

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

SINGLE AUDIT REPORT



FOR THE YEAR ENDED JUNE 30, 2007



ANNUAL FINANCIAL REPORT
CLAY COUNTY, TENNESSEE
FOR THE YEAR ENDED JUNE 30, 2007

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State Auditors

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

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Audit Highlights

Annual Financial Report
Clay County, Tennessee
For the Year Ended June 30, 2007

Scope

We have audited the financial statements of each major fund and the aggregate remaining fund information of Clay County as of and for the year ended June 30, 2007.

Results

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

Our audit resulted in 14 findings and recommendations, which we have reviewed with Clay County management. Detailed findings, recommendations, and management's responses are included in the Single Audit Report.

Findings

The following are summaries of the audit findings:

CLAY COUNTY

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

OFFICE OF COUNTY MAYOR

- ◆ Inventory records were not maintained for assets owned by the general county government as required by generally accepted accounting principles.
 - ◆ The office had not established a formal purchase order system, and several invoices were paid without documentation that goods had been received and/or services had been rendered. Also, the County Commission had not adopted formal policies and procedures governing travel reimbursements for county employees.
 - ◆ Certain financial activity of the Clay County Public Library was not audited, and the library was not subject to budgetary control of the County Commission.
 - ◆ Tax anticipation notes totaling \$130,000 had not been retired in compliance with state statutes.
 - ◆ Old outstanding warrants (\$9,152) held in the General Fund were not reported and paid as unclaimed property to the state as required by state statute.
-

OFFICE OF ROAD SUPERINTENDENT

- ◆ The office had not established a formal purchase order system.
 - ◆ The road superintendent did not prepare and submit a list of county roads to the County Commission as required by state statute.
 - ◆ The office did not maintain adequate controls over fuel and rock.
-

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

- ◆ Accounting records were not maintained in accordance with generally accepted accounting principles. These deficiencies were so numerous and significant that we were unable to determine the propriety of the transactions reflected in the financial statements of this report for both Circuit and General Sessions Courts. Bank statements were not reconciled with the general ledger. Short-term accounts did not reconcile with the general ledger. Furthermore, the execution docket trial balances for Circuit and General Sessions Courts did not reconcile with the general ledgers by substantial amounts.
-

OFFICE OF CLERK AND MASTER

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

OFFICE OF SHERIFF

- ◆ The Sheriff's Department did not submit fingerprints of all persons arrested to the Tennessee Bureau of Investigation (TBI) as required by Section 8-4-109, Tennessee Code Annotated.
-

OTHER FINDINGS

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

INTRODUCTORY SECTION

Clay County Officials
June 30, 2007

Officials

Dale Reagan, County Mayor
Ernest Garrison, Road Superintendent
Charlie Key, Trustee
Billy Smith, Assessor of Property
Patricia Hix, County Clerk
Susan Birdwell, Circuit and General Sessions Courts Clerk
Corinne McLerran, Clerk and Master
Brenda Browning, Register
James Storie, Sheriff

Board of County Commissioners

Dale Reagan, Chairman
Arlis Allen
Michael Boles
Denzil Cherry
Bryan Coons
Dorothy Forney
Roger Gray
Cecil Langford
Timmie Scott
Beverly Young
Winton Young

FINANCIAL SECTION



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

INDEPENDENT AUDITOR'S REPORT

October 5, 2007

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

To the County Mayor and Board of County Commissioners:

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Clay County, Tennessee, as of and for the year ended June 30, 2007, as shown on pages 15 through 35, which collectively comprise a portion of the county's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Clay County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

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

In our opinion, because of the effects of the matters discussed in the two preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Clay County, Tennessee, as of June 30, 2007, or the changes in its financial position for the year then ended.

However, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Clay County, Tennessee, as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting prescribed by the Comptroller of the Treasury of the State of Tennessee.

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

The budgetary comparison and pension information on pages 39 through 45 are not required parts of the basic financial statements but they do provide supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Very truly yours,

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

John G. Morgan
Comptroller of the Treasury

JGM/rc

BASIC FINANCIAL STATEMENTS

Exhibit A

Clay County, Tennessee
 Balance Sheet
 Governmental Funds
 June 30, 2007

	Major Funds				Nonmajor	Total
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Governmental Funds	
<u>ASSETS</u>						
Cash	\$ 0	\$ 0	\$ 0	\$ 0	\$ 35,420	\$ 35,420
Equity in Pooled Cash and Investments	562,759	126,847	402,775	648,295	76,646	1,817,322
Accounts Receivable	0	16,604	0	0	72	16,676
Allowance for Uncollectibles	0	(7,085)	0	0	0	(7,085)
Due from Other Governments	73,109	0	219,104	0	0	292,213
Property Taxes Receivable	902,138	408,110	0	32,219	0	1,342,467
Allowance for Uncollectible Property Taxes	(27,450)	(12,418)	0	(980)	0	(40,848)
Notes Receivable - Current	130,000	0	0	0	0	130,000
Total Assets	\$ 1,640,556	\$ 532,058	\$ 621,879	\$ 679,534	\$ 112,138	\$ 3,586,165
<u>LIABILITIES AND FUND BALANCES</u>						
<u>Liabilities</u>						
Accrued Payroll	\$ 1,539	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,539
Payroll Deductions Payable	75	0	0	0	0	75
Due to Litigants, Heirs, and Others	0	0	0	0	238	238
Tax Anticipation Notes Payable	0	130,000	0	0	0	130,000
Deferred Revenue - Current Property Taxes	828,289	374,702	0	29,582	0	1,232,573
Deferred Revenue - Delinquent Property Taxes	44,581	20,168	0	1,592	0	66,341
Other Deferred Revenues	30,455	2,040	109,552	0	0	142,047
Total Liabilities	\$ 904,939	\$ 526,910	\$ 109,552	\$ 31,174	\$ 238	\$ 1,572,813
<u>Fund Balances</u>						
Reserved for Alcohol and Drug Treatment	\$ 3,169	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,169
Reserved for Sexual Offender Registration	300	0	0	0	0	300
Reserved for Courtroom Security	173	0	0	0	0	173
Reserved for Computer System - Register	8,346	0	0	0	0	8,346
Reserved for Automation Purposes - Circuit Court	156	0	0	0	0	156
Reserved for Automation Purposes - General Sessions Court	1,106	0	0	0	0	1,106
Reserved for Automation Purposes - Chancery Court	402	0	0	0	0	402
Reserved for Other General Purposes	130,000	0	0	0	0	130,000
Unreserved, Reported In:						
General Fund	591,965	0	0	0	0	591,965

(Continued)

Exhibit A

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

LIABILITIES AND FUND BALANCES (Cont.)

Fund Balances (Cont.)

Unreserved, Reported In (Cont.):

Special Revenue Funds

Debt Service Funds

Total Fund Balances

Total Liabilities and Fund Balances

	Major Funds			Nonmajor	Total
	General	Solid Waste / Sanitation	Highway / Public Works	Other Governmental Funds	
	\$ 0	\$ 5,148	\$ 512,327	\$ 0	\$ 629,375
	0	0	0	648,360	648,360
	\$ 735,617	\$ 5,148	\$ 512,327	\$ 648,360	\$ 2,013,352
	\$ 1,640,556	\$ 532,058	\$ 621,879	\$ 679,534	\$ 3,586,165

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

Exhibit B

Clay County, Tennessee
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	Major Funds				Nonmajor Funds		Total Governmental Funds
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern- mental Funds		
Revenues							
Local Taxes	\$ 1,616,747	\$ 380,127	\$ 0	\$ 61,839	\$ 1,340	\$	2,060,053
Licenses and Permits	4,147	0	0	0	0		4,147
Fines, Forfeitures, and Penalties	40,643	0	0	0	41,697		82,340
Charges for Current Services	16,135	61,060	0	0	169,347		246,542
Other Local Revenues	21,117	32,673	5,400	101,716	19,595		180,501
Fees Received from County Officials	179,855	0	0	0	0		179,855
State of Tennessee	499,532	4,000	1,460,614	0	0		1,964,146
Federal Government	433,406	0	0	0	0		433,406
Other Governments and Citizens Groups	6,538	0	0	0	0		6,538
Total Revenues	\$ 2,818,120	\$ 477,860	\$ 1,466,014	\$ 163,555	\$ 231,979	\$	5,157,528
Expenditures							
Current:							
General Government	\$ 495,609	\$ 0	\$ 0	\$ 0	\$ 3,487	\$	499,096
Finance	115,251	0	0	0	159,834		275,085
Administration of Justice	268,734	0	0	0	5,000		273,734
Public Safety	844,204	0	0	0	14,841		859,045
Public Health and Welfare	245,326	419,998	0	0	0		665,324
Social, Cultural, and Recreational Services	111,725	0	0	0	0		111,725
Agricultural and Natural Resources	119,811	0	0	0	0		119,811
Other Operations	761,386	8,259	0	0	106		769,751
Highways	45,376	0	1,431,235	0	0		1,476,611
Debt Service:							
Principal on Debt	5,970	0	0	200,000	0		205,970
Interest on Debt	14,687	0	0	0	0		14,687
Other Debt Service	116	0	0	1,706	0		1,822
Total Expenditures	\$ 3,028,195	\$ 428,257	\$ 1,431,235	\$ 201,706	\$ 183,268	\$	5,272,661
Excess (Deficiency) of Revenues Over Expenditures	\$ (210,075)	\$ 49,603	\$ 34,779	\$ (38,151)	\$ 48,711	\$	(115,133)
Other Financing Sources (Uses)							
Insurance Recovery	\$ 11,675	\$ 1,580	\$ 1,350	\$ 0	\$ 0	\$	14,605
Total Other Financing Sources (Uses)	\$ 11,675	\$ 1,580	\$ 1,350	\$ 0	\$ 0	\$	14,605

(Continued)

Exhibit B

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

	Major Funds				Nonmajor Funds	Total Governmental Funds
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern- mental Funds	
Net Change in Fund Balances	\$ (198,400)	\$ 51,183	\$ 36,129	\$ (38,151)	\$ 48,711	\$ (100,528)
Fund Balance, July 1, 2006	934,017	(46,035)	476,198	686,511	63,189	2,113,880
Fund Balance, June 30, 2007	\$ 735,617	\$ 5,148	\$ 512,327	\$ 648,360	\$ 111,900	\$ 2,013,352

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

Exhibit C

Clay County, Tennessee
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2007

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash	\$ 175,866
Due from Other Governments	<u>46,178</u>
Total Assets	<u>\$ 222,044</u>
<u>LIABILITIES</u>	
Due to Other Taxing Units	\$ 46,178
Due to Litigants, Heirs, and Others	<u>175,866</u>
Total Liabilities	<u>\$ 222,044</u>

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

CLAY COUNTY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Clay County has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities and discretely presented component units. The two government-wide financial statements, the statement of net assets and the statement of activities, should be included in the basic financial statements to conform with the provisions of GASB Statement No. 34 and accounting principles generally accepted in the United States of America. Clay County has elected instead only to implement the provisions of the statement and other accounting principles generally accepted in the United States of America that relate to the fund financial statements. This departure from GAAP results in an incomplete presentation and has caused Clay County's auditor to issue an adverse opinion on the county's financial statements.

Although Clay County's financial statements are not presented in conformity with GAAP, the financial statements have been presented in conformity with financial reporting standards adopted by the Comptroller of the Treasury of the State of Tennessee. The Comptroller of the Treasury has adopted financial reporting standards for local governments in Tennessee that do not implement the provisions of GASB Statement No. 34. These standards require fund financial statements that are presented in conformity with all the provisions of GASB Statement No. 34 that are applicable to fund financial statements, including the notes to the financial statements. These standards also require the fund financial statements to be presented in conformity with all other accounting principles generally accepted in the United States of America that are applicable to fund financial statements, including the notes to the financial statements.

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

A. Reporting Entity

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

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

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

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

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

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

The Clay County School Department and the Clay County Emergency Communications District issue separate financial statements from those of the county. The School Department's financial statements are published as a separate report but under the same cover as the county's financial statements. The Clay County Emergency Communications District's financial statements are published as a separate report. Complete financial statements of the Clay County Emergency Communications District can be obtained from its administrative office at the following address:

Administrative Office:

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

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

Fund financial statements of Clay County are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. However, Clay County does not have any proprietary funds to report. An emphasis is placed on major funds within the governmental category.

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

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

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

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds which have no measurement focus. Revenues are recognized when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Clay County reports the following major governmental funds:

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

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

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

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

Additionally, Clay County reports the following fund type:

Agency Funds – These funds account for amounts collected in an agency capacity by the constitutional officers and local sales taxes received by the state to be forwarded to the various cities in Clay County. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. They do, however, use the accrual basis of accounting to recognize receivables and payables.

C. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

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

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

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as Notes Receivable in the fund financial statements and are offset by a fund balance reserve to indicate that they are not available for current appropriation and are not expendable available financial resources.

All solid waste and property taxes receivable are shown with an allowance for uncollectibles. Solid waste receivables allowance for uncollectibles is based on historical collection data. The allowance for uncollectible property taxes is equal to 1.63 percent of total taxes levied.

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

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

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

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

3. Capital Assets

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

4. Compensated Absences

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

5. Long-term Obligations

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

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

6. Fund Equity

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all governmental funds except the

Constitutional Officers – Fees Fund (special revenue fund) which is not budgeted. All annual appropriations lapse at fiscal year end.

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

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

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

B. Tax Anticipation Notes Were Not Retired In Compliance With State Statute

In the prior year, the Solid Waste/Sanitation Fund borrowed \$60,000 from the General Fund to provide cash for operations. This note should have been retired by June 30, 2006, but was still outstanding as of June 30, 2007. In the current year, the Solid Waste/Sanitation Fund borrowed \$70,000 from the General Fund for operations. This tax anticipation note was not retired by June 30, 2007. Section 9-21-801, Tennessee Code Annotated, allows the County Commission to issue tax anticipation notes with the approval of the state director of Local Finance provided the notes are retired prior to the end of the fiscal year issued. These notes have been reflected in the financial statements of this report as notes receivable in the General Fund and notes payable in the Solid Waste/Sanitation Fund.

C. Expenditures Exceeded Appropriations

Solid Waste/Sanitation Fund expenditures exceeded appropriations approved by the County Commission in the Other Operations major appropriation category (the legal level of control) by \$3,259. Such overexpenditures are a violation of state statutes. These overexpenditures were funded by available fund balance.

D. Appropriations Exceeded Estimated Available Funds

Appropriations of the Solid Waste/Sanitation Fund exceeded estimated available funds by \$2,708.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

Deposits

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

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

Investments

Legal Provisions. Counties are authorized to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations

guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; and the county's own legally issued bonds or notes. These investments may not have a maturity greater than two years. The county may make investments with longer maturities if various restrictions set out in state law are followed. Counties are also authorized to make investments in the State Treasurer's Investment Pool and in repurchase agreements. Repurchase agreements must be approved by the state director of Local Finance and executed in accordance with procedures established by the State Funding Board. Securities purchased under a repurchase agreement must be obligations of the U.S. government, or obligations guaranteed by the U.S. government, or any of its agencies. When repurchase agreements are executed, the purchase of the securities must be priced at least two percent below the market value of the securities on the day of purchase. Clay County had no pooled or nonpooled investments at June 30, 2007.

B. Capital Lease

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

Since Clay County is presenting fund financial statements only, the present value of minimum lease payments under the lease agreements has not been reported as a liability in the financial statements of the governmental funds. Long-term debt for governmental funds is required to be reported as a liability in the government-wide financial statements, but Clay County is not presenting government-wide financial statements. Future minimum lease payments and the net present value of these minimum lease payments as of June 30, 2007, were as follows:

<u>Year Ending June 30</u>	<u>Governmental Funds</u>
2008	\$ 9,256
2009	9,257
2010	9,256
2011	9,257
2012	9,257
2013-2016	30,085
Total Minimum Lease Payments	<u>\$ 76,368</u>
Less: Amount Representing Interest	<u>(13,897)</u>
Present Value of Minimum Lease Payments	<u><u>\$ 62,471</u></u>

C. Long-term Debt

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

Other Loans

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

The county's other loan is a direct obligation and pledges the full faith and credit of the government. The other loan outstanding was issued for an original term of 27 years. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. The other loan included in long-term debt as of June 30, 2007, will be retired from the General Debt Service Fund.

