Chairman
Frank Lacey, Vice Chairman
Lynn Baker
Johnny Blakely
Jean Jones
Larry Smith
Alvin Wilson

FINANCIAL SECTION



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

INDEPENDENT AUDITOR'S REPORT

February 16, 2007

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

To the Director of Schools and Board of Education:

We have audited the accompanying financial statements of each major fund of the McNairy County School Department, a component unit of McNairy County, Tennessee, as of and for the year ended June 30, 2006, as shown on pages 15 through 28, which collectively comprise a portion of the McNairy 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 McNairy 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 the auditing standards generally accepted in the United States of America and the auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In our opinion, because of the effects of the matters discussed in the two preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the McNairy 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 of the McNairy 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 February 16, 2007, on our consideration of the McNairy County School Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

As described in Note IV.B., the McNairy County School Department has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement 42, Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries.

The budgetary comparison information on pages 31 through 35 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 McNairy County School Department's basic financial statements. The introductory section and miscellaneous schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The miscellaneous schedules have been subjected to the auditing procedures applied by us 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 printed name.

John G. Morgan
Comptroller of the Treasury

JGM/sb

BASIC FINANCIAL STATEMENTS

Exhibit A

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

	Major Funds			Total Govern- mental Funds
	General Purpose School	School Federal Projects	Central Cafeteria	
<u>ASSETS</u>				
Equity in Pooled Cash and Investments	\$ 879,295	\$ 0	\$ 845,080	\$ 1,724,375
Accounts Receivable	1,946	0	0	1,946
Due from Other Governments	545,411	447,725	1,861	994,997
Property Taxes Receivable	3,429,413	0	0	3,429,413
Allowance for Uncollectible Property Taxes	(139,509)	0	0	(139,509)
Total Assets	<u>\$ 4,716,556</u>	<u>\$ 447,725</u>	<u>\$ 846,941</u>	<u>\$ 6,011,222</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 21,309	\$ 0	\$ 0	\$ 21,309
Cash Overdraft	0	256,695	0	256,695
Deferred Revenue - Current Property Taxes	3,088,656	0	0	3,088,656
Deferred Revenue - Delinquent Property Taxes	184,731	0	0	184,731
Other Deferred Revenues	155,812	0	0	155,812
Total Liabilities	<u>\$ 3,450,508</u>	<u>\$ 256,695</u>	<u>\$ 0</u>	<u>\$ 3,707,203</u>
<u>Fund Balances</u>				
Reserved for Encumbrances	\$ 0	\$ 0	\$ 18,260	\$ 18,260
Reserved for Career Ladder - Extended Contract	7,427	0	0	7,427
Reserved for Title I Grants to Local Education Agencies	0	90,107	0	90,107
Reserved for Innovative Education Program Strategies	0	71,102	0	71,102
Reserved for Special Education - Grants to States	0	21,610	0	21,610
Other Federal Reserves	0	8,211	0	8,211
Unreserved, Reported In:				
General Fund	1,258,621	0	0	1,258,621
Special Revenue Funds	0	0	828,681	828,681
Total Fund Balances	<u>\$ 1,266,048</u>	<u>\$ 191,030</u>	<u>\$ 846,941</u>	<u>\$ 2,304,019</u>
Total Liabilities and Fund Balances	<u>\$ 4,716,556</u>	<u>\$ 447,725</u>	<u>\$ 846,941</u>	<u>\$ 6,011,222</u>

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

Exhibit B

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

	Major Funds			
	General Purpose School	School Federal Projects	Central Cafeteria	Total Governmental Funds
<u>Revenues</u>				
Local Taxes	\$ 5,350,610	\$ 0	\$ 0	\$ 5,350,610
Licenses and Permits	5,576	0	0	5,576
Charges for Current Services	61,337	0	896,916	958,253
Other Local Revenues	76,498	0	49,871	126,369
State of Tennessee	17,337,038	142,758	0	17,479,796
Federal Government	268,886	2,918,595	1,065,841	4,253,322
Total Revenues	<u>\$ 23,099,945</u>	<u>\$ 3,061,353</u>	<u>\$ 2,012,628</u>	<u>\$ 28,173,926</u>
<u>Expenditures</u>				
Current:				
Instruction	\$ 15,322,972	\$ 2,239,834	\$ 0	\$ 17,562,806
Support Services	6,258,704	361,975	0	6,620,679
Operation of Non-Instructional Services	353,792	540,780	1,888,446	2,783,018
Debt Service:				
Principal on Debt	67,732	0	0	67,732
Interest on Debt	9,901	0	0	9,901
Other Debt Service	1,010,060	0	0	1,010,060
Total Expenditures	<u>\$ 23,023,161</u>	<u>\$ 3,142,589</u>	<u>\$ 1,888,446</u>	<u>\$ 28,054,196</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 76,784</u>	<u>\$ (81,236)</u>	<u>\$ 124,182</u>	<u>\$ 119,730</u>
<u>Other Financing Sources (Uses)</u>				
Insurance Recovery	\$ 28,658	\$ 0	\$ 0	\$ 28,658
Transfers In	38,992	0	0	38,992
Transfers Out	0	(38,992)	0	(38,992)
Total Other Financing Sources (Uses)	<u>\$ 67,650</u>	<u>\$ (38,992)</u>	<u>\$ 0</u>	<u>\$ 28,658</u>
Net Change in Fund Balances	\$ 144,434	\$ (120,228)	\$ 124,182	\$ 148,388
Fund Balance, July 1, 2005	1,121,614	311,258	722,759	2,155,631
Fund Balance, June 30, 2006	<u>\$ 1,266,048</u>	<u>\$ 191,030</u>	<u>\$ 846,941</u>	<u>\$ 2,304,019</u>

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The McNairy 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 McNairy County 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 School Department:

A. Reporting Entity

The School Department operates the public school system in the county, and the voters of McNairy County elect its seven-member board. The School Department is a component unit of McNairy County, the primary government. The School Department is fiscally dependent on McNairy County because it may not issue debt without county approval, and its budget

and property tax levy are subject to the McNairy County Commission's approval. The School Department's taxes are levied under the taxing authority of McNairy County and are included as part of McNairy 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.

Major individual governmental funds are reported as separate columns in 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. State shared taxes 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 of the School Department. It is used to account for general operations of the School Department.

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

Central Cafeteria Fund – This fund accounts for the cafeteria operations in each of the schools.

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

1. **Deposits and Investments**

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

The county trustee maintains a cash and internal investment pool that is used by all the School Department funds. Each fund's portion of this pool is displayed on the balance sheet as Equity in Pooled Cash and Investments. Most income from these pooled investments is assigned to the primary government's General Debt Service Fund. McNairy County and the 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 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**

Property taxes receivable are shown with an allowance for uncollectibles. The allowance for uncollectible property taxes is equal to 2.09 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. 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.

4. Compensated Absences

The policy of the School Department is to permit employees who are not members of the Tennessee Consolidated Retirement System to accumulate a limited amount of earned but unused sick leave days which will be paid to employees upon retirement. Due to the nominal

balance (\$985) of this accumulated sick leave at June 30, 2006, a long-term liability has not been recorded.

Professional employees of the School Department are allowed to accumulate an unlimited amount of unused sick leave days. However, the granting of sick leave for professional employees has no guaranteed payment attached and therefore is not required to be accrued or recorded.

A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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

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

B. Cash Overdraft

The School Federal Projects Fund had a cash overdraft of \$256,695 at June 30, 2006. This cash overdraft resulted from issuing warrants exceeding cash on deposit with the trustee. This cash overdraft was liquidated subsequent to June 30, 2006.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

McNairy County and the 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 sheet as Equity in Pooled Cash and Investments. Cash in the fund financial statements represents nonpooled amounts held separately by individual funds.

Deposits

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

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

Investments

Legal Provisions. McNairy 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. The county had no pooled or nonpooled investments at June 30, 2006.

B. Interfund Transfers

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

	<u>Transfers In</u>
	General Purpose School Fund
Transfers Out	
School Federal Projects Fund	\$ 38,992
Total	<u>\$ 38,992</u>

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

C. Long-term Debt

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

General Obligation Notes

The county issued capital outlay notes to provide funds for school energy efficiency improvements. Capital outlay notes can also be issued to fund capital facilities and other capital outlay purchases, such as equipment.

Capital outlay notes are direct obligations and pledge the full faith and credit of the government. Capital outlay notes outstanding were issued for original terms of up to seven years. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. The capital outlay notes outstanding as of June 30, 2006, will be retired from the General Purpose School Fund.

Capital outlay notes outstanding as of June 30, 2006, are as follows:

Type	Interest Rate	Original Amount of Issue	Balance 6-30-06
Capital Outlay Notes	3 to 4.33%	\$ 474,504	\$ 208,926

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

Year Ending June 30	Notes	
	Principal	Interest
2007	\$ 68,668	\$ 7,725
2008	69,633	5,179
2009	70,625	2,604
Total	<u>\$ 208,926</u>	<u>\$ 15,508</u>

Changes in Long-term Liabilities

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

	<u>Notes</u>
Balance, July 1, 2005	\$ 276,658
Deductions	<u>(67,732)</u>
Balance, June 30, 2006	<u>\$ 208,926</u>
Balance Due Within One Year	<u>\$ 68,668</u>

IV. OTHER INFORMATION

A. Risk Management

Liability, Property, Casualty, and Workers' Compensation Insurance

The McNairy County School Department participates in the Tennessee School Boards Risk Management Trust (TSB-RMT), which is a public entity risk pool established by the Tennessee School Boards Association, an association of member school districts. The School Department pays an annual premium to the TSB-RMT for its general liability, property, casualty and workers' compensation insurance coverage. The creation of the TSB-RMT provides for it to be self-sustaining through member premiums. The TSB-RMT reinsures through commercial insurance companies for claims exceeding \$100,000 for each insured event.

Employee Health Insurance

The McNairy County School Department participates in the Local Education Group Insurance Fund (LEGIF), a public entity risk pool established to provide a program of health insurance coverage for employees of local education agencies. In accordance with Section 8-27-302, Tennessee Code Annotated (TCA), all local education agencies are eligible to participate. The LEGIF is included in the Comprehensive Annual Financial Report of the State of Tennessee, but the state does not retain any risk for losses by this fund. Section 8-27-303, TCA, provides for the LEGIF to be self-sustaining through member premiums.

B. Accounting Changes

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

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 McNairy 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 McNairy 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 county attorney advised of no pending lawsuits or unasserted claims or assessments involving the School Department that would materially affect the School Department's financial statements.

D. Retirement Commitments

Plan Description

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

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

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

SCHOOL TEACHERS

Plan Description

The McNairy 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 SETHEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. 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 McNairy 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 McNairy 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 \$754,879, \$734,635, and \$441,165, respectively, equal to the required contributions for each year.

E. Purchasing Law

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

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit C-1

McNairy County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
McNairy 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	
Revenues						
Local Taxes	\$ 5,350,610	\$ 0	\$ 5,350,610	\$ 5,217,056	\$ 5,217,056	\$ 133,554
Licenses and Permits	5,576	0	5,576	6,500	5,000	576
Charges for Current Services	61,337	0	61,337	47,500	46,811	14,526
Other Local Revenues	76,498	0	76,498	45,000	56,000	20,498
State of Tennessee	17,337,038	0	17,337,038	16,873,899	17,368,875	(31,837)
Federal Government	268,886	0	268,886	315,157	268,685	201
Total Revenues	\$ 23,099,945	\$ 0	\$ 23,099,945	\$ 22,505,112	\$ 22,962,427	\$ 137,518
Expenditures						
Instruction						
Regular Instruction Program	\$ 12,687,434	\$ 0	\$ 12,687,434	\$ 12,519,592	\$ 12,755,892	\$ 68,458
Special Education Program	1,453,735	0	1,453,735	1,292,942	1,469,365	15,630
Vocational Education Program	861,383	0	861,383	870,426	867,060	5,677
Adult Education Program	320,420	0	320,420	364,729	357,590	37,170
Support Services						
Attendance	50,181	0	50,181	49,881	50,540	359
Health Services	118,936	0	118,936	113,119	119,517	581
Other Student Support	332,710	0	332,710	332,538	334,049	1,339
Regular Instruction Program	628,851	0	628,851	632,040	632,129	3,278
Special Education Program	199,882	0	199,882	190,720	266,792	66,910
Vocational Education Program	71,696	0	71,696	71,641	72,005	309
Adult Programs	72,979	0	72,979	72,776	73,134	155
Board of Education	349,051	0	349,051	354,551	347,394	(1,657)
Director of Schools	140,218	0	140,218	143,066	141,958	1,740
Office of the Principal	921,844	0	921,844	920,510	930,722	8,878
Fiscal Services	79,146	0	79,146	81,320	83,198	4,052

(Continued)

Exhibit C-1

McNairy County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
McNairy 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	\$ 1,613,701	\$ 0	\$ 1,613,701	\$ 1,523,885	\$ 1,619,340	\$ 5,639
Maintenance of Plant	313,632	0	313,632	318,274	344,086	30,454
Transportation	1,333,198	(19,098)	1,314,100	1,302,960	1,346,948	32,848
Central and Other	32,679	0	32,679	32,681	32,682	3
<u>Operation of Non-Instructional Services</u>						
Food Service	46,443	0	46,443	42,640	46,446	3
Early Childhood Education	307,349	0	307,349	65,000	322,786	15,437
<u>Principal on Debt</u>						
Education	67,732	0	67,732	67,732	67,732	0
<u>Interest on Debt</u>						
Education	9,901	0	9,901	10,243	9,943	42
<u>Other Debt Service</u>						
Education	1,010,060	0	1,010,060	1,013,380	1,013,380	3,320
Total Expenditures	\$ 23,023,161	\$ (19,098)	\$ 23,004,063	\$ 22,386,646	\$ 23,304,688	\$ 300,625
Excess (Deficiency) of Revenues						
Over Expenditures	\$ 76,784	\$ 19,098	\$ 95,882	\$ 118,466	\$ (342,261)	\$ 438,143
<u>Other Financing Sources (Uses)</u>						
Insurance Recovery	\$ 28,658	\$ 0	\$ 28,658	\$ 0	\$ 28,659	\$ (1)
Transfers In	38,992	0	38,992	7,000	7,000	31,992
Total Other Financing Sources (Uses)	\$ 67,650	\$ 0	\$ 67,650	\$ 7,000	\$ 35,659	\$ 31,991
Net Change in Fund Balance						
Fund Balance, July 1, 2005	\$ 144,434	\$ 19,098	\$ 163,532	\$ 125,466	\$ (306,602)	\$ 470,134
	1,121,614	(19,098)	1,102,516	740,933	740,933	361,583
Fund Balance, June 30, 2006						
	\$ 1,266,048	\$ 0	\$ 1,266,048	\$ 866,399	\$ 434,331	\$ 831,717