The other loan and capital lease outstanding as of June 30, 2007, are as follows:

Type	Interest Rate	Original Amount of Issue	Balance 6-30-07
Other Loan	variable	\$ 227,133	\$ 27,133
Capital Lease	5%	72,727	62,471

During 2005-2006, Clay County entered into a loan agreement with the Montgomery County Public Building Authority. This loan agreement provided for the authority to make \$2,000,000 available for loan to Clay County on an as-needed basis for various renovation and construction projects and to purchase solid waste equipment. As of June 30, 2007, Clay County had borrowed \$227,133 of this loan. This loan is repayable at an interest rate that is a tax-exempt variable rate determined by the remarketing agent daily or weekly, depending on the particular program. In addition, the county pays various other fees (trustee, letter of credit, and debt remarketing) in connection with this loan. At June 30, 2007, the variable interest rate was 3.87 percent, and other fees amounted to approximately .44 percent (letter of credit), .02 percent (remarketing), and a trustee fee of \$85 per month.

The annual requirements to amortize the other loan outstanding as of June 30, 2007, including interest payments and other loan fees, are presented in the following table:

Year Ending June 30	Other Loan			Total
	Principal	Interest	Other Fees	
2008	\$ 27,133	\$ 1,050	\$ 1,146	\$ 29,329
Total	\$ 27,133	\$ 1,050	\$ 1,146	\$ 29,329

There is \$648,360 available in the General Debt Service Fund to service long-term debt. Debt per capita totaled \$11, based on the 2000 federal census.

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

Governmental Activities:

	Capital Leases	Other Loan
Balance, July 1, 2006	\$ 75,761	\$ 227,133
Deductions	(13,290)	(200,000)
Balance, June 30, 2007	<u>\$ 62,471</u>	<u>\$ 27,133</u>
Balance Due Within One Year	<u>\$ 6,275</u>	<u>\$ 27,133</u>

D. Short-term Debt

In the prior year, the General Fund loaned \$60,000 (tax anticipation note) to the Solid Waste/Sanitation Fund. This loan should have been retired by June 30, 2006; however, the note remained unpaid as of June 30, 2007; therefore, this loan has been reflected in the financial statements of this report as a current note receivable in the General Fund and a tax anticipation note payable in the Solid Waste/Sanitation Fund.

During the current year, the General Fund loaned an additional \$70,000 (tax anticipation note) to the Solid Waste/Sanitation Fund. This note was necessary because funds were not available to meet current expenditures coming due before current tax collections. This loan should have been retired by June 30, 2007; however, the note remained unpaid as of June 30, 2007; therefore, this loan has been reflected in the financial statements of this report as a current note receivable in the General Fund and a tax anticipation note payable in the Solid Waste/Sanitation Fund.

Short-term debt activity for the year ended June 30, 2007, was as follows:

	Balance		Balance	
	7-1-06	Issued	Redeemed	6-30-07
Tax Anticipation	\$ 60,000	\$ 70,000	\$ 0	\$ 130,000
Revenue Anticipation	4,920	0	(4,920)	0
Total	<u>\$ 64,920</u>	<u>\$ 70,000</u>	<u>\$ (4,920)</u>	<u>\$ 130,000</u>

IV. OTHER INFORMATION

A. Risk Management

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

B. Subsequent Event

On October 1, 2007, the Clay County Commission voted to forgive \$130,000 in notes payable to the General Fund from the Solid Waste/Sanitation Fund. This amount represents interfund tax anticipation notes issued in the prior year (\$60,000) and the current year (\$70,000) which were outstanding at June 30, 2007.

C. Contingent Liabilities

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

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

D. Changes in Administration

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

E. Joint Venture

The Tri-County Vocational School Board operates the Cooperative Vocational School, which is jointly owned by Clay, Jackson, and Macon counties. The board comprises 17 members, 11 of whom are the three directors of schools, three county mayors, and five high school principals from Clay, Jackson, and Macon counties. The remaining six members are each appointed by the three county school boards and county commissions. Clay, Jackson, and Macon counties have control over budgeting and financing the joint venture only to the extent of representation by the six board members appointed. The counties are responsible for funding operations and any deficits from operations based on their participation in the joint venture, which is 24 percent (Clay), 30 percent (Jackson), and 46 percent (Macon); however, the counties do not retain an equity interest in the joint venture. Clay County contributed \$68,592 to the operations of the board during the year. Complete financial statements for the Tri-County Vocational School can be obtained from its administrative office at the following address:

Administrative Office:

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

F. Jointly Governed Organization

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

G. Retirement Commitments

Plan Description

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

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

Funding Policy

Clay County requires employees to contribute five percent of earnable compensation. The county is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2007, was 8.04 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Clay County is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2007, Clay County's annual pension cost of \$208,180 to TCRS was equal to the county's required and actual contributions. The required contribution was determined as part of the July 1, 2005, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include

(a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post-retirement increases of three percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Clay County's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2005, was 19 years. An actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 2006.

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6-30-07	\$208,180	100%	\$0
6-30-06	145,763	100	0
6-30-05	131,689	100	0

H. Purchasing Laws

Office of County Mayor

Purchasing procedures for the Office of County Mayor are governed by the County Purchasing Law of 1983, Sections 5-14-201 through 5-14-206, Tennessee Code Annotated (TCA), which provide for all purchases exceeding \$5,000 (\$10,000 effective May 10, 2007) to be made after public advertisement and solicitation of competitive bids.

Office of Road Superintendent

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

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit D-1

Clay County, Tennessee
 Schedule of Revenues, Expenditures, and Changes
 in Fund Balance - Actual and Budget
 General Fund
 For the Year Ended June 30, 2007

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 1,616,747	\$ 1,601,872	\$ 1,601,872	\$ 14,875
Licenses and Permits	4,147	3,000	3,000	1,147
Fines, Forfeitures, and Penalties	40,643	22,134	22,134	18,509
Charges for Current Services	16,135	5,500	5,500	10,635
Other Local Revenues	21,117	16,000	16,800	4,317
Fees Received from County Officials	179,855	130,300	130,300	49,555
State of Tennessee	499,532	295,330	307,330	192,202
Federal Government	433,406	111,600	413,551	19,855
Other Governments and Citizens Groups	6,538	0	0	6,538
Total Revenues	\$ 2,818,120	\$ 2,185,736	\$ 2,500,487	\$ 317,633
<u>Expenditures</u>				
<u>General Government</u>				
County Commission	\$ 31,448	\$ 39,006	\$ 38,606	\$ 7,158
Board of Equalization	1,000	1,050	1,050	50
Beer Board	396	225	625	229
County Mayor/Executive	115,188	163,658	118,539	3,351
County Attorney	3,600	3,600	3,600	0
Election Commission	181,344	169,686	185,336	3,992
Register of Deeds	72,411	74,368	74,368	1,957
County Buildings	90,222	89,362	99,233	9,011
<u>Finance</u>				
Property Assessor's Office	84,997	38,511	85,080	83
County Trustee's Office	11,162	10,957	26,940	15,778
County Clerk's Office	19,092	20,000	20,000	908
<u>Administration of Justice</u>				
Circuit Court	135,853	137,818	137,818	1,965
General Sessions Court	61,455	61,455	61,455	0
Chancery Court	50,404	50,419	50,419	15
Juvenile Court	10,642	10,973	10,973	331
Judicial Commissioners	10,380	10,412	10,412	32
<u>Public Safety</u>				
Sheriff's Department	656,921	642,378	658,919	1,998
Drug Enforcement	27,782	20,000	27,782	0
Jail	83,874	81,079	96,079	12,205
Correctional Incentive Program Improvements	1,600	7,200	7,200	5,600
Fire Prevention and Control	38,872	37,268	39,177	305
Rescue Squad	4,136	2,500	4,570	434
Other Emergency Management	23,269	22,000	24,232	963
County Coroner/Medical Examiner	7,750	12,000	12,000	4,250
<u>Public Health and Welfare</u>				
Local Health Center	46,809	28,000	51,151	4,342
Ambulance/Emergency Medical Services	190,500	174,000	190,500	0

(Continued)

Exhibit D-1

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Expenditures (Cont.)</u>				
<u>Public Health and Welfare (Cont.)</u>				
Crippled Children Services	\$ 700	\$ 700	\$ 700	\$ 0
Other Local Health Services	3,288	10,800	10,800	7,512
Appropriation to State	4,029	10,600	4,029	0
<u>Social, Cultural, and Recreational Services</u>				
Senior Citizens Assistance	42,495	48,046	48,046	5,551
Libraries	63,494	63,827	63,827	333
Other Social, Cultural, and Recreational	5,736	12,500	8,526	2,790
<u>Agriculture & Natural Resources</u>				
Agriculture Extension Service	83,844	74,073	83,886	42
Forest Service	1,000	1,000	1,000	0
Soil Conservation	34,967	40,324	40,324	5,357
<u>Other Operations</u>				
Tourism	5,917	6,924	6,924	1,007
Industrial Development	1,317	29,500	2,091	774
Other Economic and Community Development	337,151	24,000	337,925	774
Other Charges	119,484	116,000	119,842	358
Contributions to Other Agencies	68,692	70,091	70,091	1,399
Employee Benefits	228,825	195,880	230,880	2,055
<u>Highways</u>				
Litter and Trash Collection	45,376	49,356	49,356	3,980
<u>Principal on Debt</u>				
General Government	5,970	0	5,970	0
<u>Interest on Debt</u>				
General Government	14,687	0	14,687	0
<u>Other Debt Service</u>				
General Government	116	0	116	0
Total Expenditures	\$ 3,028,195	\$ 2,661,546	\$ 3,135,084	\$ 106,889
Excess (Deficiency) of Revenues				
Over Expenditures	\$ (210,075)	\$ (475,810)	\$ (634,597)	\$ 424,522
<u>Other Financing Sources (Uses)</u>				
Insurance Recovery	\$ 11,675	\$ 0	\$ 11,234	\$ 441
Total Other Financing Sources (Uses)	\$ 11,675	\$ 0	\$ 11,234	\$ 441
Net Change in Fund Balance				
Fund Balance, July 1, 2006	\$ 934,017	\$ 1,133,346	\$ 1,133,346	\$ (199,329)
Fund Balance, June 30, 2007	\$ 735,617	\$ 657,536	\$ 509,983	\$ 225,634

Exhibit D-2

Clay County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Solid Waste/Sanitation Fund
For the Year Ended June 30, 2007

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 380,127	\$ 414,204	\$ 414,204	\$ (34,077)
Charges for Current Services	61,060	80,000	80,000	(18,940)
Other Local Revenues	32,673	9,000	9,000	23,673
State of Tennessee	4,000	25,000	25,000	(21,000)
Total Revenues	<u>\$ 477,860</u>	<u>\$ 528,204</u>	<u>\$ 528,204</u>	<u>\$ (50,344)</u>
<u>Expenditures</u>				
<u>Public Health and Welfare</u>				
Waste Pickup	\$ 419,998	\$ 474,245	\$ 478,645	\$ 58,647
<u>Other Operations</u>				
Other Charges	8,259	5,000	5,000	(3,259)
Total Expenditures	<u>\$ 428,257</u>	<u>\$ 479,245</u>	<u>\$ 483,645</u>	<u>\$ 55,388</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 49,603</u>	<u>\$ 48,959</u>	<u>\$ 44,559</u>	<u>\$ 5,044</u>
<u>Other Financing Sources (Uses)</u>				
Insurance Recovery	\$ 1,580	\$ 0	\$ 0	\$ 1,580
Total Other Financing Sources (Uses)	<u>\$ 1,580</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,580</u>
Net Change in Fund Balance	\$ 51,183	\$ 48,959	\$ 44,559	\$ 6,624
Fund Balance, July 1, 2006	(46,035)	(47,267)	(47,267)	1,232
Fund Balance, June 30, 2007	<u>\$ 5,148</u>	<u>\$ 1,692</u>	<u>\$ (2,708)</u>	<u>\$ 7,856</u>

Exhibit D-3

Clay County, Tennessee
 Schedule of Revenues, Expenditures, and Changes
 in Fund Balance - Actual and Budget
 Highway/Public Works Fund
 For the Year Ended June 30, 2007

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 0	\$ 5,800	\$ 5,800	\$ (5,800)
Other Local Revenues	5,400	0	0	5,400
State of Tennessee	1,460,614	1,390,909	1,398,849	61,765
Total Revenues	\$ 1,466,014	\$ 1,396,709	\$ 1,404,649	\$ 61,365
<u>Expenditures</u>				
<u>Highways</u>				
Administration	\$ 97,404	\$ 103,229	\$ 103,489	\$ 6,085
Highway and Bridge Maintenance	955,641	1,150,900	1,152,883	197,242
Operation and Maintenance of Equipment	164,140	206,600	208,850	44,710
Other Charges	110,784	109,709	113,156	2,372
Employee Benefits	58,870	66,985	66,985	8,115
Capital Outlay	44,396	170,000	170,000	125,604
Total Expenditures	\$ 1,431,235	\$ 1,807,423	\$ 1,815,363	\$ 384,128
Excess (Deficiency) of Revenues Over Expenditures	\$ 34,779	\$ (410,714)	\$ (410,714)	\$ 445,493
<u>Other Financing Sources (Uses)</u>				
Insurance Recovery	\$ 1,350	\$ 0	\$ 0	\$ 1,350
Total Other Financing Sources (Uses)	\$ 1,350	\$ 0	\$ 0	\$ 1,350
Net Change in Fund Balance	\$ 36,129	\$ (410,714)	\$ (410,714)	\$ 446,843
Fund Balance, July 1, 2006	476,198	440,457	440,457	35,741
Fund Balance, June 30, 2007	\$ 512,327	\$ 29,743	\$ 29,743	\$ 482,584

Exhibit D-4

Clay County, Tennessee
Schedule of Funding Progress – Pension Plan
June 30, 2007

Required Supplementary Information
Schedule of Funding Progress for Clay County

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6-30-05	\$ 3,564	\$ 3,826	\$ 262	93.16 %	\$ 2,011	13.02 %
6-30-03	3,078	3,352	274	91.83	1,684	16.27
6-30-01	2,693	3,005	312	89.62	1,566	19.92

CLAY COUNTY, TENNESSEE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2007

A. BUDGETARY INFORMATION

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

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

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

B. EXPENDITURES EXCEEDED APPROPRIATIONS

Solid Waste/Sanitation Fund expenditures exceeded appropriations approved by the County Commission in the Other Operations major appropriation category (the legal level of control) by \$3,259. Such overexpenditures are a violation of state statutes. These overexpenditures were funded by available fund balance.

C. APPROPRIATIONS EXCEEDED ESTIMATED AVAILABLE FUNDS

Appropriations of the Solid Waste/Sanitation Fund exceeded estimated available funds by \$2,708.

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

Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

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

Exhibit E-1

Clay County, Tennessee
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

		<u>Special Revenue Funds</u>			
		Courthouse and Jail Maintenance	Drug Control	Constitu - tional Officers - Fees	Total Nonmajor Governmental Funds
<u>ASSETS</u>					
Cash		\$ 0	\$ 0	\$ 35,420	\$ 35,420
Equity in Pooled Cash and Investments		7,360	69,286	0	76,646
Accounts Receivable		0	0	72	72
Total Assets		<u>\$ 7,360</u>	<u>\$ 69,286</u>	<u>\$ 35,492</u>	<u>\$ 112,138</u>
<u>LIABILITIES AND FUND BALANCES</u>					
<u>Liabilities</u>					
Due to Litigants, Heirs and Others		\$ 0	\$ 0	\$ 238	\$ 238
Total Liabilities		<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 238</u>	<u>\$ 238</u>
<u>Fund Balances</u>					
Unreserved		\$ 7,360	\$ 69,286	\$ 35,254	\$ 111,900
Total Fund Balances		<u>\$ 7,360</u>	<u>\$ 69,286</u>	<u>\$ 35,254</u>	<u>\$ 111,900</u>
Total Liabilities and Fund Balances		<u>\$ 7,360</u>	<u>\$ 69,286</u>	<u>\$ 35,492</u>	<u>\$ 112,138</u>

Exhibit E-2

Clay County, Tennessee
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2007

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Courthouse and Jail Maintenance	Drug Control	Constitu - tional Officers - Fees	
<u>Revenues</u>				
Local Taxes	\$ 1,340	\$ 0	\$ 0	\$ 1,340
Fines, Forfeitures, and Penalties	0	41,697	0	41,697
Charges for Current Services	0	0	169,347	169,347
Other Local Revenues	0	19,595	0	19,595
Total Revenues	<u>\$ 1,340</u>	<u>\$ 61,292</u>	<u>\$ 169,347</u>	<u>\$ 231,979</u>
<u>Expenditures</u>				
Current:				
General Government	\$ 3,487	\$ 0	\$ 0	\$ 3,487
Finance	0	0	159,834	159,834
Administration of Justice	0	0	5,000	5,000
Public Safety	0	14,933	0	14,933
Other Operations	14	0	0	14
Total Expenditures	<u>\$ 3,501</u>	<u>\$ 14,933</u>	<u>\$ 164,834</u>	<u>\$ 183,268</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (2,161)</u>	<u>\$ 46,359</u>	<u>\$ 4,513</u>	<u>\$ 48,711</u>
Net Change in Fund Balances	\$ (2,161)	\$ 46,359	\$ 4,513	\$ 48,711
Fund Balance, July 1, 2006	9,521	22,927	30,741	63,189
Fund Balance, June 30, 2007	<u>\$ 7,360</u>	<u>\$ 69,286</u>	<u>\$ 35,254</u>	<u>\$ 111,900</u>