Exhibit C-2

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
State of Tennessee	\$ 142,758	\$ 10,000	\$ 10,000	\$ 132,758
Federal Government	2,918,595	2,611,741	3,346,701	(428,106)
Total Revenues	<u>\$ 3,061,353</u>	<u>\$ 2,621,741</u>	<u>\$ 3,356,701</u>	<u>\$ (295,348)</u>
<u>Expenditures</u>				
<u>Instruction</u>				
Regular Instruction Program	\$ 1,236,579	\$ 1,384,489	\$ 1,554,177	\$ 317,598
Special Education Program	848,874	763,968	864,104	15,230
Vocational Education Program	154,381	115,480	154,956	575
<u>Support Services</u>				
Other Student Support	77,306	15,000	77,892	586
Regular Instruction Program	170,207	307,745	318,824	148,617
Special Education Program	90,328	31,289	98,061	7,733
Vocational Education Program	2,628	4,500	2,628	0
Transportation	21,506	19,910	21,506	0
<u>Operation of Non-Instructional Services</u>				
Community Services	540,780	630,261	630,786	90,006
Total Expenditures	<u>\$ 3,142,589</u>	<u>\$ 3,272,642</u>	<u>\$ 3,722,934</u>	<u>\$ 580,345</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (81,236)</u>	<u>\$ (650,901)</u>	<u>\$ (366,233)</u>	<u>\$ 284,997</u>
<u>Other Financing Sources (Uses)</u>				
Transfers Out	\$ (38,992)	\$ (47,819)	\$ (49,490)	\$ 10,498
Total Other Financing Sources (Uses)	<u>\$ (38,992)</u>	<u>\$ (47,819)</u>	<u>\$ (49,490)</u>	<u>\$ 10,498</u>
Net Change in Fund Balance	\$ (120,228)	\$ (698,720)	\$ (415,723)	\$ 295,495
Fund Balance, July 1, 2005	311,258	698,720	415,723	(104,465)
Fund Balance, June 30, 2006	<u>\$ 191,030</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 191,030</u>

Exhibit C-3

McNairy County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
McNairy County School Department
Central Cafeteria 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>						
Charges for Current Services	\$ 896,916	\$ 0	\$ 896,916	\$ 819,000	\$ 819,000	\$ 77,916
Other Local Revenues	49,871	0	49,871	47,000	47,000	2,871
Federal Government	1,065,841	0	1,065,841	973,000	973,000	92,841
Total Revenues	<u>\$ 2,012,628</u>	<u>\$ 0</u>	<u>\$ 2,012,628</u>	<u>\$ 1,839,000</u>	<u>\$ 1,839,000</u>	<u>\$ 173,628</u>
<u>Expenditures</u>						
<u>Operation of Non-Instructional Services</u>						
Food Service	\$ 1,888,446	\$ 18,260	\$ 1,906,706	\$ 1,839,000	\$ 1,909,210	\$ 2,504
Total Expenditures	<u>\$ 1,888,446</u>	<u>\$ 18,260</u>	<u>\$ 1,906,706</u>	<u>\$ 1,839,000</u>	<u>\$ 1,909,210</u>	<u>\$ 2,504</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 124,182</u>	<u>\$ (18,260)</u>	<u>\$ 105,922</u>	<u>\$ 0</u>	<u>\$ (70,210)</u>	<u>\$ 176,132</u>
Net Change in Fund Balance	\$ 124,182	\$ (18,260)	\$ 105,922	\$ 0	\$ (70,210)	\$ 176,132
Fund Balance, July 1, 2005	<u>722,759</u>	<u>0</u>	<u>722,759</u>	<u>574,767</u>	<u>574,767</u>	<u>147,992</u>
Fund Balance, June 30, 2006	<u>\$ 846,941</u>	<u>\$ (18,260)</u>	<u>\$ 828,681</u>	<u>\$ 574,767</u>	<u>\$ 504,557</u>	<u>\$ 324,124</u>

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

BUDGETARY INFORMATION

The School Department is required by state statute to adopt annual budgets. Annual budgets are prepared on the basis in which current available funds must be sufficient to meet current expenditures. Expenditures and encumbrances may not legally exceed appropriations authorized by the McNairy 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, etc.). The McNairy County Board of Education may make revisions within major categories, but only the McNairy County Commission may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

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

MISCELLANEOUS SCHEDULES

Exhibit D-1

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

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-05	Paid and/or Matured During Period	Outstanding 6-30-06
<u>NOTES PAYABLE</u>							
<u>Payable through General Purpose School Fund</u>							
Energy Efficiency Loan	\$ 218,874	3 %	7-27-01	9-1-08	\$ 130,585	\$ 31,213	\$ 99,372
Energy Efficiency Capital Outlay Note	255,630	4.33	11-12-01	10-1-08	146,073	36,519	109,554
Total Notes Payable					<u>\$ 276,658</u>	<u>\$ 67,732</u>	<u>\$ 208,926</u>

Exhibit D-2

McNairy County, Tennessee
Schedule of Transfers
McNairy 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>\$ 38,992</u>
Total Transfers			<u>\$ 38,992</u>

Exhibit D-3

McNairy County, Tennessee
Schedule of Salary and Official Bond of Principal Official
McNairy 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 County Board of Education	\$ 80,000 (1)	\$ 100,000	Western Surety Company
Employee Dishonesty Coverage: Office of Director of Schools			150,000	Tennessee School Boards Risk Management Trust

(1) - Includes chief executive officer training supplement of \$500.

Exhibit D-4

McNairy County, Tennessee
Schedule of Detailed Revenues -
All Governmental Fund Types
McNairy 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	\$ 3,277,994	\$ 0	\$ 0	\$ 3,277,994
Trustee's Collections - Prior Year	226,279	0	0	226,279
Circuit/Clerk & Master Collections - Prior Years	62,798	0	0	62,798
Interest and Penalty	33,744	0	0	33,744
Payments in-Lieu-of Taxes - T.V.A.	1,203	0	0	1,203
<u>County Local Option Taxes</u>				
Local Option Sales Tax	1,717,467	0	0	1,717,467
<u>Statutory Local Taxes</u>				
Bank Excise Tax	31,125	0	0	31,125
Total Local Taxes	\$ 5,350,610	\$ 0	\$ 0	\$ 5,350,610
<u>Licenses and Permits</u>				
<u>Licenses</u>				
Marriage Licenses	\$ 5,576	\$ 0	\$ 0	\$ 5,576
Total Licenses and Permits	\$ 5,576	\$ 0	\$ 0	\$ 5,576
<u>Charges for Current Services</u>				
<u>Education Charges</u>				
Tuition - Other	\$ 25,900	\$ 0	\$ 0	\$ 25,900
Lunch Payments - Children	0	0	386,096	386,096
Lunch Payments - Adults	0	0	72,159	72,159
Income from Breakfast	0	0	33,492	33,492
A la carte Sales	0	0	389,638	389,638
School Based Health Services - FFS	361	0	0	361
Receipts from Individual Schools	34,876	0	0	34,876
<u>Other Charges for Services</u>				
Other Charges for Services	200	0	15,531	15,731
Total Charges for Current Services	\$ 61,337	\$ 0	\$ 896,916	\$ 958,253
<u>Other Local Revenues</u>				
<u>Recurring Items</u>				
Investment Income	\$ 0	\$ 0	\$ 23,436	\$ 23,436
Lease/Rentals	27,391	0	0	27,391
Miscellaneous Refunds	0	0	26,435	26,435
<u>Nonrecurring Items</u>				
Contributions & Gifts	23,750	0	0	23,750
<u>Other Local Revenues</u>				
Other Local Revenues	25,357	0	0	25,357
Total Other Local Revenues	\$ 76,498	\$ 0	\$ 49,871	\$ 126,369
<u>State of Tennessee</u>				
<u>State Education Funds</u>				
Basic Education Program	\$ 16,021,019	\$ 0	\$ 0	\$ 16,021,019
School Food Service	25,798	0	0	25,798
Driver Education	17,318	0	0	17,318
Other State Education Funds	383,563	0	0	383,563
Career Ladder Program	270,106	0	0	270,106
Career Ladder - Extended Contract	198,188	0	0	198,188

(Continued)

Exhibit D-4

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

	General Purpose School	School Federal Projects	Central Cafeteria	Total
<u>State of Tennessee (Cont.)</u>				
<u>State Education Funds (Cont.)</u>				
Other Vocational	\$ 0	\$ 9,994	\$ 0	\$ 9,994
<u>Other State Revenues</u>				
Mixed Drink Tax	1,080	0	0	1,080
State Revenue Sharing - T.V.A.	279,716	0	0	279,716
Other State Grants	120,342	102,764	0	223,106
Other State Revenues	19,908	30,000	0	49,908
Total State of Tennessee	\$ 17,337,038	\$ 142,758	\$ 0	\$ 17,479,796
<u>Federal Government</u>				
<u>Federal Through State</u>				
USDA School Lunch Program	\$ 0	\$ 0	\$ 780,058	\$ 780,058
Breakfast	0	0	239,098	239,098
USDA - Other	0	0	46,685	46,685
Adult Education State Grant Program	182,934	0	0	182,934
Vocational Education - Basic Grants to States	0	124,980	0	124,980
Title I Grants to Local Education Agencies	0	792,467	0	792,467
Innovative Education Program Strategies	0	130,264	0	130,264
Special Education - Grants to States	7,329	947,819	0	955,148
Special Education Preschool Grants	0	31,813	0	31,813
Eisenhower Professional Development State Grants	0	256,781	0	256,781
Other Federal through State	78,623	634,471	0	713,094
Total Federal Government	\$ 268,886	\$ 2,918,595	\$ 1,065,841	\$ 4,253,322
Total	\$ 23,099,945	\$ 3,061,353	\$ 2,012,628	\$ 28,173,926

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

General Purpose School Fund

Instruction

Regular Instruction Program

Teachers	\$ 8,982,862	
Career Ladder Program	202,123	
Career Ladder Extended Contracts	295,155	
Educational Assistants	299,018	
Certified Substitute Teachers	18,228	
Non-certified Substitute Teachers	98,944	
Social Security	553,604	
State Retirement	522,841	
Medical Insurance	980,500	
Dental Insurance	79,000	
Unemployment Compensation	6,899	
Employer Medicare	129,127	
Travel	8,106	
Instructional Supplies and Materials	130,999	
Textbooks	208,655	
Regular Instruction Equipment	171,373	
Total Regular Instruction Program		\$ 12,687,434

Special Education Program

Supervisor/Director	\$ 8,177	
Teachers	865,029	
Career Ladder Program	19,980	
Clerical Personnel	18,666	
Educational Assistants	73,444	
Certified Substitute Teachers	202	
Non-certified Substitute Teachers	14,554	
Social Security	62,003	
State Retirement	51,750	
Medical Insurance	227,400	
Dental Insurance	4,000	
Unemployment Compensation	743	
Employer Medicare	14,500	
Contracts with Other Public Agencies	13,000	
Contracts with Private Agencies	15,000	
Other Contracted Services	31,576	
Instructional Supplies and Materials	12,411	
Other Charges	21,180	
Other Equipment	120	
Total Special Education Program		1,453,735

(Continued)

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

General Purpose School Fund (Cont.)

Instruction (Cont.)

Vocational Education Program

Teachers	\$	668,993	
Career Ladder Program		8,980	
Certified Substitute Teachers		200	
Non-certified Substitute Teachers		1,691	
Social Security		40,510	
State Retirement		37,288	
Medical Insurance		72,660	
Unemployment Compensation		417	
Employer Medicare		9,500	
Instructional Supplies and Materials		21,144	
Total Vocational Education Program			\$ 861,383

Adult Education Program

Teachers	\$	228,033	
Social Security		14,138	
State Retirement		6,826	
Medical Insurance		17,860	
Unemployment Compensation		226	
Employer Medicare		3,306	
Travel		4,609	
Instructional Supplies and Materials		33,793	
Other Charges		7,051	
Other Equipment		4,578	
Total Adult Education Program			320,420

Support Services

Attendance

Supervisor/Director	\$	36,795	
Career Ladder Program		1,000	
Social Security		2,343	
State Retirement		2,079	
Medical Insurance		6,716	
Unemployment Compensation		21	
Employer Medicare		548	
Travel		679	
Total Attendance			50,181

Health Services

Medical Personnel	\$	50,607	
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(Continued)

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Health Services (Cont.)

Other Salaries & Wages	\$	40,066	
Social Security		5,495	
State Retirement		3,925	
Medical Insurance		12,395	
Unemployment Compensation		70	
Employer Medicare		1,340	
Travel		3,188	
Other Supplies and Materials		1,850	
Total Health Services			\$ 118,936

Other Student Support

Career Ladder Program	\$	5,000	
Guidance Personnel		247,798	
Social Security		15,000	
State Retirement		13,904	
Medical Insurance		28,316	
Unemployment Compensation		126	
Employer Medicare		3,508	
Evaluation and Testing		19,058	
Total Other Student Support			332,710

Regular Instruction Program

Supervisor/Director	\$	69,273	
Career Ladder Program		7,997	
Librarians		303,086	
Materials Supervisor		8,627	
Instructional Computer Personnel		58,842	
Secretary(ies)		19,557	
Social Security		27,975	
State Retirement		24,713	
Medical Insurance		52,869	
Unemployment Compensation		251	
Employer Medicare		6,550	
Communication		4,347	
Travel		14,356	
Other Contracted Services		7,103	
Library Books/Media		13,332	
Other Supplies and Materials		4,222	
In Service/Staff Development		2,713	

(Continued)

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Regular Instruction Program (Cont.)

Other Charges	\$ 3,038	
Total Regular Instruction Program		\$ 628,851

Special Education Program

Supervisor/Director	\$ 56,842	
Career Ladder Program	2,000	
Psychological Personnel	34,941	
Assessment Personnel	44,427	
Secretary(ies)	19,062	
Social Security	7,500	
State Retirement	6,300	
Medical Insurance	9,909	
Unemployment Compensation	63	
Employer Medicare	1,909	
Travel	8,912	
Other Contracted Services	17	
Other Charges	8,000	
Total Special Education Program		199,882

Vocational Education Program

Supervisor/Director	\$ 58,842	
Career Ladder Program	2,000	
Social Security	3,497	
State Retirement	3,346	
Medical Insurance	3,193	
Employer Medicare	818	
Total Vocational Education Program		71,696

Adult Programs

Supervisor/Director	\$ 58,842	
Career Ladder Program	3,000	
Social Security	3,800	
State Retirement	3,264	
Medical Insurance	3,193	
Employer Medicare	880	
Total Adult Programs		72,979

Board of Education

Board and Committee Members Fees	\$ 5,600	
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(Continued)

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Board of Education (Cont.)

Social Security	\$	347	
Employer Medicare		81	
Audit Services		10,000	
Dues and Memberships		17,412	
Legal Services		3,618	
Travel		9,765	
Other Contracted Services		3,902	
Premiums on Corporate Surety Bonds		1,150	
Trustee's Commission		136,237	
Workers' Compensation Insurance		159,243	
Other Charges		<u>1,696</u>	
Total Board of Education			\$ 349,051

Director of Schools

County Official/Administrative Officer	\$	79,500	
Career Ladder Program		500	
Secretary(ies)		25,207	
Social Security		6,523	
State Retirement		5,118	
Medical Insurance		6,000	
Unemployment Compensation		53	
Employer Medicare		1,526	
Communication		8,309	
Office Supplies		7,231	
Other Charges		<u>251</u>	
Total Director of Schools			140,218

Office of the Principal

Principals	\$	460,318	
Career Ladder Program		14,000	
Secretary(ies)		275,206	
Social Security		44,750	
State Retirement		33,931	
Medical Insurance		77,872	
Unemployment Compensation		567	
Employer Medicare		10,500	
Communication		<u>4,700</u>	
Total Office of the Principal			921,844

(Continued)