Exhibit E-3

Clay County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Courthouse & Jail Maintenance Fund
For the Year Ended June 30, 2007

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 1,340	\$ 1,100	\$ 1,100	\$ 240
Total Revenues	\$ 1,340	\$ 1,100	\$ 1,100	\$ 240
<u>Expenditures</u>				
<u>General Government</u>				
County Buildings	\$ 3,487	\$ 3,600	\$ 3,600	\$ 113
<u>Other Operations</u>				
Other Charges	14	15	15	1
Total Expenditures	\$ 3,501	\$ 3,615	\$ 3,615	\$ 114
Excess (Deficiency) of Revenues Over Expenditures	\$ (2,161)	\$ (2,515)	\$ (2,515)	\$ 354
Net Change in Fund Balance	\$ (2,161)	\$ (2,515)	\$ (2,515)	\$ 354
Fund Balance, July 1, 2006	9,521	8,495	8,495	1,026
Fund Balance, June 30, 2007	\$ 7,360	\$ 5,980	\$ 5,980	\$ 1,380

Exhibit E-4

Clay County, Tennessee
 Schedule of Revenues, Expenditures, and Changes
 in Fund Balance - Actual and Budget
 Drug Control Fund
 For the Year Ended June 30, 2007

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Fines, Forfeitures, and Penalties	\$ 41,697	\$ 14,600	\$ 14,600	\$ 27,097
Other Local Revenues	19,595	50	50	19,545
Total Revenues	<u>\$ 61,292</u>	<u>\$ 14,650</u>	<u>\$ 14,650</u>	<u>\$ 46,642</u>
<u>Expenditures</u>				
<u>Public Safety</u>				
Drug Enforcement	\$ 14,933	\$ 11,800	\$ 15,006	\$ 73
Total Expenditures	<u>\$ 14,933</u>	<u>\$ 11,800</u>	<u>\$ 15,006</u>	<u>\$ 73</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 46,359</u>	<u>\$ 2,850</u>	<u>\$ (356)</u>	<u>\$ 46,715</u>
Net Change in Fund Balance	\$ 46,359	\$ 2,850	\$ (356)	\$ 46,715
Fund Balance, July 1, 2006	<u>22,927</u>	<u>50,624</u>	<u>50,624</u>	<u>(27,697)</u>
Fund Balance, June 30, 2007	<u>\$ 69,286</u>	<u>\$ 53,474</u>	<u>\$ 50,268</u>	<u>\$ 19,018</u>

Major Governmental Fund

General Debt Service Fund

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

Exhibit F

Clay County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
General Debt Service Fund
For the Year Ended June 30, 2007

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 61,839	\$ 57,024	\$ 57,024	\$ 4,815
Other Local Revenues	101,716	70,000	70,000	31,716
Total Revenues	<u>\$ 163,555</u>	<u>\$ 127,024</u>	<u>\$ 127,024</u>	<u>\$ 36,531</u>
<u>Expenditures</u>				
<u>Principal on Debt</u>				
General Government	\$ 200,000	\$ 7,438	\$ 207,438	\$ 7,438
Other Debt Service				
General Government	1,706	2,100	2,100	394
Total Expenditures	<u>\$ 201,706</u>	<u>\$ 9,538</u>	<u>\$ 209,538</u>	<u>\$ 7,832</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (38,151)</u>	<u>\$ 117,486</u>	<u>\$ (82,514)</u>	<u>\$ 44,363</u>
Net Change in Fund Balance	\$ (38,151)	\$ 117,486	\$ (82,514)	\$ 44,363
Fund Balance, July 1, 2006	<u>686,511</u>	<u>686,361</u>	<u>686,361</u>	<u>150</u>
Fund Balance, June 30, 2007	<u>\$ 648,360</u>	<u>\$ 803,847</u>	<u>\$ 603,847</u>	<u>\$ 44,513</u>

Fiduciary Funds

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

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

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

Exhibit G-1

Clay County, Tennessee
Combining Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2007

	<u>Agency Funds</u>		
	Cities - Sales Tax	Constitu- tional Officers - Agency	Total
<u>ASSETS</u>			
Cash	\$ 0	\$ 175,866	\$ 175,866
Due from Other Governments	46,178	0	46,178
Total Assets	<u>\$ 46,178</u>	<u>\$ 175,866</u>	<u>\$ 222,044</u>
<u>LIABILITIES</u>			
Due to Other Taxing Units	\$ 46,178	\$ 0	\$ 46,178
Due to Litigants, Heirs, and Others	0	175,866	175,866
Total Liabilities	<u>\$ 46,178</u>	<u>\$ 175,866</u>	<u>\$ 222,044</u>

Exhibit G-2

Clay County, Tennessee
Combining Statement of Changes in Assets and Liabilities - All Agency Funds
For the Year Ended June 30, 2007

	Beginning Balance	Additions	Deductions	Ending Balance
<u>Cities - Sales Tax Fund</u>				
<u>Assets</u>				
Equity in Pooled Cash and Investments	\$ 0	\$ 270,092	\$ 270,092	\$ 0
Due from Other Governments	49,621	46,178	49,621	46,178
Total Assets	\$ 49,621	\$ 316,270	\$ 319,713	\$ 46,178
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 49,621	\$ 316,270	\$ 319,713	\$ 46,178
Total Liabilities	\$ 49,621	\$ 316,270	\$ 319,713	\$ 46,178
<u>Constitutional Officers - Agency Fund</u>				
<u>Assets</u>				
Cash	\$ 406,058	\$ 4,433,708	\$ 4,663,900	\$ 175,866
Total Assets	\$ 406,058	\$ 4,433,708	\$ 4,663,900	\$ 175,866
<u>Liabilities</u>				
Due to Litigants, Heirs, and Others	\$ 406,058	\$ 4,433,708	\$ 4,663,900	\$ 175,866
Total Liabilities	\$ 406,058	\$ 4,433,708	\$ 4,663,900	\$ 175,866
<u>Totals - All Agency Funds</u>				
<u>Assets</u>				
Equity in Pooled Cash and Investments	\$ 0	\$ 270,092	\$ 270,092	\$ 0
Cash	406,058	4,433,708	4,663,900	175,866
Due from Other Governments	49,621	46,178	49,621	46,178
Total Assets	\$ 455,679	\$ 4,749,978	\$ 4,983,613	\$ 222,044
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 49,621	\$ 316,270	\$ 319,713	\$ 46,178
Due to Litigants, Heirs, and Others	406,058	4,433,708	4,663,900	175,866
Total Liabilities	\$ 455,679	\$ 4,749,978	\$ 4,983,613	\$ 222,044

MISCELLANEOUS SCHEDULES

Exhibit H-1

Clay County, Tennessee
Schedule of Changes in Long-term Capital Leases and Other Loans
For the Year Ended June 30, 2007

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-06	Paid and/or Matured During Period	Outstanding 6-30-07
<u>CAPITAL LEASES PAYABLE</u>							
<u>Payable through General Fund</u>							
Geothermal Heating System	\$ 72,727	5 %	9-1-05	9-15-15	\$ 68,441	\$ 5,970	\$ 62,471
<u>Payable through Solid Waste/Sanitation Fund</u>							
Garbage Truck	149,750	6.36	11-13-00	7-6-06	7,320	7,320	0
Total Capital Leases Payable					\$ 75,761	\$ 13,290	\$ 62,471
<u>OTHER LOANS PAYABLE</u>							
<u>Payable through General Debt Service Fund</u>							
Construction Projects and Solid Waste Equipment	(1)	Variable	4-27-06	5-25-33	\$ 227,133	\$ 200,000	\$ 27,133

(1) Amount available under a loan agreement with the Montgomery County Public Building Authority is \$2,000,000, of which \$227,133 had been received at June 30, 2007.

Exhibit H-2

Clay County, Tennessee
Schedule of Notes Receivable
June 30, 2007

Description/Payee	Debtor	Original Amount of Note	Date of Maturity	Interest Rate	Balance 6-30-07
Tax Anticipation Notes:					
General Fund	Solid Waste/Sanitation Fund	\$ 60,000	6-30-06	0 %	\$ 60,000 (1)
General Fund	Solid Waste/Sanitation Fund	70,000	6-30-07	0	70,000 (2)

(1) The maturity date of this note was June 30, 2006. The director of Local Finance was notified in June 2006, that the note would not be repaid by year end as required by state statutes.

The note was still not retired as of June 30, 2007.

(2) This note was not retired by June 30, 2007, as required by state statutes.

Exhibit H-3

Clay County, Tennessee
Schedule of Salaries and Official Bonds of Principal Officials
For the Year Ended June 30, 2007

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
County Mayor:				
Luke Collins (7-1-06 through 8-31-06)	Section 8-24-102, <u>TCA</u>	\$ 8,964	\$ 25,000	RLI Insurance Company
Dale Reagan (9-1-06 through 6-30-07)	Section 8-24-102, <u>TCA</u>	44,823	25,000	"
Road Superintendent	Section 8-24-102, <u>TCA</u>	51,226	100,000	"
Trustee	Section 8-24-102, <u>TCA</u>	46,569	313,600	"
Assessor of Property	Section 8-24-102, <u>TCA</u>	46,569	10,000	"
County Clerk	Section 8-24-102, <u>TCA</u>	46,569	35,000	"
Circuit Court Clerk:				
Peggy Ballard (7-1-06 through 8-31-06)	Section 8-24-102, <u>TCA</u> and Circuit Court Judge	7,861 (1)	35,000	"
Susan Birdwell (9-1-06 through 6-30-07)	Section 8-24-102, <u>TCA</u> and Circuit Court Judge	39,008 (2)	35,000	"
Clerk and Master	Section 8-24-102, <u>TCA</u> and Chancery Court Judge	51,569 (3)	40,000	"
Register	Section 8-24-102, <u>TCA</u>	46,569	15,000	"
Sheriff:				
Jerry Rhoton (7-1-06 through 8-31-06)	Section 8-24-102, <u>TCA</u>	9,057 (4)	25,000	"
James Storie (9-1-06 through 6-30-07)	Section 8-24-102, <u>TCA</u>	42,688	25,000	"
Employee Blanket Bond Coverage:				
General County Employees			150,000	Local Government Insurance Pool

- (1) Includes traffic school compensation of \$50.
- (2) Includes traffic school compensation of \$250.
- (3) Includes special commissioner fees of \$5,000.
- (4) Includes law enforcement training supplement of \$519.

Exhibit H-4

Clay County, Tennessee
Schedule of Detailed Revenues -
All Governmental Fund Types
For the Year Ended June 30, 2007

	Special Revenue Funds						Debt Service Fund	Total
	General	Courthouse and Jail Maintenance	Solid Waste / Sanitation	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>Local Taxes</u>								
<u>County Property Taxes</u>								
Current Property Tax	\$ 783,514	\$ 0	\$ 355,216	\$ 0	\$ 0	\$ 0	\$ 28,143	\$ 1,166,873
Trustee's Collections - Prior Year	40,964	0	15,360	0	0	0	1,459	57,783
Circuit/Clerk & Master Collections - Prior Years	7,369	0	3,042	0	0	0	271	10,682
Interest and Penalty	6,674	0	2,619	0	0	0	249	9,542
Payments in-Lieu-of Taxes - T.V.A.	39,431	0	0	0	0	0	0	39,431
<u>County Local Option Taxes</u>								
Local Option Sales Tax	273,448	0	0	0	0	0	0	273,448
Wheel Tax	193,240	0	0	0	0	0	0	193,240
Litigation Tax - General	42,887	0	0	0	0	0	0	42,887
Litigation Tax - Special Purpose	0	1,340	0	0	0	0	7,017	8,357
Other County Local Option Taxes	1,092	0	0	0	0	0	0	1,092
<u>Statutory Local Taxes</u>								
Bank Excise Tax	8,599	0	3,890	0	0	0	308	12,797
Wholesale Beer Tax	219,529	0	0	0	0	0	24,392	243,921
Total Local Taxes	\$ 1,616,747	\$ 1,340	\$ 380,127	\$ 0	\$ 0	\$ 0	\$ 61,839	\$ 2,060,053
<u>Licenses and Permits</u>								
<u>Licenses</u>								
Cable TV Franchise	\$ 1,772	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	1,772
<u>Permits</u>								
Beer Permits	2,375	0	0	0	0	0	0	2,375
Total Licenses and Permits	\$ 4,147	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	4,147
<u>Fines, Forfeitures, and Penalties</u>								
<u>Circuit Court</u>								
Fines	\$ 11,299	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	11,299
Officers Costs	1,567	0	0	0	0	0	0	1,567
Drug Control Fines	0	0	0	3,878	0	0	0	3,878
DUI Treatment Fines	87	0	0	0	0	0	0	87
Data Entry Fee - Circuit Court	156	0	0	0	0	0	0	156
<u>General Sessions Court</u>								
Fines	9,432	0	0	0	0	0	0	9,432

(Continued)

Exhibit H-4

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

	Special Revenue Funds						Debt Service Fund	Total
	General	Courthouse and Jail Maintenance	Solid Waste / Sanitation	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>Fines, Forfeitures, and Penalties (Cont.)</u>								
<u>General Sessions Court (Cont.)</u>								
Officers Costs	\$ 12,567	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	12,567
Drug Control Fines	0	0	0	5,081	0	0	0	5,081
Drug Court Fees	572	0	0	0	0	0	0	572
DUI Treatment Fines	3,082	0	0	0	0	0	0	3,082
Data Entry Fee - General Sessions Court	1,106	0	0	0	0	0	0	1,106
Courtroom Security Fee	169	0	0	0	0	0	0	169
<u>Chancery Court</u>								
Data Entry Fee - Chancery Court	402	0	0	0	0	0	0	402
Courtroom Security Fee	4	0	0	0	0	0	0	4
<u>Judicial District Drug Program</u>								
Drug Task Force Forfeitures and Seizures	0	0	0	12,194	0	0	0	12,194
<u>Other Fines, Forfeitures, and Penalties</u>								
Proceeds from Confiscated Property	0	0	0	19,070	0	0	0	19,070
Other Fines, Forfeitures, and Penalties	200	0	0	1,474	0	0	0	1,674
Total Fines, Forfeitures, and Penalties	\$ 40,643	\$ 0	\$ 0	\$ 41,697	\$ 0	\$ 0	\$ 0	\$ 82,340
<u>Charges for Current Services</u>								
<u>General Service Charges</u>								
Tipping Fees	\$ 0	\$ 0	\$ 61,060	\$ 0	\$ 0	\$ 0	\$ 0	61,060
Work Release Charges for Board	7,600	0	0	0	0	0	0	7,600
Other General Service Charges	5,000	0	0	0	0	0	0	5,000
<u>Fees</u>								
Vending Machine Collections	27	0	0	0	0	0	0	27
Constitutional Officers' Fees and Commissions	0	0	0	0	164,347	0	0	164,347
Special Commissioner Fees/Special Master Fees	0	0	0	0	5,000	0	0	5,000
Data Processing Fee - Register	3,208	0	0	0	0	0	0	3,208
Sexual Offender Registration Fees - Sheriff	300	0	0	0	0	0	0	300
Total Charges for Current Services	\$ 16,135	\$ 0	\$ 61,060	\$ 0	\$ 169,347	\$ 0	\$ 0	\$ 246,542
<u>Other Local Revenues</u>								
<u>Recurring Items</u>								
Investment Income	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	101,716	\$ 101,716

(Continued)

Exhibit H-4

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

	Special Revenue Funds						Debt Service Fund	Total
	General	Courthouse and Jail Maintenance	Solid Waste / Sanitation	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>Other Local Revenues (Cont.)</u>								
<u>Recurring Items (Cont.)</u>								
Lease/Rentals	\$ 19,500	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	19,500
Sale of Materials and Supplies	0	0	0	0	0	3,600	0	3,600
Sale of Recycled Materials	0	0	29,529	0	0	0	0	29,529
Miscellaneous Refunds	320	0	2,144	18,855	0	0	0	21,319
<u>Nonrecurring Items</u>								
Sale of Equipment	0	0	1,000	0	0	0	0	1,000
Contributions & Gifts	800	0	0	740	0	0	0	1,540
<u>Other Local Revenues</u>								
Other Local Revenues	497	0	0	0	0	1,800	0	2,297
Total Other Local Revenues	\$ 21,117	\$ 0	\$ 32,673	\$ 19,595	\$ 0	\$ 5,400	\$ 101,716	\$ 180,501
<u>Fees Received from County Officials</u>								
<u>Excess Fees</u>								
County Clerk	\$ 15,726	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	15,726
Trustee	30,190	0	0	0	0	0	0	30,190
<u>Fees-In-Lieu of Salary</u>								
Circuit Court Clerk	26,019	0	0	0	0	0	0	26,019
General Sessions Court Clerk	40,861	0	0	0	0	0	0	40,861
Clerk and Master	32,849	0	0	0	0	0	0	32,849
Register	32,251	0	0	0	0	0	0	32,251
Sheriff	1,959	0	0	0	0	0	0	1,959
Total Fees Received from County Officials	\$ 179,855	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	179,855
<u>State of Tennessee</u>								
<u>General Government Grants</u>								
Juvenile Services Program	\$ 9,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	9,000
Aging Programs	13,407	0	0	0	0	0	0	13,407
State Reappraisal Grant	4,076	0	0	0	0	0	0	4,076
<u>Public Safety Grants</u>								
Law Enforcement Training Programs	4,150	0	0	0	0	0	0	4,150
<u>Health and Welfare Grants</u>								
Health Department Programs	2,847	0	0	0	0	0	0	2,847