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Fiscal Services

Accountants/Bookkeepers	\$	46,161	
Secretary(ies)		20,921	
Social Security		4,159	
State Retirement		1,710	
Unemployment Compensation		52	
Employer Medicare		973	
Travel		93	
Other Contracted Services		4,994	
Office Supplies		83	
Total Fiscal Services			\$ 79,146

Operation of Plant

Custodial Personnel	\$	414,180	
Other Salaries & Wages		1,375	
Social Security		24,600	
State Retirement		11,843	
Medical Insurance		38,985	
Unemployment Compensation		553	
Employer Medicare		5,800	
Custodial Supplies		53,279	
Electricity		543,326	
Natural Gas		171,832	
Water and Sewer		86,560	
Building and Contents Insurance		246,440	
Plant Operation Equipment		14,928	
Total Operation of Plant			1,613,701

Maintenance of Plant

Maintenance Personnel	\$	127,371	
Other Salaries & Wages		5,275	
Social Security		7,700	
State Retirement		3,780	
Medical Insurance		18,753	
Unemployment Compensation		91	
Employer Medicare		1,800	
Communication		2,122	
Maintenance & Repair Services - Buildings		57,046	
Maintenance & Repair Services - Equipment		13,205	
Maintenance & Repair Services - Vehicles		7	

(Continued)

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Maintenance of Plant (Cont.)

Other Contracted Services	\$	30,960	
Other Supplies and Materials		6,798	
Other Charges		69	
Administration Equipment		37,743	
Maintenance Equipment		912	
Total Maintenance of Plant			\$ 313,632

Transportation

Supervisor/Director	\$	38,202	
Mechanic(s)		55,058	
Bus Drivers		438,501	
Clerical Personnel		19,669	
Other Salaries & Wages		38,431	
Social Security		36,572	
State Retirement		16,524	
Medical Insurance		6,014	
Unemployment Compensation		780	
Employer Medicare		8,553	
Communication		3,457	
Maintenance & Repair Services - Vehicles		57,309	
Medical and Dental Services		5,660	
Diesel Fuel		171,450	
Gasoline		13,935	
Lubricants		7,071	
Tires and Tubes		32,713	
Other Supplies and Materials		4,828	
Other Charges		180	
Transportation Equipment		378,291	
Total Transportation			1,333,198

Central and Other

Data Processing Personnel	\$	29,554	
Social Security		1,832	
State Retirement		842	
Unemployment Compensation		21	
Employer Medicare		430	
Total Central and Other			32,679

(Continued)

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

General Purpose School Fund (Cont.)

Operation of Non-Instructional Services

Food Service

Supervisor/Director	\$	33,619	
Social Security		1,915	
State Retirement		958	
Medical Insurance		7,000	
Employer Medicare		451	
Other Charges		2,500	
Total Food Service			\$ 46,443

Early Childhood Education

Teachers	\$	136,045	
Educational Assistants		26,372	
Certified Substitute Teachers		20,000	
Social Security		11,310	
State Retirement		8,234	
Medical Insurance		7,580	
Unemployment Compensation		17	
Employer Medicare		2,645	
Travel		1,979	
Instructional Supplies and Materials		90,091	
In Service/Staff Development		100	
Other Charges		2,976	
Total Early Childhood Education			307,349

Principal on Debt

Education

Principal on Notes	\$	67,732	
Total Education			67,732

Interest on Debt

Education

Interest on Notes	\$	9,901	
Total Education			9,901

Other Debt Service

Education

Contributions	\$	1,010,060	
Total Education			1,010,060

Total General Purpose School Fund \$ 23,023,161

(Continued)

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

School Federal Projects Fund

Instruction

Regular Instruction Program

Teachers	\$	767,243	
Other Salaries & Wages		34,985	
Certified Substitute Teachers		6,327	
Non-certified Substitute Teachers		7,453	
Social Security		48,606	
State Retirement		40,582	
Medical Insurance		70,092	
Dental Insurance		4,572	
Unemployment Compensation		472	
Employer Medicare		11,367	
Maintenance & Repair Services - Equipment		300	
Travel		1,373	
Instructional Supplies and Materials		74,044	
Other Charges		20,294	
Regular Instruction Equipment		148,869	
Total Regular Instruction Program			\$ 1,236,579

Special Education Program

Teachers	\$	102,000	
Educational Assistants		476,921	
Social Security		35,893	
State Retirement		19,513	
Unemployment Compensation		691	
Employer Medicare		8,394	
Contracts with Other Public Agencies		42,362	
Contracts with Private Agencies		105,462	
Instructional Supplies and Materials		32,638	
Other Supplies and Materials		25,000	
Total Special Education Program			848,874

Vocational Education Program

Teachers	\$	11,862	
Travel		8,561	
Instructional Supplies and Materials		42,214	
In Service/Staff Development		18,365	
Other Charges		11,088	
Vocational Instruction Equipment		62,291	
Total Vocational Education Program			154,381

(Continued)

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

School Federal Projects Fund (Cont.)

Support Services

Other Student Support

Social Workers	\$	27,538	
Social Security		1,646	
State Retirement		785	
Medical Insurance		1,623	
Unemployment Compensation		20	
Employer Medicare		399	
Travel		11,774	
Other Supplies and Materials		25,653	
In Service/Staff Development		7,690	
Other Charges		178	
Total Other Student Support			\$ 77,306

Regular Instruction Program

Supervisor/Director	\$	58,842	
Secretary(ies)		13,037	
Social Security		4,454	
State Retirement		3,603	
Dental Insurance		259	
Unemployment Compensation		38	
Employer Medicare		1,043	
Travel		8,292	
Library Books/Media		14,071	
Other Supplies and Materials		1,117	
In Service/Staff Development		63,317	
Other Charges		1,842	
Other Equipment		292	
Total Regular Instruction Program			170,207

Special Education Program

Other Salaries & Wages	\$	24,460	
Social Security		1,517	
State Retirement		824	
Employer Medicare		355	
Consultants		18,919	
Travel		12,785	
Other Supplies and Materials		750	
Other Charges		30,718	
Total Special Education Program			90,328

(Continued)

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

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Vocational Education Program

Travel	\$ 2,628	
Total Vocational Education Program		\$ 2,628

Transportation

Bus Drivers	\$ 19,440	
Social Security	1,205	
State Retirement	554	
Unemployment Compensation	25	
Employer Medicare	282	
Total Transportation		21,506

Operation of Non-Instructional Services

Community Services

Supervisor/Director	\$ 7,318	
Teachers	173,885	
Clerical Personnel	18,892	
Part-time Personnel	191,979	
Social Security	23,026	
State Retirement	10,435	
Unemployment Compensation	625	
Employer Medicare	5,384	
Other Contracted Services	15,865	
Other Supplies and Materials	87,397	
In Service/Staff Development	4,233	
Other Charges	1,142	
Other Equipment	599	
Total Community Services		540,780

Total School Federal Projects Fund		\$ 3,142,589
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Central Cafeteria Fund

Operation of Non-Instructional Services

Food Service

Accountants/Bookkeepers	\$ 21,815
Clerical Personnel	13,014
Cafeteria Personnel	581,843
Other Salaries & Wages	17,306
Social Security	36,126
State Retirement	14,696

(Continued)

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

Central Cafeteria Fund (Cont.)

Operation of Non-Instructional Services (Cont.)

Food Service (Cont.)

Medical Insurance	\$	108,487	
Unemployment Compensation		1,858	
Employer Medicare		8,449	
Communication		6,449	
Maintenance & Repair Services - Equipment		7,848	
Transportation - Other than Students		9,585	
Travel		1,166	
Other Contracted Services		30,576	
Food Supplies		910,293	
Office Supplies		1,979	
Uniforms		7,929	
Other Supplies and Materials		60,334	
Food Service Equipment		<u>48,693</u>	
Total Food Service			<u>\$ 1,888,446</u>

Total Central Cafeteria Fund \$ 1,888,446

Total Governmental Funds - McNairy County School Department \$ 28,054,196

SINGLE AUDIT REPORT
McNAIRY COUNTY, TENNESSEE
AND
McNAIRY 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

NORMAN R. NORMENT, CGFM
Audit Manager

HORACE B. WISEMAN, CGFM
Auditor 4

VICKY BARBER, CFE
ELISHA CROWELL, CFE
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

February 16, 2007

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

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

We have audited the financial statements of each major fund and aggregate remaining fund information of McNairy County, Tennessee, and the McNairy County School Department as of and for the year ended June 30, 2006, which collectively comprise a portion of McNairy County's and the McNairy County School Department's basic financial statements and have issued our reports thereon dated February 16, 2007. Our reports on the financial statements of McNairy County and the McNairy 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 McNairy County's and the McNairy 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 McNairy County's and the McNairy County School Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06.02, 06.03(C), 06.05, 06.06, 06.08, 06.09(A,B,C), 06.10(A,B,C,D), 06.12, 06.13, and 06.15.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 06.02, 06.03(C), and 06.08 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether McNairy County's and the McNairy 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, 06.03(A,B), 06.04, 06.07, 06.09(D), 06.10(E), 06.11, 06.14, and 06.16.

We have also noted certain matters that we reported to the management of McNairy County and the McNairy 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

February 16, 2007

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

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

Compliance

We have audited the compliance of McNairy County and the McNairy 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. McNairy County's and the McNairy 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 McNairy County's and the McNairy County School Department's management. Our responsibility is to express an opinion on McNairy County's and the McNairy County School Department's compliance based on our audit.

We conducted our audit of compliance in accordance with the 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 McNairy County's and the McNairy 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 McNairy County's and the McNairy County School Department's compliance with those requirements.

In our opinion, McNairy County and the McNairy 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 McNairy County and the McNairy 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 McNairy County's and the McNairy 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 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 McNairy County School Department's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. These reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06.08 and 06.17.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 06.08 and 06.17 to be material weaknesses.

Schedule of Federal Awards

We have audited the financial statements of each major fund and the aggregate remaining fund information of McNairy County, Tennessee, and the McNairy County School Department as of and for the year ended June 30, 2006, and have issued our reports thereon dated February 16, 2007. Our reports on the financial statements of McNairy

County and the McNairy 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

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

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Agriculture:			
Passed-through State Department of Agriculture:			
Food Donation (Noncash Assistance)	10.550	(2)	\$ 89,288
Passed-through State Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	239,098
National School Lunch Program	10.555	N/A	780,058
Summer Food Service Program for Children	10.559	N/A	46,685
Total U.S. Department of Agriculture			<u>\$ 1,155,129</u>
U.S. Department of Justice:			
Passed-through State Commission on Children and Youth:			
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	(2)	\$ 9,000
Total U.S. Department of Justice			<u>\$ 9,000</u>
U.S. Department of Labor:			
Passed-through Southwest Human Resource Agency:			
WIA Youth Activities	17.259	(2)	\$ 48,735
Total U.S. Department of Labor			<u>\$ 48,735</u>
U.S. Department of Transportation:			
Passed-through State Department of Military:			
Interagency Hazardous Materials Public Sector Training and Planning Grant	20.703	GG-05-11609-00	\$ 15,000
Total U.S. Department of Transportation			<u>\$ 15,000</u>
U.S. Department of Education:			
Passed-through State Department of Education:			
Adult Education - State Grant Program	84.002	(2)	\$ 182,934
Title I Grants to Local Educational Agencies	84.010	N/A	883,576
Special Education - Grants to States	84.027	N/A	837,060
Vocational Education - Basic Grants to States	84.048	N/A	124,980
Rehabilitation Services - Vocation Rehabilitation Grants to States	84.126	N/A	61,459
Safe and Drug-Free Schools and Communities - State Grants	84.186	(2)	94,730
Even Start - State Educational Agencies	84.213C	(2)	74,401
Twenty-First Century Community Learning Centers	84.287	N/A	693,274
State Grants for Innovative Programs	84.298	N/A	14,286
Education Technology State Grants	84.318x	N/A	18,053
Rural Education Achievement Program	84.358B	N/A	122,516
Improving Teacher Quality State Grants	84.367	N/A	236,900
Hurricane Education Recovery	84.938C	N/A	10,148
Project Help WIA	84.XXX	N/A	25,000
Total U.S. Department of Education			<u>\$ 3,379,317</u>

(Continued)

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

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Homeland Security: Passed-through State Department of Military: Homeland Security Cluster:			
State Domestic Preparedness Equipment Support Program	97.004	Z-04-0222474-01	\$ 36,093
Emergency Management Performance Grants	97.042	(3)	21,041
Total U.S. Department of Homeland Security			<u>\$ 57,134</u>
Total Expenditures of Federal Awards			<u>\$ 4,664,315</u>
State Grants:			
		<u>Contract Number</u>	
Reappraisal Program - Comptroller of the Treasury	N/A	(2)	\$ 2,646
Perkins Discretionary Funds - State Department of Education	N/A	(2)	30,000
Delta Grant - State Department of Education	N/A	(2)	102,764
Orbit Grant - State Department of Education	N/A	(2)	1,536
Family Resource Grant - State Department of Education	N/A	(2)	32,658
EL/Civics Grant - State Department of Labor and Workforce Development	N/A	(2)	16,713
ABE - Early Childhood Development Grant	N/A	(2)	61,213
Early Childhood - Lottery Grant	N/A	(2)	256,482
High Schools That Work	N/A	(2)	9,994
Safe Schools Act of 2003	N/A	(2)	33,211
Waste Tire Grant - State Department of Environment and Conservation	N/A	(2)	12,881
Safety Grant - State Department of Transportation	N/A	(2)	<u>41,922</u>
Total State Grants			<u>\$ 602,020</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-05-025416-00: \$9,335; Z-06-032843-00: \$11,706.

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

McNAIRY COUNTY AND McNAIRY COUNTY SCHOOL DEPARTMENT

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

OFFICE OF COUNTY MAYOR

Finding Number	Page Number	Subject
05.02	13	The office had fund deficits and cash overdrafts
05.03	13	The office had deficiencies in budget operations
05.05	15	The Solid Waste Office had deficiencies in the collection of garbage fees
05.06	15	The office had deficiencies in computer system backup procedures

OFFICE OF DIRECTOR OF SCHOOLS

Finding Number	Page Number	Subject
05.07	16	The Schools Federal Projects Fund had a cash overdraft

OFFICE OF CIRCUIT COURT CLERK

Finding Number	Page Number	Subject
05.08	16	The office had deficiencies in maintaining the execution docket trial balance report

OFFICE OF GENERAL SESSIONS COURT CLERK

Finding Number	Page Number	Subject
05.10	18	The office had deficiencies in maintaining the execution docket trial balance report
05.11	19	Unclaimed funds were not reported and paid to the state

OTHER FINDINGS

Finding Number	Page Number	Subject
05.12	19	A central system of accounting, budgeting, and purchasing had not been adopted
05.13	19	The trustee and register allowed individuals unsupervised access to their offices after business hours
05.14	20	The trustee and county clerk did not have authorization for deputy hires
05.15	20	Duties were not segregated adequately in the Offices of Trustee and Sheriff
05.16	21	The county used a questionable method of funding rural fire protection

**McNAIRY COUNTY, TENNESSEE, AND THE
McNAIRY 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 McNairy County and the McNairy County School Department.
2. The audit of the financial statements of McNairy County and the McNairy County School Department disclosed reportable conditions in internal control. Two of these conditions were considered to be material weaknesses in McNairy County. One of these conditions was considered to be a material weakness in the McNairy County School Department.
3. The audit disclosed three instances of noncompliance that are material to the financial statements of McNairy County, and one instance of noncompliance that is material to the financial statements of the McNairy 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: School Breakfast Program, National School Lunch Program, and the Summer Food Service Program for Children (CFDA Nos. 10.553, 10.555, and 10.559); Title I Grants to Local Educational Agencies (CFDA No. 84.010); and Special Education - Grants to States (CFDA No. 84.027) 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. McNairy County and the McNairy 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 response of the director of schools has been 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.