(Continued)

Exhibit H-4

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

	Special Revenue Funds						Debt Service Fund	Total
	General	Courthouse and Jail Maintenance	Solid Waste / Sanitation	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>State of Tennessee (Cont.)</u>								
<u>Public Works Grants</u>								
State Aid Program	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	124,998	\$ 0	\$ 124,998
Litter Program	29,237	0	0	0	0	0	0	29,237
<u>Other State Revenues</u>								
Income Tax	10,779	0	0	0	0	0	0	10,779
Beer Tax	18,753	0	0	0	0	0	0	18,753
Alcoholic Beverage Tax	16,639	0	0	0	0	0	0	16,639
State Revenue Sharing - T.V.A.	190,520	0	0	0	0	0	0	190,520
Contracted Prisoner Boarding	148,551	0	0	0	0	0	0	148,551
Gasoline and Motor Fuel Tax	0	0	0	0	0	1,315,454	0	1,315,454
Petroleum Special Tax	0	0	0	0	0	6,416	0	6,416
Registrar's Salary Supplement	12,285	0	0	0	0	0	0	12,285
Other State Grants	32,288	0	4,000	0	0	0	0	36,288
Other State Revenues	7,000	0	0	0	0	13,746	0	20,746
Total State of Tennessee	\$ 499,532	\$ 0	\$ 4,000	\$ 0	\$ 0	\$ 1,460,614	\$ 0	\$ 1,964,146
<u>Federal Government</u>								
<u>Federal Through State</u>								
Community Development	\$ 277,476	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 277,476
Other Federal through State	134,377	0	0	0	0	0	0	134,377
<u>Direct Federal Revenue</u>								
Police Service (Lake Area)	21,553	0	0	0	0	0	0	21,553
Total Federal Government	\$ 433,406	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 433,406
<u>Other Governments and Citizens Groups</u>								
<u>Other Governments</u>								
Contributions	\$ 6,538	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,538
Total Other Governments and Citizens Groups	\$ 6,538	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,538
Total	\$ 2,818,120	\$ 1,340	\$ 477,860	\$ 61,292	\$ 169,347	\$ 1,466,014	\$ 163,555	\$ 5,157,528

Exhibit H-5

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
For the Year Ended June 30, 2007

General Fund

General Government

County Commission

Board and Committee Members Fees	\$	22,357	
Other Per Diem & Fees		1,900	
Audit Services		2,255	
Consultants		1,892	
Dues and Memberships		1,050	
Legal Services		1,457	
Travel		204	
Office Supplies		333	
Total County Commission			\$ 31,448

Board of Equalization

Board and Committee Members Fees	\$	1,000	
Total Board of Equalization			1,000

Beer Board

Legal Notices, Recording, and Court Costs	\$	396	
Total Beer Board			396

County Mayor/Executive

County Official/Administrative Officer	\$	53,787	
Accountants/Bookkeepers		23,494	
Clerical Personnel		16,550	
Other Salaries & Wages		25	
Communication		2,046	
Data Processing Services		3,841	
Dues and Memberships		2,945	
Legal Notices, Recording, and Court Costs		1,184	
Maintenance Agreements		1,960	
Postal Charges		1,170	
Printing, Stationery, and Forms		300	
Travel		2,755	
Office Supplies		3,057	
Premiums on Corporate Surety Bonds		75	
Office Equipment		1,999	
Total County Mayor/Executive			115,188

County Attorney

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

(Continued)

Exhibit H-5

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

General Fund (Cont.)

General Government (Cont.)

Election Commission

County Official/Administrative Officer	\$	37,361	
Other Salaries & Wages		13,384	
Election Commission		3,575	
Election Workers		12,631	
In-Service Training		997	
Communication		1,135	
Legal Notices, Recording, and Court Costs		3,065	
Maintenance & Repair Services - Buildings		945	
Maintenance & Repair Services - Equipment		225	
Postal Charges		688	
Printing, Stationery, and Forms		1,575	
Travel		1,857	
Office Supplies		1,586	
Office Equipment		102,320	
Total Election Commission	\$		181,344

Register of Deeds

County Official/Administrative Officer	\$	46,569	
Deputy(ies)		14,752	
Communication		711	
Data Processing Services		2,807	
Dues and Memberships		299	
Maintenance Agreements		1,324	
Postal Charges		376	
Printing, Stationery, and Forms		1,558	
Duplicating Supplies		1,941	
Office Supplies		499	
Premiums on Corporate Surety Bonds		75	
Office Equipment		1,500	
Total Register of Deeds			72,411

County Buildings

Custodial Personnel	\$	43,010	
Maintenance & Repair Services - Buildings		12,448	
Maintenance & Repair Services - Vehicles		1,088	
Custodial Supplies		4,078	
Electricity		19,866	
Gasoline		2,134	
Natural Gas		4,511	
Water and Sewer		1,887	
Total County Buildings			90,222

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Finance

Property Assessor's Office

County Official/Administrative Officer	\$	46,569	
Deputy(ies)		19,240	
Part-time Personnel		6,215	
Communication		793	
Contracts with Private Agencies		3,480	
Data Processing Services		1,474	
Legal Notices, Recording, and Court Costs		180	
Postal Charges		572	
Travel		1,225	
Office Supplies		2,603	
Office Equipment		2,646	
Total Property Assessor's Office			\$ 84,997

County Trustee's Office

Data Processing Services	\$	3,602	
Dues and Memberships		299	
Legal Notices, Recording, and Court Costs		82	
Postal Charges		2,040	
Printing, Stationery, and Forms		1,723	
Office Supplies		1,834	
Premiums on Corporate Surety Bonds		1,582	
Total County Trustee's Office			11,162

County Clerk's Office

Communication	\$	1,511	
Dues and Memberships		299	
Postal Charges		2,600	
Rentals		7,800	
Electricity		1,985	
Office Supplies		3,455	
Premiums on Corporate Surety Bonds		150	
Office Equipment		1,292	
Total County Clerk's Office			19,092

Administration of Justice

Circuit Court

County Official/Administrative Officer	\$	46,569	
Deputy(ies)		23,437	
Clerical Personnel		38,183	
Other Salaries & Wages		1,150	

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Administration of Justice (Cont.)

Circuit Court (Cont.)

Jury and Witness Fees	\$	6,291	
In-Service Training		785	
Communication		1,812	
Dues and Memberships		299	
Legal Notices, Recording, and Court Costs		714	
Maintenance Agreements		6,974	
Postal Charges		1,030	
Printing, Stationery, and Forms		2,423	
Office Supplies		3,670	
Premiums on Corporate Surety Bonds		150	
Office Equipment		2,366	
Total Circuit Court			\$ 135,853

General Sessions Court

Judge(s)	\$	61,455	
Total General Sessions Court			61,455

Chancery Court

County Official/Administrative Officer	\$	46,569	
Communication		1,324	
Dues and Memberships		299	
Postal Charges		374	
Office Supplies		1,838	
Total Chancery Court			50,404

Juvenile Court

Supervisor/Director	\$	9,000	
Social Security		604	
Unemployment Compensation		138	
Other Contracted Services		900	
Total Juvenile Court			10,642

Judicial Commissioners

County Official/Administrative Officer	\$	10,037	
Other Salaries & Wages		300	
Premiums on Corporate Surety Bonds		43	
Total Judicial Commissioners			10,380

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Public Safety

Sheriff's Department

County Official/Administrative Officer	\$	51,226	
Assistant(s)		30,365	
Deputy(ies)		280,328	
Accountants/Bookkeepers		21,062	
Salary Supplements		4,415	
Dispatchers/Radio Operators		115,554	
Cafeteria Personnel		29,460	
Other Salaries & Wages		20,275	
In-Service Training		3,016	
Communication		7,671	
Evaluation and Testing		3,165	
Legal Notices, Recording, and Court Costs		25	
Maintenance & Repair Services - Equipment		11,725	
Maintenance & Repair Services - Vehicles		13,141	
Postal Charges		489	
Travel		3,149	
Gasoline		47,983	
Office Supplies		3,980	
Tires and Tubes		4,984	
Uniforms		4,230	
Premiums on Corporate Surety Bonds		678	
Total Sheriff's Department			\$ 656,921

Drug Enforcement

Motor Vehicles	\$	27,782	
Total Drug Enforcement			27,782

Jail

Contracts with Government Agencies	\$	9,131	
Maintenance & Repair Services - Buildings		11,911	
Custodial Supplies		3,030	
Drugs and Medical Supplies		17,768	
Electricity		10,894	
Food Preparation Supplies		1,846	
Food Supplies		28,476	
Water and Sewer		818	
Total Jail			83,874

Correctional Incentive Program Improvements

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

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Public Safety (Cont.)

Fire Prevention and Control

In-Service Training	\$	695	
Disability Insurance		15,268	
Contributions		20,000	
Other Charges		2,909	
Total Fire Prevention and Control			\$ 38,872

Rescue Squad

Contributions	\$	2,500	
Other Equipment		1,636	
Total Rescue Squad			4,136

Other Emergency Management

Maintenance & Repair Services - Equipment	\$	20,232	
Road Signs		3,037	
Total Other Emergency Management			23,269

County Coroner/Medical Examiner

Other Per Diem & Fees	\$	7,750	
Total County Coroner/Medical Examiner			7,750

Public Health and Welfare

Local Health Center

Other Salaries & Wages	\$	3,600	
Communication		2,407	
Maintenance & Repair Services - Buildings		19,252	
Custodial Supplies		1,000	
Drugs and Medical Supplies		478	
Office Supplies		1,297	
Utilities		12,862	
Other Charges		5,913	
Total Local Health Center			46,809

Ambulance/Emergency Medical Services

Other Contracted Services	\$	190,500	
Total Ambulance/Emergency Medical Services			190,500

Crippled Children Services

Other Contracted Services	\$	700	
Total Crippled Children Services			700

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Public Health and Welfare (Cont.)

Other Local Health Services

Other Salaries & Wages	\$	3,190	
Unemployment Compensation		64	
Travel		34	
Total Other Local Health Services			\$ 3,288

Appropriation to State

Other Contracted Services	\$	4,029	
Total Appropriation to State			4,029

Social, Cultural, and Recreational Services

Senior Citizens Assistance

Supervisor/Director	\$	16,690	
Social Security		1,277	
Unemployment Compensation		163	
Communication		1,026	
Postal Charges		39	
Travel		205	
Utilities		22,301	
Other Supplies and Materials		794	
Total Senior Citizens Assistance			42,495

Libraries

Supervisor/Director	\$	19,394	
Other Salaries & Wages		14,732	
In-Service Training		250	
Communication		1,379	
Dues and Memberships		225	
Postal Charges		1,000	
Travel		500	
Custodial Supplies		1,447	
Electricity		6,785	
Library Books/Media		6,000	
Office Supplies		4,403	
Water and Sewer		450	
Office Equipment		6,929	
Total Libraries			63,494

Other Social, Cultural, and Recreational

Contributions	\$	5,736	
Total Other Social, Cultural, and Recreational			5,736

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Agriculture & Natural Resources

Agriculture Extension Service

Salary Supplements	\$	55,277	
Social Security		6,686	
Extension Service Medicare		243	
Communication		1,676	
Contributions		8,000	
Travel		5,869	
Data Processing Equipment		6,093	
Total Agriculture Extension Service			\$ 83,844

Forest Service

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

Soil Conservation

Secretary(ies)	\$	16,310	
Other Salaries & Wages		15,361	
Communication		1,516	
Utilities		1,780	
Total Soil Conservation			34,967

Other Operations

Tourism

Clerical Personnel	\$	4,224	
Communication		1,207	
Postal Charges		486	
Total Tourism			5,917

Industrial Development

Other Charges	\$	1,317	
Total Industrial Development			1,317

Other Economic and Community Development

Other Charges	\$	54,016	
Other Construction		212,635	
Other Capital Outlay		70,500	
Total Other Economic and Community Development			337,151

Other Charges

Drugs and Medical Supplies	\$	9,775	
Total Other Charges			119,484

(Continued)

Exhibit H-5

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

General Fund (Cont.)

General Government

County Buildings

Water and Sewer	\$ 1,200	
Total County Buildings		\$ 90,222

Other Operations

Other Charges

Liability Insurance	\$ 46,425	
Trustee's Commission	27,642	
Workers' Compensation Insurance	32,510	
Other Charges	2,234	
Other Debt Issuance Charges	898	
Total Other Charges		119,484

Contributions to Other Agencies

Contracts with Government Agencies	\$ 68,592	
Other Charges	100	
Total Contributions to Other Agencies		68,692

Employee Benefits

Social Security	\$ 108,619	
State Retirement	111,269	
Unemployment Compensation	8,937	
Total Employee Benefits		228,825

Highways

Litter and Trash Collection

Supervisor/Director	\$ 15,749	
Laborers	28,547	
Other Charges	1,080	
Total Litter and Trash Collection		45,376

Principal on Debt

General Government

Principal on Capital Leases	\$ 5,970	
Total General Government		5,970

Interest on Debt

General Government

Interest on Capital Leases	\$ 3,286	
Interest on Other Loans	11,401	
Total General Government		14,687

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Other Debt Service

General Government

Other Debt Service

\$ 116

Total General Government

\$ 116

Total General Fund

\$ 3,028,195

Courthouse & Jail Maintenance Fund

General Government

County Buildings

Maintenance & Repair Services - Buildings

\$ 3,487

Total County Buildings

\$ 3,487

Other Operations

Other Charges

Trustee's Commission

\$ 14

Total Other Charges

14

Total Courthouse & Jail Maintenance Fund

3,501

Solid Waste/Sanitation Fund

Public Health and Welfare

Waste Pickup

Truck Drivers

\$ 33,909

Laborers

72,670

Clerical Personnel

3,640

Social Security

8,432

Unemployment Compensation

2,930

Communication

665

Contracts with Private Agencies

205,815

Maintenance & Repair Services - Buildings

1,599

Maintenance & Repair Services - Vehicles

13,000

Rentals

894

Custodial Supplies

710

Electricity

5,561

Gasoline

39,313

Natural Gas

1,613

Tires and Tubes

7,191

Water and Sewer

689

Other Charges

556

Principal on Capital Leases

7,320

Interest on Capital Leases

116

(Continued)

Exhibit H-5

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

Solid Waste/Sanitation Fund (Cont.)

Public Health and Welfare (Cont.)

Waste Pickup (Cont.)

Site Development	\$ 12,151	
Solid Waste Equipment	1,224	
Total Waste Pickup		\$ 419,998

Other Operations

Other Charges

Trustee's Commission	\$ 8,259	
Total Other Charges		8,259

Total Solid Waste/Sanitation Fund \$ 428,257

Drug Control Fund

Public Safety

Drug Enforcement

Contributions	\$ 249	
Confidential Drug Enforcement Payments	5,500	
Other Supplies and Materials	2,233	
Other Charges	999	
Law Enforcement Equipment	2,044	
Motor Vehicles	818	
Other Equipment	2,998	
Total Drug Enforcement		\$ 14,841

Other Operations

Other Charges

Trustee's Commission	\$ 92	
Total Other Charges		92

Total Drug Control Fund 14,933

Constitutional Officers - Fees Fund

Finance

County Trustee's Office

County Official/Administrative Officer	\$ 46,569	
Deputy(ies)	26,161	
Constitutional Officers' Operating Expenses	769	
Total County Trustee's Office		\$ 73,499

County Clerk's Office

County Official/Administrative Officer	\$ 46,569
--	-----------

(Continued)

Exhibit H-5

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

Constitutional Officers - Fees Fund (Cont.)

Finance (Cont.)

County Clerk's Office (Cont.)