McNAIRY COUNTY AND McNAIRY 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)

McNairy County and the McNairy County School Department did not identify and determine the historical value of their capital assets and the related depreciation amounts of these assets. Therefore, McNairy County and the McNairy 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, McNairy County’s and the McNairy County School Department’s financial statements are not presented in accordance with generally accepted accounting principles; thus, we have issued adverse opinions on the county’s and the School Department’s 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. McNairy County’s and the McNairy County School Department’s financial statements are presented in compliance with these requirements.

RECOMMENDATION

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

OFFICE OF COUNTY MAYOR

FINDING 06.02 **THE SPECIAL PURPOSE FUND HAD A FUND DEFICIT AND A CASH OVERDRAFT
(Internal Control – Material Weakness Under Government Auditing Standards)**

Our examination revealed the following deficiencies:

- A. The Special Purpose Fund had a fund deficit of \$4,595 at June 30, 2006. This fund deficit resulted from expenditures exceeding available funds.

- B. Also, the Special Purpose Fund had a cash overdraft of \$28,142 at June 30, 2006. This cash overdraft resulted from the issuance of warrants in excess of cash on deposit with the county trustee.

RECOMMENDATION

County officials should take immediate steps to liquidate this fund deficit and provide a sufficient operating fund balance in the Special Purpose Fund. Warrants should not be issued in excess of cash on deposit with the county trustee. Steps should also be taken during the budgetary process to ensure that adequate funding is provided to prevent the recurrence of deficits and overdrafts.

FINDING 06.03 **THE OFFICE HAD DEFICIENCIES IN BUDGET OPERATIONS
(A. Material Noncompliance Under Government Auditing Standards;
B. Noncompliance Under Government Auditing Standards; C. Internal Control – Material Weakness Under Government Auditing Standards)**

Our examination revealed the following deficiencies in budget operations:

- A. Expenditures exceeded appropriations at the major category level of control (the legal level of control) in the following funds:

<u>Fund/Major Category</u>	<u>Amount</u>
General Fund:	
Chancery Court	\$ 956
Rural Fire Protection	53,047
Agricultural Extension Service	145
Transfers Out	47,924
Solid Waste/Sanitation Fund:	
Other General Administration	466
Special Purpose Fund:	
Other Facilities	204

- B. Expenditures exceeded total appropriations approved by the County Commission in the Law Library (\$1,690) and Public Library (\$32,558) Funds.

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.”

- C. The budget and subsequent amendments submitted to and approved by the County Commission for the Special Purpose Fund resulted in appropriations exceeding estimated available funding causing a budgeted fund deficit of \$24,850.

RECOMMENDATION

Expenditures should be held within appropriations approved by the County Commission. Appropriations that exceed estimated available funds should not be submitted to or approved by the County Commission.

FINDING 06.04 THE SOLID WASTE OFFICE HAD DEFICIENCIES IN THE COLLECTION OF GARBAGE FEES
(Noncompliance Under Government Auditing Standards)

The Solid Waste Office did not issue pre-numbered receipts for garbage fees collected as required by Section 9-2-103, Tennessee Code Annotated (TCA). Because receipts were not pre-numbered, we could not determine if all collections had been accounted for and if collections were remitted to the county trustee within three days of collection as required by Section 5-8-207, TCA.

RECOMMENDATION

Pre-numbered receipts should be issued for all collections as required by state statute.

FINDING 06.05 THE OFFICE HAD DEFICIENCIES IN COMPUTER SYSTEM BACKUP PROCEDURES
(Internal Control – Reportable Condition Under Government Auditing Standards)

The following weaknesses regarding computer system backup procedures in the office were identified:

- A. System backups were not stored off-site. In the event of a disaster, all backup data could be destroyed, resulting in costly delays in generating and recording information accounted for through the automated process.
- B. A backup log was not maintained. If system backups are not labeled and inventoried systematically, discrepancies may occur and affect the integrity of system backups in the event of a hardware or software failure.

RECOMMENDATION

Backups should be rotated off-site on a weekly basis. Year-end backups should be stored off-site and retained indefinitely. Some possibilities for an off-site storage location would be another county office building with a fireproof vault or a safe deposit box at a local bank. Furthermore, a current log of all backups that includes label descriptions, date of creation, contents, and storage location should be maintained.

OFFICE OF HIGHWAY COMMISSIONER

FINDING 06.06 **THE OFFICE DID NOT ISSUE PURCHASE ORDERS PROPERLY**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The office did not issue purchase orders for some applicable purchases. Also, our examination of purchase orders disclosed that the date of issuance, descriptions of items purchased, and dollar amounts of purchases were not listed on many purchase orders. The date of issuance is important to document the encumbrance of the purchase order prior to the actual purchase. The dollar amounts and descriptions of items on purchase orders are necessary to quantify purchasing commitments and to identify the items purchased. Proper use of purchase orders is necessary to control who has purchasing authority for the office and to document purchasing commitments.

RECOMMENDATION

To strengthen internal controls over purchasing procedures and to document purchasing commitments, the office should issue purchase orders for all applicable purchases including the date of issuance, descriptions of items, and the dollar amounts of items purchased.

**FINDING 06.07 PAYROLL TAXES WERE NOT ALWAYS DEPOSITED TIMELY
(Noncompliance Under Government Auditing Standards)**

The office did not deposit payroll taxes with the Internal Revenue Service (IRS) on a timely basis for the quarter ended September 30, 2005. As a result, the office was required to pay interest and penalty charges totaling \$347.90 to the IRS in January 2006. IRS Circular E – Employer’s Tax Guide requires employers to deposit employee payroll taxes in a U.S. Treasury bank account within three days of each payroll.

RECOMMENDATION

The office should deposit payroll taxes on a timely basis to avoid interest and penalty charges.

OFFICE OF DIRECTOR OF SCHOOLS

**FINDING 06.08 THE SCHOOL FEDERAL PROJECTS FUND HAD A CASH OVERDRAFT
(Internal Control – Material Weakness Under Government Auditing Standards and OMB Circular A-133)**

The School Federal Projects Fund had a cash overdraft of \$256,695 at June 30, 2006. This cash overdraft resulted from issuing warrants exceeding cash on deposit with the county trustee.

RECOMMENDATION

The office should liquidate the cash overdraft and not make disbursements that exceed available cash on deposit with the county trustee.

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

Checks will not be written in advance, department personnel will request reimbursements of federal projects in a timely manner, and accounting personnel will calculate reserve balances for the various federal projects.

OFFICE OF CIRCUIT COURT CLERK

FINDING 06.09 **THE OFFICE HAD DEFICIENCIES IN MAINTAINING THE EXECUTION DOCKET TRIAL BALANCE REPORT
(A. through C. Internal Control – Reportable Condition Under Government Auditing Standards; D. Noncompliance Under Government Auditing Standards)**

Our examination disclosed the following deficiencies:

- A. In some instances, the office issued manual checks and later entered these checks into the computer system to be posted to the general ledger; however, the computer system did not automatically post these transactions to the docket trial balance report. As a result, several cases were misstated on the docket trial balance report.
- B. When a check was voided in the general ledger, the computer system did not automatically post this entry to the docket trial balance report, resulting in several cases' balances being misstated.
- C. The docket trial balance was not prepared and reconciled with general ledger accounts on a monthly basis. As a result, errors on the docket trial balance were not detected and corrected timely.
- D. At June 30, 2006, the circuit court clerk had prepared a trial balance of execution docket cause balances as required by Section 18-2-103, Tennessee Code Annotated (TCA). However, the trial balance did not reconcile with cash journal accounts by \$14,816. Consequently, we were unable to determine if the clerk had complied with the provisions of the Unclaimed Property Act, Section 66-29-110, TCA. This statute provides that any funds held by the court for more than one year and unclaimed by the owner are considered abandoned. Section 66-29-113, TCA, further requires these funds to be reported and paid to the state Treasurer's Office.