Deputy(ies)	\$ 39,090	
Constitutional Officers' Operating Expenses	<u>676</u>	
Total County Clerk's Office		\$ 86,335

Administration of Justice

Chancery Court

Special Commissioner Fees/Special Master Fees	\$ 5,000	
Total Chancery Court		<u>5,000</u>

Total Constitutional Officers - Fees Fund \$ 164,834

Highway/Public Works Fund

Highways

Administration

County Official/Administrative Officer	\$ 51,226	
Accountants/Bookkeepers	28,145	
Advertising	132	
Communication	1,270	
Consultants	359	
Data Processing Services	4,175	
Dues and Memberships	2,032	
Postal Charges	300	
Other Contracted Services	6,143	
Other Charges	1,860	
Administration Equipment	1,312	
Data Processing Equipment	<u>450</u>	
Total Administration		\$ 97,404

Highway and Bridge Maintenance

Equipment Operators	\$ 85,849
Truck Drivers	114,579
Laborers	106,852
Evaluation and Testing	12,650
Rentals	1,097
Asphalt - Hot Mix	292,439
Asphalt - Liquid	194,217
Concrete	57
Crushed Stone	123,811
Pipe	14,340
Road Signs	702

(Continued)

Exhibit H-5

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

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Highway and Bridge Maintenance (Cont.)

Salt	\$	4,442	
Wood Products		756	
Other Supplies and Materials		2,106	
Other Charges		311	
Other Construction		1,433	
Total Highway and Bridge Maintenance			\$ 955,641

Operation and Maintenance of Equipment

Mechanic(s)	\$	44,950	
Maintenance & Repair Services - Equipment		6,298	
Diesel Fuel		57,651	
Equipment and Machinery Parts		18,863	
Gasoline		12,723	
Lubricants		3,961	
Natural Gas		1,859	
Small Tools		178	
Tires and Tubes		15,469	
Other Supplies and Materials		1,422	
Other Charges		766	
Total Operation and Maintenance of Equipment			164,140

Other Charges

Electricity	\$	3,063	
Water and Sewer		542	
Premiums on Corporate Surety Bonds		289	
Trustee's Commission		13,209	
Vehicle and Equipment Insurance		15,509	
Workers' Compensation Insurance		78,172	
Total Other Charges			110,784

Employee Benefits

Social Security	\$	26,782	
State Retirement		20,961	
Unemployment Compensation		4,864	
Employer Medicare		6,263	
Total Employee Benefits			58,870

Capital Outlay

Highway Equipment	\$	44,396	
Total Capital Outlay			44,396

Total Highway/Public Works Fund \$ 1,431,235

(Continued)

Exhibit H-5

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

<u>General Debt Service Fund</u>		
<u>Principal on Debt</u>		
<u>General Government</u>		
Principal on Other Loans	\$ 200,000	
Total General Government		\$ 200,000
 <u>Other Debt Service</u>		
<u>General Government</u>		
Trustee's Commission	\$ 1,706	
Total General Government		<u>1,706</u>
 Total General Debt Service Fund		 <u>\$ 201,706</u>
 Total Governmental Funds - Primary Government		 <u>\$ 5,272,661</u>

Exhibit H-6

Clay County, Tennessee
Schedule of Detailed Receipts, Disbursements,
and Changes in Cash Balance - City Agency Fund
For the Year Ended June 30, 2007

	Cities - Sales Tax Fund
<hr/>	
<u>Cash Receipts</u>	
Local Option Sales Tax	\$ 270,092
Total Cash Receipts	<u>\$ 270,092</u>
 <u>Cash Disbursements</u>	
Remittance of Revenues Collected	\$ 267,391
Trustee's Commission	<u>2,701</u>
Total Cash Disbursements	<u>\$ 270,092</u>
 Excess of Cash Receipts Over (Under) Cash Disbursements	 \$ 0
Cash Balance, July 1, 2006	<u>0</u>
 Cash Balance, June 30, 2007	 <u><u>\$ 0</u></u>

ANNUAL FINANCIAL REPORT
CLAY COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF CLAY COUNTY, TENNESSEE
FOR THE YEAR ENDED JUNE 30, 2007

DEPARTMENT OF AUDIT
JOHN G. MORGAN
Comptroller of the Treasury

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

JAMES R. ARNETTE
Director

CARL LOWE, CGFM
Audit Manager

STEVE REEDER, CPA, CGFM, CFE
Auditor 4

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

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

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

Annual Financial Report
Clay County School Department
For the Year Ended June 30, 2007

Scope

We have audited the basic financial statements of the Clay County School Department as of and for the year ended June 30, 2007.

Results

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

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

Findings

The following is a summary of the audit findings:

OFFICE OF DIRECTOR OF SCHOOLS

- ◆ Central Cafeteria Fund expenditures exceeded total appropriations approved by the County Commission by \$26,025.

OTHER FINDINGS

- ◆ County officials had not adopted a central system of accounting, budgeting, and purchasing.
- ◆ Duties were not segregated adequately among the official and employees at the School Department.

INTRODUCTORY SECTION

Clay County School Officials
June 30, 2007

Official

Dr. Doug Young, Director of Schools

Board of Education

Russell Cherry, Chairman

Elizabeth Boles

Robert Cox

Wanda Daniels

Connie Dillehay

Bill Donaldson

Terry Meadows

David Ogletree

Richard Roberts

David West

FINANCIAL SECTION



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

INDEPENDENT AUDITOR'S REPORT

October 5, 2007

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

To the Director of Schools and Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Clay County School Department, a component unit of Clay County, Tennessee, as of and for the year ended June 30, 2007, which collectively comprise the Clay County School Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Clay County School Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Clay County School Department as of June 30, 2007, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

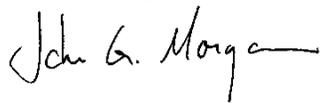
In accordance with Government Auditing Standards, we have also issued our report dated October 5, 2007, on our consideration of the Clay County School Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant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

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

The budgetary comparison information on pages 37 through 39 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Very truly yours,



John G. Morgan
Comptroller of the Treasury

JGM/rc

BASIC FINANCIAL STATEMENTS

Exhibit A

Clay County, Tennessee
Statement of Net Assets
Clay County School Department
June 30, 2007

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Equity in Pooled Cash and Investments	\$ 1,669,567
Cash	1,248
Accounts Receivable	657
Due from Other Governments	264,769
Property Taxes Receivable	1,202,850
Allowance for Uncollectible Property Taxes	(36,599)
Assets Not Depreciated:	
Land	338,698
Assets Net of Accumulated Depreciation:	
Buildings and Improvements	7,728,783
Infrastructure	510,655
Other Capital Assets	708,910
Total Assets	<u>\$ 12,389,538</u>
<u>LIABILITIES</u>	
Accounts Payable	\$ 17,670
Deferred Revenue - Current Property Taxes	1,104,385
Noncurrent Liabilities:	
Due Within One Year	203,126
Due in More Than One Year	7,348,000
Total Liabilities	<u>\$ 8,673,181</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	\$ 1,738,046
Restricted for:	
Capital Projects	24,780
Basic Education Program	1,185,718
Other Purposes	144,951
Unrestricted	<u>622,862</u>
Total Net Assets	<u>\$ 3,716,357</u>

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

Exhibit B

Clay County, Tennessee
Statement of Activities
Clay County School Department
For the Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Total Governmental Activities
Governmental Activities:				
Instruction	\$ 5,572,859	\$ 16,159	\$ 679,437	\$ (4,877,263)
Support Services	2,986,856	138,131	423,182	(2,425,543)
Operation of Non-Instructional Services	948,594	1,440	21,071	(926,083)
Other Debt Service	340,087	0	0	(340,087)
Total Governmental Activities	\$ 9,848,396	\$ 155,730	\$ 1,123,690	\$ (8,568,976)
General Revenues:				
Taxes:				
Property Taxes Levied for General Purposes				\$ 1,115,741
Local Option Sales Tax				532,776
Other Local Taxes				1,138
Grants and Contributions Not Restricted to Specific Programs				6,592,922
Interest Income				2,160
Sale of Land/Equipment				37,564
Total General Revenues				\$ 8,282,301
Change in Net Assets				\$ (286,675)
Net Assets, July 1, 2006				4,003,032
Net Assets, June 30, 2007				\$ 3,716,357

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

Exhibit C-1

Clay County, Tennessee
Balance Sheet - Governmental Funds
Clay County School Department
June 30, 2007

	<u>Major Fund</u>	<u>Nonmajor Funds</u>	
	General Purpose School	Other Govern- mental Funds	Total Govern- mental Funds
<u>ASSETS</u>			
Cash	\$ 0	\$ 1,248	\$ 1,248
Equity in Pooled Cash and Investments	1,514,748	150,933	1,665,681
Accounts Receivable	657	0	657
Due from Other Governments	252,399	12,370	264,769
Due from Other Funds	15,047	0	15,047
Property Taxes Receivable	1,202,850	0	1,202,850
Allowance for Uncollectible Property Taxes	(36,599)	0	(36,599)
Total Assets	<u>\$ 2,949,102</u>	<u>\$ 164,551</u>	<u>\$ 3,113,653</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 12,526	\$ 5,144	\$ 17,670
Due to Other Funds	0	11,161	11,161
Deferred Revenue - Current Property Taxes	1,104,385	0	1,104,385
Deferred Revenue - Delinquent Property Taxes	60,099	0	60,099
Other Deferred Revenues	45,401	0	45,401
Total Liabilities	<u>\$ 1,222,411</u>	<u>\$ 16,305</u>	<u>\$ 1,238,716</u>
<u>Fund Balances</u>			
Reserved for Career Ladder - Extended Contract	\$ 16,330	\$ 0	\$ 16,330
Reserved for Career Ladder Program	5,155	0	5,155
Reserved for Basic Education Program	1,185,718	0	1,185,718
Reserved for Title I Grants to Local Education Agencies	0	191	191
Reserved for Innovative Education Program Strategies	0	17,443	17,443
Reserved for Special Education - Grants to States	0	22,308	22,308
Other Federal Reserves	0	6,172	6,172
Unreserved, Reported In:			
General Fund	519,488	0	519,488
Special Revenue Funds	0	77,352	77,352
Capital Projects Funds	0	24,780	24,780
Total Fund Balances	<u>\$ 1,726,691</u>	<u>\$ 148,246</u>	<u>\$ 1,874,937</u>
Total Liabilities and Fund Balances	<u>\$ 2,949,102</u>	<u>\$ 164,551</u>	<u>\$ 3,113,653</u>

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

Exhibit C-2

Clay County, Tennessee
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
Clay County School Department
June 30, 2007

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

Total fund balances - balance sheet - governmental funds (Exhibit C-1)		\$	1,874,937
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Add: land	\$	338,698	
Add: infrastructure net of accumulated depreciation		510,655	
Add: buildings and improvements net of accumulated depreciation		7,728,783	
Add: other capital assets net of accumulated depreciation		<u>708,910</u>	9,287,046
(2) Long-term liabilities are not due in the current period and therefore are not reported in the governmental funds.			
Less: other loans payable	\$	(7,549,000)	
Less: compensated absences payable		<u>(2,126)</u>	(7,551,126)
(3) Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.			<u>105,500</u>
Net assets of governmental activities (Exhibit A)		\$	<u><u>3,716,357</u></u>

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

Exhibit C-3

Clay County, Tennessee
Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Governmental Funds
Clay County School Department
For the Year Ended June 30, 2007

	<u>Major Fund</u>	<u>Nonmajor</u> <u>Funds</u>	
	General	Other	Total
	Purpose	Govern- mental	Governmental
	School	Funds	Funds
<u>Revenues</u>			
Local Taxes	\$ 1,668,015	\$ 0	\$ 1,668,015
Licenses and Permits	1,066	0	1,066
Charges for Current Services	16,911	138,131	155,042
Other Local Revenues	43,635	6,209	49,844
State of Tennessee	6,431,434	0	6,431,434
Federal Government	157,261	1,268,650	1,425,911
Total Revenues	<u>\$ 8,318,322</u>	<u>\$ 1,412,990</u>	<u>\$ 9,731,312</u>
<u>Expenditures</u>			
Current:			
Instruction	\$ 4,685,492	\$ 597,409	\$ 5,282,901
Support Services	2,773,236	249,516	3,022,752
Operation of Non-Instructional Services	400,619	559,475	960,094
Capital Outlay	73,733	0	73,733
Debt Service:			
Principal on Debt	193,000	0	193,000
Interest on Debt	296,827	0	296,827
Other Debt Service	43,260	0	43,260
Total Expenditures	<u>\$ 8,466,167</u>	<u>\$ 1,406,400</u>	<u>\$ 9,872,567</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (147,845)</u>	<u>\$ 6,590</u>	<u>\$ (141,255)</u>
<u>Other Financing Sources (Uses)</u>			
Insurance Recovery	\$ 196	\$ 0	\$ 196
Transfers In	40,849	0	40,849
Transfers Out	0	(40,849)	(40,849)
Total Other Financing Sources (Uses)	<u>\$ 41,045</u>	<u>\$ (40,849)</u>	<u>\$ 196</u>
Net Change in Fund Balances	\$ (106,800)	\$ (34,259)	\$ (141,059)
Fund Balance, July 1, 2006	<u>1,833,491</u>	<u>182,505</u>	<u>2,015,996</u>
Fund Balance, June 30, 2007	<u>\$ 1,726,691</u>	<u>\$ 148,246</u>	<u>\$ 1,874,937</u>

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

Exhibit C-4

Clay County, Tennessee
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Clay County School Department
For the Year Ended June 30, 2007

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

Net change in fund balances - total governmental funds (Exhibit C-3)		\$ (141,059)
(1) Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The difference between capital outlays and depreciation is itemized as follows:		
Add: capital assets purchased in the current year	\$ 186,503	
Less: current year depreciation expense	<u>(335,353)</u>	(148,850)
(2) Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Add: deferred delinquent property taxes and other deferred, June 30, 2007	\$ 105,500	
Less: deferred delinquent property taxes and other deferred, June 20, 2006	<u>(294,889)</u>	(189,389)
(3) The issuance of long-term debt (e.g., bonds, notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:		
Add: principal payments on other loans		193,000
(4) Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
Change in compensated absences		<u>(377)</u>
Change in net assets of governmental activities (Exhibit B)		<u>\$ (286,675)</u>

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

**CLAY COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF CLAY COUNTY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2007**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the School Department. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities, which rely to a significant extent on fees and charges, are required to be reported separately from governmental activities in government-wide financial statements. However, the School Department does not have any business-type activities to report.

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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

The School Department reports the following major governmental fund:

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

Additionally, the School Department reports the following fund types:

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

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

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

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

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

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

2. Receivables and Payables

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

All property taxes receivable are shown with an allowance for uncollectibles. The allowance for uncollectible property taxes is equal to 1.63 percent of total taxes levied.

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

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

Property taxes receivable are also reported as of June 30 for the taxes that are levied, collected, and reported as revenue during the current fiscal year. These property taxes receivable are presented on the balance sheet with offsetting deferred revenue to reflect amounts not available as of June 30. Property taxes collected within 30 days of year-end are considered available and accrued. The allowance for uncollectible taxes represents the estimated amount of the receivable

that will be filed in court for collection. Delinquent taxes filed in court for collection are not included in taxes receivable since they are neither measurable nor available.

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

3. Capital Assets

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

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items) are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$10,000 or more and an estimated useful life of more than five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

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

4. Compensated Absences

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

accrued or recorded. Accrued leave included on the government-wide statements is for accumulated compensatory time for central office personnel.

5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

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

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

6. Net Assets and Fund Equity

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

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

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. **Budgetary Information**

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

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

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

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

B. Expenditures Exceeded Appropriations

Central Cafeteria Fund expenditures exceeded total appropriations approved by the County Commission by \$26,025. Such overexpenditures are a violation of state statutes. These overexpenditures were funded by available fund balance.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

Deposits

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

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

Investments

Legal Provisions. Counties are authorized to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating

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

Clay County had no pooled and nonpooled investments at June 30, 2007.

B. Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

Governmental Activities:

	Balance 7-1-06	Increases	Balance 6-30-07
Capital Assets Not Depreciated:			
Land	\$ 338,698	\$ 0	\$ 338,698
Total Capital Assets Not Depreciated	<u>\$ 338,698</u>	<u>\$ 0</u>	<u>\$ 338,698</u>
Capital Assets Depreciated:			
Buildings and Improvements	\$ 10,722,369	\$ 0	\$ 10,722,369
Infrastructure	648,860	0	648,860
Other Capital Assets	1,127,664	186,503	1,314,167
Total Capital Assets Depreciated	<u>\$ 12,498,893</u>	<u>\$ 186,503</u>	<u>\$ 12,685,396</u>
Less Accumulated Depreciated For:			
Buildings and Improvements	\$ 2,757,611	\$ 235,975	\$ 2,993,586
Infrastructure	116,403	21,802	138,205
Other Capital Assets	527,681	77,576	605,257
Total Accumulated Depreciation	<u>\$ 3,401,695</u>	<u>\$ 335,353</u>	<u>\$ 3,737,048</u>
Total Capital Assets Depreciated, Net	<u>\$ 9,097,198</u>	<u>\$ (148,850)</u>	<u>\$ 8,948,348</u>
Governmental Activities Capital Assets, Net	<u>\$ 9,435,896</u>	<u>\$ (148,850)</u>	<u>\$ 9,287,046</u>

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

Governmental Activities:

Instruction	\$ 232,769
Support Services	95,478
Operation of Non-Instructional Services	<u>7,106</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 335,353</u></u>

C. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2007, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Purpose School	Nonmajor governmental	\$ 15,047

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

A portion of this receivable (\$3,886) was in transit from the School Federal Projects Fund, a nonmajor governmental fund, at June 30, 2007.

Interfund Transfers:

Interfund transfers for the year ended June 30, 2007, consisted of the following amount:

	<u>Transfers In</u>
	General Purpose School Fund
<u>Transfers Out</u>	
Nonmajor governmental fund	<u><u>\$ 40,849</u></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 in accordance with budgetary authorizations.

D. Long-term Debt

Other Loans

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

Other loans are direct obligations and pledge the full faith and credit of the government. Other loans were issued for original terms of up to 29 years. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All other loans included in long-term debt as of June 30, 2007, will be retired from the General Purpose School Fund.

Other loans outstanding as of June 30, 2007, are as follows:

Type	Interest Rate	Original Amount of Issue	Balance 6-30-07
Other Loans	Variable	\$ 8,400,000	\$ 7,549,000

In prior years, Clay County entered into loan agreements with the Montgomery County Public Building Authority. Under these loan agreements, the authority loaned \$6,900,000 and \$1,500,000 to Clay County for construction of the high school and the high school athletic facilities. These loans are repayable at an interest rate that is a tax-exempt variable rate determined by the remarketing agent daily or weekly, depending on the particular program. In addition, the School Department pays various other fees (trustee, letter of credit, and debt remarketing) in connection with these loans. At June 30, 2007, the variable interest rate was 3.87 percent, and other fees amounted to approximately .25 percent (letter of credit), .08 percent (remarketing), .15 percent (administration), and a trustee fee of \$100 per month.

The annual requirements to amortize all other loans outstanding as of June 30, 2007, including interest payments and other fees, are presented in the following table:

Year Ending June 30	Other Loan (\$6,900,000)			Total
	Principal	Interest	Other Fees	
2008	\$ 163,000	\$ 239,437	\$ 30,898	\$ 433,335
2009	169,000	233,129	30,115	432,244
2010	175,000	226,589	29,304	430,893
2011	182,000	219,816	28,464	430,280

Year Ending June 30	Other Loan (\$6,900,000)(Cont.)			Total
	Principal	Interest	Other Fees	
2012	\$ 189,000	\$ 212,773	\$ 27,590	\$ 429,363
2013-2017	1,056,000	948,576	123,653	2,128,229
2018-2022	1,273,000	728,102	96,307	2,097,409
2023-2027	1,533,000	462,426	63,355	2,058,781
2028-2031	1,447,000	142,571	22,383	1,611,954
Total	\$ 6,187,000	\$ 3,413,419	\$ 452,069	\$ 10,052,488

Year Ending June 30	Other Loan (\$1,500,000)			Total
	Principal	Interest	Other Fees	
2008	\$ 38,000	\$ 52,709	\$ 7,738	\$ 98,447
2009	39,000	51,239	7,555	97,794
2010	40,000	49,730	7,368	97,098
2011	42,000	48,182	7,176	97,358
2012	43,000	46,556	6,974	96,530
2013-2017	239,000	206,542	31,618	477,160
2018-2022	281,000	157,161	25,493	463,654
2023-2027	332,000	99,033	18,283	449,316
2028-2031	308,000	3,301	8,458	319,759
Total	\$ 1,362,000	\$ 714,453	\$ 120,663	\$ 2,197,116

Debt per capita totaled \$946, based on the 2000 federal census.

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

Governmental Activities:

	Other Loans	Compensated Absences
Balance, July 1, 2006	\$ 7,742,000	\$ 1,749
Additions	0	7,399
Deductions	(193,000)	(7,022)
Balance, June 30, 2007	\$ 7,549,000	\$ 2,126
Balance Due Within One Year	\$ 201,000	\$ 2,126

Analysis of Noncurrent Liabilities Presented on Exhibit A:

Total Noncurrent Liabilities, June 30, 2007	\$ 7,551,126
Less: Balance Due Within One Year	<u>(203,126)</u>
Noncurrent Liabilities - Due in More Than One Year - Exhibit A	<u>\$ 7,348,000</u>

V. **OTHER INFORMATION**

A. **Risk Management**

The 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.

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

B. **Contingent Liabilities**

The School Department's attorney advised that there are no pending lawsuits in which the School Department is involved as of the date of this report.

C. **Retirement Commitments**

Employees

Plan Description

Employees of Clay County, including the School Department, are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the

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

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

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

School Teachers

Plan Description

The School Department contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEPP), 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.

Funding Policy

Most teachers are required by state statute to contribute five percent of their salaries to the plan. The employer contribution rate for the School Department is established at an actuarially determined rate. The employer rate for the fiscal year ended June 30, 2006, was 6.13 percent of annual covered payroll. The employer contribution requirement for the School Department is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ended June 30, 2007, 2006, and 2005 were \$282,108, \$247,357, and \$236,829, respectively, equal to the required contributions for each year.

D. Purchasing Law

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

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit D

Clay County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Clay County School Department
General Purpose School Fund
For the Year Ended June 30, 2007

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 1,668,015	\$ 1,749,168	\$ 1,749,167	\$ (81,152)
Licenses and Permits	1,066	918	918	148
Charges for Current Services	16,911	19,365	19,365	(2,454)
Other Local Revenues	43,635	18,792	36,614	7,021
State of Tennessee	6,431,434	6,063,584	6,228,418	203,016
Federal Government	157,261	160,185	163,048	(5,787)
Total Revenues	<u>\$ 8,318,322</u>	<u>\$ 8,012,012</u>	<u>\$ 8,197,530</u>	<u>\$ 120,792</u>
<u>Expenditures</u>				
<u>Instruction</u>				
Regular Instruction Program	\$ 3,604,470	\$ 3,777,202	\$ 3,796,062	\$ 191,592
Alternative Instruction Program	97,744	100,636	103,236	5,492
Special Education Program	562,711	581,764	581,764	19,053
Vocational Education Program	357,909	365,415	365,415	7,506
Adult Education Program	62,658	48,939	62,739	81
<u>Support Services</u>				
Attendance	72,491	74,625	74,625	2,134
Health Services	40,781	43,881	43,881	3,100
Other Student Support	168,780	186,460	186,460	17,680
Regular Instruction Program	403,931	469,286	477,286	73,355
Special Education Program	105,848	132,034	132,034	26,186
Board of Education	161,424	147,727	181,250	19,826
Director of Schools	123,036	124,424	127,884	4,848
Office of the Principal	246,890	254,265	254,265	7,375
Fiscal Services	65,040	70,076	70,076	5,036
Operation of Plant	741,086	795,605	805,395	64,309
Maintenance of Plant	96,527	105,761	105,761	9,234
Transportation	547,402	616,227	618,122	70,720
<u>Operation of Non-Instructional Services</u>				
Food Service	66,530	66,541	66,541	11
Community Services	61,470	75,500	75,500	14,030
Early Childhood Education	272,619	181,057	274,647	2,028
<u>Capital Outlay</u>				
Regular Capital Outlay	73,733	150,000	150,000	76,267
<u>Principal on Debt</u>				
Education	193,000	203,500	193,620	620
<u>Interest on Debt</u>				
Education	296,827	371,100	371,100	74,273
<u>Other Debt Service</u>				
Education	43,260	48,000	57,880	14,620
Total Expenditures	<u>\$ 8,466,167</u>	<u>\$ 8,990,025</u>	<u>\$ 9,175,543</u>	<u>\$ 709,376</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (147,845)</u>	<u>\$ (978,013)</u>	<u>\$ (978,013)</u>	<u>\$ 830,168</u>
<u>Other Financing Sources (Uses)</u>				
Insurance Recovery	\$ 196	\$ 0	\$ 0	\$ 196
Transfers In	40,849	180,572	180,572	(139,723)
Total Other Financing Sources (Uses)	<u>\$ 41,045</u>	<u>\$ 180,572</u>	<u>\$ 180,572</u>	<u>\$ (139,527)</u>
Net Change in Fund Balance	\$ (106,800)	\$ (797,441)	\$ (797,441)	\$ 690,641
Fund Balance, July 1, 2006	1,833,491	1,865,492	1,865,492	(32,001)
Fund Balance, June 30, 2007	<u>\$ 1,726,691</u>	<u>\$ 1,068,051</u>	<u>\$ 1,068,051</u>	<u>\$ 658,640</u>

**CLAY COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF CLAY COUNTY, TENNESSEE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2007**

BUDGETARY INFORMATION

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

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

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

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

Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

Capital Projects Fund

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

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

Exhibit E-1

Clay County, Tennessee
Combining Balance Sheet - Nonmajor Governmental Funds
Clay County School Department
June 30, 2007

	<u>Special Revenue Funds</u>			<u>Capital</u>	<u>Total</u>
	<u>School</u>	<u>Central</u>	<u>Total</u>	<u>Projects</u>	
	<u>Federal</u>	<u>Cafeteria</u>		<u>Capital</u>	<u>Nonmajor</u>
	<u>Projects</u>			<u>Projects</u>	<u>Funds</u>
<u>ASSETS</u>					
Cash	\$ 0	\$ 1,248	\$ 1,248	\$ 0	\$ 1,248
Equity in Pooled Cash and Investments	50,049	76,104	126,153	24,780	150,933
Due from Other Governments	12,370	0	12,370	0	12,370
Total Assets	\$ 62,419	\$ 77,352	\$ 139,771	\$ 24,780	\$ 164,551
<u>LIABILITIES AND FUND BALANCES</u>					
<u>Liabilities</u>					
Accounts Payable	\$ 5,144	\$ 0	\$ 5,144	\$ 0	\$ 5,144
Due to Other Funds	11,161	0	11,161	0	11,161
Total Liabilities	\$ 16,305	\$ 0	\$ 16,305	\$ 0	\$ 16,305
<u>Fund Balances</u>					
Reserved for Title I Grants to Local Education Agencies	\$ 191	\$ 0	\$ 191	\$ 0	\$ 191
Reserved for Innovative Education Program Strategies	17,443	0	17,443	0	17,443
Reserved for Special Education - Grants to States	22,308	0	22,308	0	22,308
Other Federal Reserves	6,172	0	6,172	0	6,172
Unreserved	0	77,352	77,352	24,780	102,132
Total Fund Balances	\$ 46,114	\$ 77,352	\$ 123,466	\$ 24,780	\$ 148,246
Total Liabilities and Fund Balances	\$ 62,419	\$ 77,352	\$ 139,771	\$ 24,780	\$ 164,551

Exhibit E-2

Clay County, Tennessee
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Nonmajor Governmental Funds
Clay County School Department
For the Year Ended June 30, 2007

	Special Revenue Funds			Capital Projects Fund	Total Nonmajor Governmental Funds
	School Federal Projects	Central Cafeteria	Total	Education Capital Projects	
<u>Revenues</u>					
Charges for Current Services	\$ 0	\$ 138,131	\$ 138,131	\$ 0	\$ 138,131
Other Local Revenues	3,870	2,339	6,209	0	6,209
Federal Government	868,078	400,572	1,268,650	0	1,268,650
Total Revenues	<u>\$ 871,948</u>	<u>\$ 541,042</u>	<u>\$ 1,412,990</u>	<u>\$ 0</u>	<u>\$ 1,412,990</u>
<u>Expenditures</u>					
Current:					
Instruction	\$ 597,409	\$ 0	\$ 597,409	\$ 0	\$ 597,409
Support Services	249,516	0	249,516	0	249,516
Operation of Non-Instructional Services	0	559,475	559,475	0	559,475
Total Expenditures	<u>\$ 846,925</u>	<u>\$ 559,475</u>	<u>\$ 1,406,400</u>	<u>\$ 0</u>	<u>\$ 1,406,400</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 25,023</u>	<u>\$ (18,433)</u>	<u>\$ 6,590</u>	<u>\$ 0</u>	<u>\$ 6,590</u>
<u>Other Financing Sources (Uses)</u>					
Transfers Out	\$ (10,001)	\$ (30,848)	\$ (40,849)	\$ 0	\$ (40,849)
Total Other Financing Sources (Uses)	<u>\$ (10,001)</u>	<u>\$ (30,848)</u>	<u>\$ (40,849)</u>	<u>\$ 0</u>	<u>\$ (40,849)</u>
Net Change in Fund Balances	\$ 15,022	\$ (49,281)	\$ (34,259)	\$ 0	\$ (34,259)
Fund Balance, July 1, 2006	31,092	126,633	157,725	24,780	182,505
Fund Balance, June 30, 2007	<u>\$ 46,114</u>	<u>\$ 77,352</u>	<u>\$ 123,466</u>	<u>\$ 24,780</u>	<u>\$ 148,246</u>

Exhibit E-3

Clay County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Clay County School Department
School Federal Projects Fund
For the Year Ended June 30, 2007

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Other Local Revenues	\$ 3,870	\$ 0	\$ 0	\$ 3,870
Federal Government	868,078	825,508	1,040,116	(172,038)
Total Revenues	<u>\$ 871,948</u>	<u>\$ 825,508</u>	<u>\$ 1,040,116</u>	<u>\$ (168,168)</u>
<u>Expenditures</u>				
<u>Instruction</u>				
Regular Instruction Program	\$ 377,280	\$ 317,636	\$ 432,396	\$ 55,116
Special Education Program	193,616	221,055	224,785	31,169
Vocational Education Program	26,513	27,255	26,514	1
<u>Support Services</u>				
Regular Instruction Program	162,300	147,240	243,616	81,316
Special Education Program	77,219	89,542	89,542	12,323
Vocational Education Program	2,741	2,000	2,741	0
Transportation	7,256	11,922	8,192	936
Total Expenditures	<u>\$ 846,925</u>	<u>\$ 816,650</u>	<u>\$ 1,027,786</u>	<u>\$ 180,861</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 25,023</u>	<u>\$ 8,858</u>	<u>\$ 12,330</u>	<u>\$ 12,693</u>
<u>Other Financing Sources (Uses)</u>				
Transfers Out	\$ (10,001)	\$ (8,857)	\$ (12,328)	\$ 2,327
Total Other Financing Sources (Uses)	<u>\$ (10,001)</u>	<u>\$ (8,857)</u>	<u>\$ (12,328)</u>	<u>\$ 2,327</u>
Net Change in Fund Balance	\$ 15,022	\$ 1	\$ 2	\$ 15,020
Fund Balance, July 1, 2006	31,092	0	0	31,092
Fund Balance, June 30, 2007	<u>\$ 46,114</u>	<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ 46,112</u>

Exhibit E-4

Clay County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Clay County School Department
Central Cafeteria Fund
For the Year Ended June 30, 2007

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Charges for Current Services	\$ 138,131	\$ 133,500	\$ 133,500	\$ 4,631
Other Local Revenues	2,339	10,400	10,400	(8,061)
Federal Government	400,572	380,000	380,000	20,572
Total Revenues	<u>\$ 541,042</u>	<u>\$ 523,900</u>	<u>\$ 523,900</u>	<u>\$ 17,142</u>
<u>Expenditures</u>				
<u>Operation of Non-Instructional Services</u>				
Food Service	\$ 559,475	\$ 533,450	\$ 533,450	\$ (26,025)
Total Expenditures	<u>\$ 559,475</u>	<u>\$ 533,450</u>	<u>\$ 533,450</u>	<u>\$ (26,025)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (18,433)</u>	<u>\$ (9,550)</u>	<u>\$ (9,550)</u>	<u>\$ (8,883)</u>
<u>Other Financing Sources (Uses)</u>				
Transfers Out	\$ (30,848)	\$ (30,884)	\$ (30,884)	\$ 36
Total Other Financing Sources (Uses)	<u>\$ (30,848)</u>	<u>\$ (30,884)</u>	<u>\$ (30,884)</u>	<u>\$ 36</u>
Net Change in Fund Balance	\$ (49,281)	\$ (40,434)	\$ (40,434)	\$ (8,847)
Fund Balance, July 1, 2006	126,633	124,402	124,402	2,231
Fund Balance, June 30, 2007	<u>\$ 77,352</u>	<u>\$ 83,968</u>	<u>\$ 83,968</u>	<u>\$ (6,616)</u>

MISCELLANEOUS SCHEDULES

Exhibit F-1

Clay County, Tennessee
Schedule of Changes in Other Loans
Clay County School Department
For the Year Ended June 30, 2007