RECOMMENDATION

Office personnel should ensure that all manual and voided checks are properly posted to the accounting records and reports of the office. The execution docket trial balance should be properly prepared and reconciled with cash journal accounts monthly. To comply with state statutes, the clerk should report and pay to the state Treasurer's Office any unclaimed funds held for more than one year.

OFFICE OF GENERAL SESSIONS COURT CLERK

FINDING 06.10 **THE OFFICE HAD DEFICIENCIES IN MAINTAINING THE EXECUTION DOCKET TRIAL BALANCE REPORT** (A. through D. Internal Control – Reportable Condition Under Government Auditing Standards; E. Noncompliance Under Government Auditing Standards)

Our examination disclosed the following deficiencies:

- A. During the year there were several cases for the collection of bad checks where office employees paid the litigant before receiving the restitution, resulting in these cases reporting overpaid or negative balances. However, as of June 30, 2006, the restitution was received in each of these cases.
- B. In some instances, the office issued manual checks and later entered these checks into the computer system to be posted to the general ledger; however, the computer system did not automatically post these transactions to the docket trial balance report. As a result, several cases were misstated on the docket trial balance report.
- C. When a check was voided in the general ledger, the computer system did not automatically post this entry to the docket trial balance report, resulting in several cases' balances being misstated.
- D. The docket trial balance was not prepared and reconciled with general ledger accounts on a monthly basis. As a result, errors made on the docket trial balance were not detected and corrected timely.
- E. At June 30, 2006, the general sessions court clerk had prepared a trial balance of execution docket cause balances as required by Section 18-2-103, Tennessee Code Annotated (TCA). However, the trial balance did not reconcile with cash journal accounts by \$19,615. Consequently, we were unable to determine if the clerk had complied with the provisions of the Unclaimed Property Act, Section 66-29-110, TCA. This statute provides that any funds held by the court for more than one year and unclaimed by the owner are considered abandoned. Section 66-29-113, TCA, further requires these funds to be reported and paid to the state Treasurer's Office.

RECOMMENDATION

Employees should ensure that restitution has been received for bad check cases before paying restitution to litigants. Office personnel should ensure that all manual and voided checks are posted properly to the accounting records and reports of the office. The execution docket trial balance should be properly prepared and reconciled with cash journal balances monthly. To comply with state statutes, the clerk should report and pay to the state Treasurer's Office any unclaimed funds held for more than one year.

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

The general sessions court clerk did not report and pay unclaimed funds (old outstanding checks totaling \$15,043.45) to the state Treasurer's Office. The Unclaimed Property Act, Section 66-29-101 et seq., Tennessee Code Annotated, provides that any funds held for more than one year and unclaimed by the owner are considered abandoned. 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 Treasurer's Office any unclaimed funds held for more than one year as required by state statute.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 06.12 A CENTRAL SYSTEM OF ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

RECOMMENDATION

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

FINDING 06.13 THE TRUSTEE AND REGISTER ALLOWED INDIVIDUALS UNSUPERVISED ACCESS TO THEIR OFFICES AFTER BUSINESS HOURS
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination disclosed that the trustee and register did not adequately control access to their offices. Individuals who were not office employees had unsupervised access to these offices after business hours. Allowing persons who are not employees to have unsupervised access to an office after business hours seriously weakens internal controls over assets.

RECOMMENDATION

Individuals who are not office employees should not have unsupervised access to these offices after business hours.

FINDING 06.14 **THE TRUSTEE AND COUNTY CLERK DID NOT HAVE AUTHORIZATION FOR DEPUTY HIRES**
(Noncompliance Under Government Auditing Standards)

The trustee and county clerk did not obtain letters of agreement or file suit in Chancery Court to authorize the number and salaries of their deputies. Section 8-20-101, Tennessee Code Annotated, permits these officials to enter into letters of agreement with the county mayor concerning the number and the salaries of their deputies or to file suit in Chancery Court.

RECOMMENDATION

The trustee and county clerk should obtain letters of agreement with the county mayor or petition Chancery Court for the number and salaries of their deputies as required by state statute.

FINDING 06.15 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF TRUSTEE AND SHERIFF**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among officials and employees in the Offices of Trustee and Sheriff. Officials and employees responsible for maintaining accounting records in these offices were also involved in receipting, depositing, reconciling daily business, posting entries to the cash journal, and/or reconciling bank statements. 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.

FINDING 06.16 THE COUNTY USED A QUESTIONABLE METHOD OF FUNDING RURAL FIRE PROTECTION
(Material Noncompliance Under Government Auditing Standards)

Tennessee statutes provide that if a city offers fire protection, the county can offer fire protection outside those city limits in one of three ways:

- A. The county can appropriate funds to nonprofit volunteer fire departments.

- B. The county legislative body may establish a county-wide fire department and fund the department by either (1) establishing fire tax districts and levying an annual fire tax upon the property owners in each district sufficient to pay that district's share of the total budget of a county-wide fire department, or (2) as an alternative to fire tax districts, fire protection for unincorporated portions of the county can be funded with General Fund revenues generated from situs-based taxes that have already been shared with the cities and from contributions made to the county.

- C. The county can enter into an interlocal agreement with a municipality to provide fire protection to areas outside the municipality.

All incorporated cities or towns located in McNairy County, Tennessee, provide fire protection to citizens living within their city limits. McNairy County provides fire protection to citizens outside the incorporated towns and cities but does not follow any of the above-noted methods. In accordance with a resolution approved by the County Commission on July 14, 2003, the county reimburses the incorporated towns and cities in McNairy County for their purchase of equipment. This reimbursement is based on an allocation formula approved by the County Commission. In addition, the county pays the salary of a county-wide fire chief who coordinates the activities of the rural volunteer fire departments, purchases equipment for the fire chief and rural volunteer fire departments, and pays for maintenance and repair services to vehicles of the volunteer fire departments from the county's General Fund. The county has not established fire tax districts, and the situs-based taxes and contributions the county received and placed into the General Fund were not sufficient to fund the fire department operations paid from the General Fund. Therefore, it appears that McNairy County uses property taxes levied on all county citizens, including those living inside the incorporated towns and cities of McNairy County, to provide fire protection to citizens living outside the incorporated towns and cities.

RECOMMENDATION

McNairy County should provide rural fire protection in a method that complies with state statutes.

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

Federal/Pass-through Agency	Finding Number	Federal CFDA Numbers	Criteria	Explanation	Amount Questioned
U.S. Department of Education:					
Passed through the State					
Department of Education:					
Title I Grants to Local Education Agencies	06.17	84.010	Circular A-133, Section 300 (b), (c)	Reportable condition in internal control, See Finding No. 06.08: Fund cash overdraft.	\$ 0
Special Education - Grants to States		84.027			

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

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

Office of Director of Schools – Corrective Action Plan for Current Year Findings

FINDINGS 06.08 and 06.17

Contact Person: Charlie Miskelly, Director of Schools

Corrective action planned: Checks will not be written in advance, department personnel will request reimbursements of federal projects in a timely manner, and accounting personnel will calculate reserve balances for the various federal projects.

Anticipated completion date: 2006-07