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-06	Paid and/or Matured During Period	Outstanding 6-30-07
<u>OTHER LOANS PAYABLE</u>							
<u>Public Building Authority Loan Agreement</u>							
<u>Payable through General Purpose School Fund</u>							
School Construction	\$ 6,900,000	variable	6-28-02	5-25-31	\$ 6,344,000	\$ 157,000	\$ 6,187,000
Athletic Facility	1,500,000	variable	9-29-03	5-25-31	1,398,000	36,000	1,362,000
Total Other Loans Payable					<u>\$ 7,742,000</u>	<u>\$ 193,000</u>	<u>\$ 7,549,000</u>

Exhibit F-2

Clay County, Tennessee
Schedule of Transfers
Clay County School Department
For the Year Ended June 30, 2007

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
School Federal Projects	General Purpose School	Indirect costs	\$ 10,001
Central Cafeteria	General Purpose School	Supervisor's salary reimbursement	<u>30,848</u>
Total Transfers			<u>\$ 40,849</u>

Exhibit F-3

Clay County, Tennessee
Schedule of Salaries and Official Bonds of Principal Officials
Clay County School Department
For the Year Ended June 30, 2007

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
Director of Schools	State Board of Education and Clay County Board of Education	\$ 78,108 (1)	\$ 50,000	RLI Insurance Company
Employee Blanket Bond Coverage: School Department Employees			150,000	Tennessee School Boards Risk Management Trust

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

Exhibit F-4

Clay County, Tennessee
 Schedule of Detailed Revenues -
 All Governmental Fund Types
 Clay County School Department
 For the Year Ended June 30, 2007

	General Purpose School	School Federal Projects	Central Cafeteria	Total
<u>Local Taxes</u>				
<u>County Property Taxes</u>				
Current Property Tax	\$ 1,042,536	\$ 0	\$ 0	\$ 1,042,536
Trustee's Collections - Prior Year	51,516	0	0	51,516
Circuit/Clerk & Master Collections - Prior Years	9,904	0	0	9,904
Interest and Penalty	10,396	0	0	10,396
<u>County Local Option Taxes</u>				
Local Option Sales Tax	540,941	0	0	540,941
Other County Local Option Taxes	117	0	0	117
<u>Statutory Local Taxes</u>				
Bank Excise Tax	11,467	0	0	11,467
Interstate Telecommunications Tax	1,138	0	0	1,138
Total Local Taxes	\$ 1,668,015	\$ 0	\$ 0	\$ 1,668,015
<u>Licenses and Permits</u>				
<u>Licenses</u>				
Marriage Licenses	\$ 694	\$ 0	\$ 0	\$ 694
<u>Permits</u>				
Other Permits	372	0	0	372
Total Licenses and Permits	\$ 1,066	\$ 0	\$ 0	\$ 1,066
<u>Charges for Current Services</u>				
<u>Education Charges</u>				
Lunch Payments - Children	\$ 0	\$ 0	\$ 73,044	\$ 73,044
Lunch Payments - Adults	0	0	26,362	26,362
Income from Breakfast	0	0	10,952	10,952
A la carte Sales	0	0	27,773	27,773
Receipts from Individual Schools	15,417	0	0	15,417
TBI Criminal Background Fees	1,440	0	0	1,440
<u>Other Charges for Services</u>				
Other Charges for Services	54	0	0	54
Total Charges for Current Services	\$ 16,911	\$ 0	\$ 138,131	\$ 155,042
<u>Other Local Revenues</u>				
<u>Recurring Items</u>				
Investment Income	\$ 0	\$ 0	\$ 2,160	\$ 2,160
Sale of Materials and Supplies	120	0	0	120
Miscellaneous Refunds	33,053	3,870	179	37,102
<u>Nonrecurring Items</u>				
Damages Recovered from Individuals	293	0	0	293
<u>Other Local Revenues</u>				
Other Local Revenues	10,169	0	0	10,169
Total Other Local Revenues	\$ 43,635	\$ 3,870	\$ 2,339	\$ 49,844
<u>State of Tennessee</u>				
<u>State Education Funds</u>				
Basic Education Program	\$ 5,583,166	\$ 0	\$ 0	\$ 5,583,166
Early Childhood Education	455,114	0	0	455,114
School Food Service	7,181	0	0	7,181
Other State Education Funds	100,346	0	0	100,346

(Continued)

Exhibit F-4

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

	General Purpose School	School Federal Projects	Central Cafeteria	Total
<u>State of Tennessee (Cont.)</u>				
<u>State Education Funds (Cont.)</u>				
Career Ladder Program	\$ 73,472	\$ 0	\$ 0	\$ 73,472
Career Ladder - Extended Contract	50,968	0	0	50,968
<u>Other State Revenues</u>				
Flood Control	142,345	0	0	142,345
Other State Revenues	18,842	0	0	18,842
Total State of Tennessee	\$ 6,431,434	\$ 0	\$ 0	\$ 6,431,434
<u>Federal Government</u>				
<u>Federal Through State</u>				
USDA School Lunch Program	\$ 0	\$ 0	\$ 283,290	\$ 283,290
Breakfast	0	0	117,282	117,282
Adult Education State Grant Program	40,662	0	0	40,662
Vocational Education - Basic Grants to States	0	29,419	0	29,419
Title I Grants to Local Education Agencies	0	384,546	0	384,546
Innovative Education Program Strategies	0	50,096	0	50,096
Special Education - Grants to States	1,760	284,748	0	286,508
Special Education Preschool Grants	0	8,214	0	8,214
Eisenhower Professional Development State Grants	0	105,424	0	105,424
Job Training Partnership Act	17,000	0	0	17,000
Other Federal through State	0	5,631	0	5,631
<u>Direct Federal Revenue</u>				
Public Law 874 - Maintenance and Operation	97,839	0	0	97,839
Total Federal Government	\$ 157,261	\$ 868,078	\$ 400,572	\$ 1,425,911
Total	\$ 8,318,322	\$ 871,948	\$ 541,042	\$ 9,731,312

Exhibit F-5

Clay County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Clay County School Department
For the Year Ended June 30, 2007

General Purpose School Fund

Instruction

Regular Instruction Program

Teachers	\$ 2,585,998	
Career Ladder Program	38,388	
Career Ladder Extended Contracts	53,670	
Educational Assistants	95,828	
Certified Substitute Teachers	23,150	
Non-certified Substitute Teachers	38,026	
Social Security	162,374	
State Retirement	165,680	
Medical Insurance	160,067	
Unemployment Compensation	3,884	
Employer Medicare	37,974	
Maintenance & Repair Services - Equipment	551	
Other Contracted Services	48,438	
Instructional Supplies and Materials	81,067	
Textbooks	76,968	
Other Charges	3,885	
Regular Instruction Equipment	28,522	
Total Regular Instruction Program		\$ 3,604,470

Alternative Instruction Program

Teachers	\$ 80,614	
Career Ladder Program	1,000	
Certified Substitute Teachers	575	
Non-certified Substitute Teachers	250	
Social Security	4,626	
State Retirement	5,003	
Medical Insurance	4,433	
Unemployment Compensation	89	
Employer Medicare	1,082	
Instructional Supplies and Materials	72	
Total Alternative Instruction Program		97,744

Special Education Program

Teachers	\$ 372,123
Career Ladder Program	7,000
Homebound Teachers	38,180
Educational Assistants	20,722
Certified Substitute Teachers	220
Non-certified Substitute Teachers	150

(Continued)

Exhibit F-5

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

General Purpose School Fund (Cont.)

Instruction (Cont.)

Special Education Program (Cont.)

Social Security	\$	24,763	
State Retirement		27,198	
Medical Insurance		32,986	
Unemployment Compensation		563	
Employer Medicare		5,791	
Contracts with Private Agencies		2,358	
Other Contracted Services		29,160	
Instructional Supplies and Materials		497	
Other Charges		1,000	
Total Special Education Program	\$		562,711

Vocational Education Program

Teachers	\$	185,020	
Career Ladder Program		2,000	
Clerical Personnel		7,248	
Certified Substitute Teachers		300	
Non-certified Substitute Teachers		1,935	
Social Security		11,010	
State Retirement		11,464	
Medical Insurance		15,390	
Unemployment Compensation		214	
Employer Medicare		2,575	
Other Contracted Services		113,545	
Instructional Supplies and Materials		4,000	
Vocational Instruction Equipment		3,208	
Total Vocational Education Program			357,909

Adult Education Program

Teachers	\$	23,947	
Other Salaries & Wages		18,852	
Social Security		2,654	
State Retirement		1,516	
Unemployment Compensation		150	
Employer Medicare		621	
Instructional Supplies and Materials		3,418	
Other Charges		1,086	
Other Equipment		10,414	
Total Adult Education Program			62,658

(Continued)

Exhibit F-5

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

General Purpose School Fund (Cont.)

Support Services

Attendance

Supervisor/Director	\$	57,666	
Career Ladder Program		1,000	
Social Security		3,469	
State Retirement		3,596	
Medical Insurance		2,120	
Unemployment Compensation		42	
Employer Medicare		811	
Travel		1,800	
Other Supplies and Materials		357	
Other Charges		1,630	
Total Attendance			\$ 72,491

Health Services

Medical Personnel	\$	33,145	
Social Security		2,009	
State Retirement		2,032	
Medical Insurance		609	
Unemployment Compensation		42	
Employer Medicare		470	
Travel		1,187	
Other Supplies and Materials		1,287	
Total Health Services			40,781

Other Student Support

Career Ladder Program	\$	1,000	
Guidance Personnel		130,853	
Social Security		7,205	
State Retirement		8,083	
Medical Insurance		11,064	
Unemployment Compensation		126	
Employer Medicare		1,685	
Evaluation and Testing		5,613	
Travel		305	
Other Charges		2,846	
Total Other Student Support			168,780

Regular Instruction Program

Supervisor/Director	\$	107,800
Career Ladder Program		7,000

(Continued)

Exhibit F-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Regular Instruction Program (Cont.)

Librarians	\$	130,355	
Education Media Personnel		20,242	
Instructional Computer Personnel		36,635	
Other Salaries & Wages		15,901	
Social Security		17,921	
State Retirement		19,023	
Medical Insurance		17,423	
Unemployment Compensation		335	
Employer Medicare		4,191	
Travel		10,476	
Library Books/Media		5,210	
Other Supplies and Materials		1,687	
In Service/Staff Development		9,435	
Other Charges		297	
Total Regular Instruction Program			\$ 403,931

Special Education Program

Supervisor/Director	\$	52,504	
Career Ladder Program		1,000	
Assessment Personnel		20,988	
Clerical Personnel		6,142	
Other Salaries & Wages		6,415	
Social Security		4,982	
State Retirement		5,576	
Medical Insurance		5,291	
Unemployment Compensation		85	
Employer Medicare		1,165	
Travel		200	
Other Contracted Services		1,500	
Total Special Education Program			105,848

Board of Education

Board and Committee Members Fees	\$	14,900	
In-Service Training		120	
Social Security		924	
Unemployment Compensation		89	
Employer Medicare		216	
Audit Services		2,240	
Dues and Memberships		6,970	

(Continued)

Exhibit F-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Board of Education (Cont.)

Legal Services	\$	20,312	
Travel		296	
Other Contracted Services		5,250	
Trustee's Commission		51,246	
Workers' Compensation Insurance		46,360	
Criminal Investigation of Applicants - TBI		960	
Refund to Applicant for Criminal Investigation		1,296	
Other Charges		10,245	
Total Board of Education			\$ 161,424

Director of Schools

County Official/Administrative Officer	\$	77,108	
Career Ladder Program		1,000	
Social Security		4,442	
State Retirement		4,788	
Medical Insurance		5,291	
Unemployment Compensation		42	
Employer Medicare		1,039	
Communication		18,280	
Postal Charges		1,732	
Travel		2,250	
Other Contracted Services		6,816	
Office Supplies		104	
Other Charges		144	
Total Director of Schools			123,036

Office of the Principal

Principals	\$	154,225	
Career Ladder Program		2,000	
Secretary(ies)		50,890	
Social Security		12,373	
State Retirement		13,264	
Medical Insurance		7,411	
Unemployment Compensation		333	
Employer Medicare		2,894	
Communication		3,500	
Total Office of the Principal			246,890

(Continued)

Exhibit F-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Fiscal Services

Accountants/Bookkeepers	\$	34,034	
Secretary(ies)		19,187	
Social Security		3,249	
State Retirement		4,279	
Unemployment Compensation		127	
Employer Medicare		760	
Travel		580	
Office Supplies		2,250	
Other Charges		574	
Total Fiscal Services	\$		65,040

Operation of Plant

Custodial Personnel	\$	172,878	
Other Salaries & Wages		12,000	
Social Security		11,397	
State Retirement		12,242	
Unemployment Compensation		591	
Employer Medicare		2,665	
Maintenance & Repair Services - Equipment		3,862	
Other Contracted Services		79,697	
Custodial Supplies		29,057	
Electricity		319,759	
Fuel Oil		27,270	
Water and Sewer		22,542	
Other Supplies and Materials		800	
Building and Contents Insurance		41,141	
Other Charges		941	
Plant Operation Equipment		4,244	
Total Operation of Plant			741,086

Maintenance of Plant

Supervisor/Director	\$	22,862	
Other Salaries & Wages		32,078	
Social Security		3,406	
State Retirement		4,417	
Unemployment Compensation		84	
Employer Medicare		797	
Maintenance & Repair Services - Buildings		4,900	
Maintenance & Repair Services - Equipment		6,243	

(Continued)

Exhibit F-5

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Maintenance of Plant (Cont.)

General Construction Materials	\$	232	
Other Supplies and Materials		19,713	
Other Charges		183	
Maintenance Equipment		1,612	
Total Maintenance of Plant			\$ 96,527

Transportation

Bus Drivers	\$	175,768	
Social Security		10,868	
State Retirement		12,097	
Unemployment Compensation		756	
Employer Medicare		2,542	
Communication		5,416	
Maintenance & Repair Services - Vehicles		1,035	
Medical and Dental Services		2,551	
Other Contracted Services		42,000	
Diesel Fuel		54,909	
Gasoline		39,095	
Lubricants		2,967	
Tires and Tubes		16,010	
Vehicle Parts		26,952	
Other Supplies and Materials		542	
Vehicle and Equipment Insurance		14,000	
Other Charges		2,000	
Transportation Equipment		137,894	
Total Transportation			547,402

Operation of Non-Instructional Services

Food Service

Supervisor/Director	\$	55,362	
Career Ladder Program		1,000	
Social Security		3,494	
State Retirement		3,455	
Unemployment Compensation		42	
Employer Medicare		817	
Communication		995	
Travel		1,365	
Total Food Service			66,530

(Continued)

Exhibit F-5

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

General Purpose School Fund (Cont.)

Operation of Non-Instructional Services (Cont.)

Community Services

Supervisor/Director	\$	42,284	
Other Salaries & Wages		6,585	
Social Security		2,547	
State Retirement		2,938	
Medical Insurance		5,291	
Unemployment Compensation		6	
Employer Medicare		596	
Travel		473	
Other Supplies and Materials		342	
Other Charges		408	
Total Community Services	\$		61,470

Early Childhood Education

Teachers	\$	116,858	
Educational Assistants		39,580	
Social Security		9,628	
State Retirement		9,134	
Unemployment Compensation		330	
Employer Medicare		2,252	
Travel		943	
Instructional Supplies and Materials		36,694	
Other Equipment		57,200	
Total Early Childhood Education			272,619

Capital Outlay

Regular Capital Outlay

Building Improvements	\$	50,043	
Site Development		8,690	
Other Capital Outlay		15,000	
Total Regular Capital Outlay			73,733

Principal on Debt

Education

Principal on Other Loans	\$	193,000	
Total Education			193,000

Interest on Debt

Education

Interest on Other Loans	\$	296,827	
Total Education			296,827

(Continued)

Exhibit F-5

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

General Purpose School Fund (Cont.)

Other Debt Service

Education

Other Debt Service	\$ 43,260	
Total Education		\$ 43,260

Total General Purpose School Fund \$ 8,466,167

School Federal Projects Fund

Instruction

Regular Instruction Program

Teachers	\$ 195,943	
Educational Assistants	40,268	
Other Salaries & Wages	10,000	
Certified Substitute Teachers	3,600	
Non-certified Substitute Teachers	5,035	
Social Security	15,223	
State Retirement	15,831	
Medical Insurance	8,866	
Unemployment Compensation	657	
Employer Medicare	3,404	
Other Contracted Services	7,075	
Instructional Supplies and Materials	27,579	
Other Charges	4,926	
Regular Instruction Equipment	38,873	
Total Regular Instruction Program		\$ 377,280

Special Education Program

Educational Assistants	\$ 85,348	
Social Security	4,658	
State Retirement	6,612	
Unemployment Compensation	364	
Employer Medicare	1,216	
Contracts with Private Agencies	13,366	
Other Contracted Services	27,884	
Instructional Supplies and Materials	24,769	
Other Supplies and Materials	6,221	
Other Charges	6,178	
Special Education Equipment	17,000	
Total Special Education Program		193,616

(Continued)

Exhibit F-5

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

School Federal Projects Fund (Cont.)

Instruction (Cont.)

Vocational Education Program

Travel	\$	6,915	
Instructional Supplies and Materials		3,031	
Vocational Instruction Equipment		16,567	
Total Vocational Education Program	\$		26,513

Support Services

Regular Instruction Program

Supervisor/Director	\$	41,765	
Secretary(ies)		9,032	
Social Security		3,149	
State Retirement		3,183	
Medical Insurance		2,120	
Unemployment Compensation		66	
Employer Medicare		744	
Maintenance & Repair Services - Equipment		83	
Travel		8,642	
Other Contracted Services		6,576	
Library Books/Media		1,967	
Other Supplies and Materials		20,241	
In Service/Staff Development		49,994	
Other Charges		11,066	
Other Equipment		3,672	
Total Regular Instruction Program			162,300

Special Education Program

Assessment Personnel	\$	20,988	
Clerical Personnel		6,884	
Other Salaries & Wages		6,206	
Social Security		2,138	
State Retirement		2,339	
Unemployment Compensation		98	
Employer Medicare		494	
Maintenance & Repair Services - Equipment		130	
Postal Charges		800	
Travel		5,000	
Other Contracted Services		26,160	
Other Supplies and Materials		2,073	
In Service/Staff Development		3,909	
Total Special Education Program			77,219

(Continued)

Exhibit F-5

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

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Vocational Education Program

Travel	\$	925	
In Service/Staff Development		<u>1,816</u>	
Total Vocational Education Program	\$		2,741

Transportation

Bus Drivers	\$	6,240	
Social Security		387	
State Retirement		502	
Unemployment Compensation		37	
Employer Medicare		<u>90</u>	
Total Transportation			<u>7,256</u>

Total School Federal Projects Fund \$ 846,925

Central Cafeteria Fund

Operation of Non-Instructional Services

Food Service

Cafeteria Personnel	\$	193,437	
In-Service Training		489	
Social Security		14,798	
State Retirement		13,736	
Medical Insurance		470	
Unemployment Compensation		865	
Communication		1,173	
Maintenance & Repair Services - Equipment		5,556	
Postal Charges		180	
Transportation - Other than Students		1,687	
Other Contracted Services		2,023	
Food Preparation Supplies		3,520	
Food Supplies		241,067	
Office Supplies		9,224	
Other Supplies and Materials		11,057	
Trustee's Commission		20	
Workers' Compensation Insurance		6,000	
In Service/Staff Development		400	
Food Service Equipment		<u>53,773</u>	
Total Food Service	\$		<u>559,475</u>

Total Central Cafeteria Fund 559,475

Total Governmental Funds - Clay County School Department \$ 9,872,567

SINGLE AUDIT REPORT
CLAY COUNTY, TENNESSEE
AND
CLAY COUNTY SCHOOL DEPARTMENT
FOR THE YEAR ENDED JUNE 30, 2007

DEPARTMENT OF AUDIT
JOHN G. MORGAN
Comptroller of the Treasury

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

JAMES R. ARNETTE
Director

CARL LOWE, CGFM
Audit Manager

STEVE REEDER, CPA, CGFM, CFE
Auditor 4

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

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

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

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

October 5, 2007

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

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

We have audited the financial statements of each major fund and the aggregate remaining fund information of Clay County, Tennessee, and the governmental activities, the major fund, and the aggregate remaining fund information of the Clay County School Department as of and for the year ended June 30, 2007, which collectively comprise a portion of Clay County's and the Clay County School Department's basic financial statements and have issued our reports thereon dated October 5, 2007. Our report on the financial statements of Clay County, Tennessee, expresses an adverse opinion because the government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34. Our report on the financial statements of the Clay County School Department expresses an unqualified opinion. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clay County's and the Clay County School Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements,

but not for the purpose of expressing an opinion on the effectiveness of Clay County's and the Clay County School Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Clay County's and the Clay County School Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting: 07.02, 07.03, 07.07, 07.09, 07.11(A,B), 07.12, and 07.15.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Clay County's and the Clay County School Department's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be significant weaknesses. However, of the significant deficiencies described above, we consider items 07.02 and 07.03 to be material weaknesses.

Compliance and Other Matters

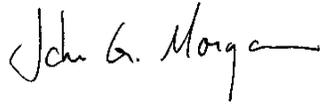
As part of obtaining reasonable assurance about whether Clay County's and the Clay County School Department's statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could 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 which are described in the accompanying Schedule of Findings and Questioned Costs as items 07.01, 07.04, 07.05, 07.06, 07.08, 07.10, 07.11(C), and 07.13.

We consider item 07.14 described in the accompanying Schedule of Findings and Questioned Costs to be a noteworthy control deficiency over financial operations. We also noted certain matters that we reported to the management of Clay County and the Clay County School Department in separate communications.

Clay County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Clay County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the county mayor, director of schools, road superintendent, County Commission, Board of Education, others within Clay County, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

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

John G. Morgan
Comptroller of the Treasury

JGM/rc



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

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

October 5, 2007

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

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

Compliance

We have audited the compliance of Clay County and the Clay County School Department with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of their major federal programs for the year ended June 30, 2007. Clay County's and the Clay County School Department's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of their major federal programs is the responsibility of Clay County's and the Clay County School Department's management. Our responsibility is to express an opinion on Clay County's and the Clay County School Department's compliance based on our audit.

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

material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Clay County's and the Clay County School Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Clay County's and the Clay County School Department's compliance with those requirements.

In our opinion, Clay County and the Clay County School Department complied, in all material respects, with the requirements referred to above that are applicable to each of their major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Clay County and the Clay County School Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Clay County's and the Clay County School Department's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Clay County's and the Clay County School Department's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of each major fund and the aggregate remaining fund information of Clay County, Tennessee, and the governmental activities, the major fund, and the aggregate remaining fund information of the Clay County School Department

as of and for the year ended June 30, 2007, and have issued our report thereon dated October 5, 2007. Our report on the financial statements of Clay County, Tennessee expresses an adverse opinion because the government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34. Our report on the financial statements of the Clay County School Department was unqualified. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise a portion of Clay County's and the Clay County School Department's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards 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 management, the county mayor, director of schools, road superintendent, County Commission, Board of Education, others within Clay County, 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.

Yours very truly,

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

John G. Morgan
Comptroller of the Treasury

JGM/rc

Clay County, Tennessee, and the Clay County School Department
Schedule of Expenditures of Federal Awards and State Grants (1)
For the Year Ended June 30, 2007

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Passed-through Entity Identifying Number	Expenditures
U.S. Department of Agriculture:			
Passed-through State Department of Agriculture:			
Food Donation (Noncash Assistance)	10.550	N/A	\$ 19,602
Passed-through State Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	117,282
National School Lunch Program	10.555	N/A	283,290
Total U.S. Department of Agriculture			<u>\$ 420,174</u>
U.S. Department of Housing and Urban Development:			
Passed-through State Department of Economic and Community Development:			
Community Development Block Grant/State's Program	14.228	(3)	\$ 234,811
Passed-through Tennessee Housing Development Agency:			
HOME Investment Partnership Program	14.239	HM-03-17	42,191
Total U.S. Department of Housing and Urban Development			<u>\$ 277,002</u>
U.S. Department of Justice:			
Passed-through Appalachia HIDTA:			
Appalachia High Intensity Drug Trafficking Area	16.13PAPP501	N/A	\$ 13,401
U.S. Department of Labor:			
Passed-through Upper Cumberland Human Resource Agency:			
Workforce Investment Act	17.250	N/A	\$ 17,000
National Highway Traffic Safety Administration:			
Passed-through State Department of Transportation:			
State and Community Highway Safety	20.600	Z-07035742-00	\$ 5,000
Appalachian Regional Commission:			
Passed-through State Department of Economic and Community Development:			
Appalachian Regional Development	23.001	(2)	\$ 22,650
U.S. Department of Education:			
Direct Programs:			
Impact Aid	84.041	N/A	\$ 97,839
Passed-through State Department of Education:			
Adult Education - State Grant Programs	84.002	Z-07-033682-00	40,662
Title I Grants to Local Educational Agencies	84.010	N/A	392,264
Special Education Cluster:			
Special Education - Grants to States - IDEA	84.027	N/A	274,795
Special Education - Grants to States - Preschool	84.173	N/A	7,557
Vocational Education - Basic Grants to States	84.048	N/A	29,419
Safe and Drug Free Schools and Communities - State Grants	84.186	(2)	4,922
State Grants for Innovative Programs	84.298	N/A	1,998
Education Technology State Grants	84.318	(2)	2,723
Rural Education	84.358	N/A	42,700
Improving Teacher Quality State Grants	84.367	N/A	102,307
Total U.S. Department of Education			<u>\$ 997,186</u>
Elections Assistance Commission:			
Passed-through Tennessee Secretary of State's Office:			
Help America Vote Act Requirements Payments	90.401	(4)	\$ 93,800
Total Expenditures of Federal Awards			<u>\$ 1,846,213</u>

(Continued)

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

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Contract Number	Expenditures
<u>State Grants</u>			
State Reappraisal Program - Comptroller of the Treasury	N/A	(2)	\$ 4,076
Aging Program - State Commission on Aging	N/A	(2)	13,407
Juvenile Services Program - State Commission on Children and Youth	N/A	(2)	9,000
Litter Program - State Department of Transportation	N/A	(2)	29,237
Waste Tire Grant - State Department of Environment and Conservation	N/A	(2)	4,000
Used Oil Grant- State Department of Environment and Conservation	N/A	(2)	9,872
Local Health Services - State Department of Health	N/A	Z-07-031523-00	2,847
Emergency Dispatchers Grant - State Department of Commerce and Insurance	N/A	(2)	22,416
Adult Basic Education - State Department of Education	N/A	Z-07-033682-00	19,569
Family Preservation and Support Service - State Department of Education	N/A	(2)	33,300
Lottery for Education/PreK - State Department of Education	N/A	(2)	455,114
High Schools That Work - State Department of Education	N/A	(2)	7,816
Safe Schools Act - State Department of Education	N/A	(2)	<u>7,849</u>
 Total State Grants			 <u>\$ 618,503</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) GG-05-12027-00: \$22,176; GG-0612768-00: \$212,635.
- (4) Z-06-032929-00: \$91,500; Z-007-037429-00: \$2,301.

Clay County, Tennessee, and the Clay County School Department
Schedule of Audit Findings Not Corrected
June 30, 2007

Government Auditing Standards require auditors to report the status of uncorrected findings from prior audits. Presented below are findings from the Annual Financial Report of Clay County, Tennessee, and the Clay County School Department for the year ended June 30, 2006, which have not been corrected.

CLAY COUNTY

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
06.01	12	Government-wide financial statements were not presented in accordance with generally accepted accounting principles

OFFICE OF COUNTY MAYOR

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
06.04(A,B)	13	The office had deficiencies in purchasing procedures
06.05	14	Inventory records were not maintained

OFFICE OF ROAD SUPERINTENDENT

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
06.09(A)	16	A formal purchase order system had not been established
06.10	17	A list of county roads was not submitted to the County Commission

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
06.13	19	Accounting records were not maintained properly for Circuit and General Sessions Courts
06.14	21	Execution docket trial balances did not reconcile with general ledger accounts for Circuit and General Sessions Courts

OFFICE OF CLERK AND MASTER

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
06.15	21	The clerk did not post short-term account activity to the accounting records

OTHER FINDINGS

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
06.16	22	A central system of accounting, budgeting, and purchasing had not been adopted
06.17	22	Duties were not segregated adequately in the Offices of County Mayor, Road Superintendent, Director of Schools, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2007

PART I, SUMMARY OF AUDITOR'S RESULTS

1. An adverse opinion was issued on the financial statements of Clay County, and an unqualified opinion was issued on the financial statements of the Clay County School Department.
2. The audit of the financial statements of Clay County and the Clay County School Department disclosed significant deficiencies in internal control. Two of these conditions were also considered to be material weaknesses in Clay County.
3. The audit disclosed two instances of noncompliance that were material to the financial statements of Clay County. The audit did not disclose any instances of noncompliance that are material to the financial statements of the Clay County School Department.
4. The audit disclosed no significant deficiencies in internal control over major programs.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit revealed no findings that are required to be reported under Section 510(a) of OMB Circular A-133.
7. The Child Nutrition Cluster: the School Breakfast Program and the National School Lunch Program (CFDA Nos. 10.553 and 10.555), Community Development Block Grant/State's Program (CFDA No. 14.228), and the Title I Grants to Local Educational Agencies (CFDA No. 84.010) were determined to be major programs.
8. A \$300,000 threshold was used to distinguish between Type A and Type B federal programs.
9. Clay County and the Clay County School Department did not qualify as low-risk auditees.

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

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

CLAY COUNTY

FINDING 07.01 **GOVERNMENT-WIDE FINANCIAL STATEMENTS WERE NOT PRESENTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**
(Material Noncompliance Under Government Auditing Standards)

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

The Office of the Comptroller of the Treasury, State of Tennessee, requires governments that do not implement GASB Statement 34 to issue a financial report in compliance with Financial Reporting Standards for County Governments, Component Units of County Governments, and Special School Districts That Do Not Implement Governmental Accounting Standards Board Statement No. 34, established by the Comptroller of the Treasury. Clay County’s financial statements are presented in compliance with these requirements.

RECOMMENDATION

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

MANAGEMENT’S RESPONSE – COUNTY MAYOR

We are in the process of becoming compliant with GASB 34 by June 30, 2008.

OFFICE OF COUNTY MAYOR

FINDING 07.02 **INVENTORY RECORDS WERE NOT MAINTAINED**
(Internal Control – Material Weakness Under Government Auditing Standards)

County officials did not maintain inventory records for assets owned by the general county government. Generally accepted accounting principles require accountability for all county-owned assets, such as vehicles, furniture, and equipment. The failure to maintain inventory records results in a loss of control over assets.

RECOMMENDATION

County officials should maintain inventory records for all county-owned assets.

MANAGEMENT’S RESPONSE – COUNTY MAYOR

We are in the process of obtaining inventory records from all county offices.

FINDING 07.03 **THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES**
(Internal Control – Material Weakness Under Government Auditing Standards)

Our examination of purchasing procedures revealed the following deficiencies:

- A. The office had not established a formal purchase order system. Purchase orders are necessary to control who has purchasing authority for the office and to document purchasing commitments.
- B. Several invoices were paid without documentation that goods had been received and/or services had been rendered. This practice weakens controls over the purchasing process. We extended our audit procedures and determined that these goods and services were received.
- C. The County Commission had not adopted formal policies and procedures governing travel reimbursements for county employees. Without a formal travel policy, employees have no limitations placed on their mileage, lodging, and meal expenses.

RECOMMENDATION

The office should establish a formal purchase order system to improve internal controls over the purchasing process and to document purchasing commitments. Documentation should be obtained indicating that goods have been received and/or services have been rendered before invoices are paid. The County Commission should adopt formal policies and procedures for payment of travel expenses. These policies and procedures should establish

maximum limits for the reimbursement of mileage, lodging, meals, and other travel expenses.

MANAGEMENT’S RESPONSE – COUNTY MAYOR

We do not have a formal purchase order system at this time, but we are in the process of implementing a formal travel policy. We should have a resolution for such on the agenda as soon as possible.

FINDING 07.04 **CERTAIN FINANCIAL ACTIVITY OF THE CLAY COUNTY PUBLIC LIBRARY WAS NOT AUDITED, AND THE LIBRARY WAS NOT SUBJECT TO BUDGETARY CONTROL OF THE COUNTY COMMISSION**
(Noncompliance Under Government Auditing Standards)

The Clay County Public Library operates as a department within the county’s General Fund. A significant portion of the library’s expenditures for the year was paid through the county’s General Fund (\$63,494), which is included in the financial statements of this report. However, the Library Board maintained four checking accounts outside of the county’s control to deposit various revenues and to pay certain operating expenses (\$21,826). The balance of these four checking accounts totaled \$8,719 on June 30, 2007. The funds channeled through these checking accounts did not flow through the county’s budgetary process, have not been audited, and are not included in the financial statements of this report. We do not consider the exclusion of these amounts to be material to the financial statements of this report.

Section 5-9-401, Tennessee Code Annotated (TCA), 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.” Also, Section 10-3-106, TCA, states that “all library accounts of every character shall be audited annually by or under the county legislative body and/or city governing body.”

RECOMMENDATION

The Clay County Public Library should remit all collections to the county’s General Fund. All revenues and expenditures related to the library’s operation should be audited and subject to budgetary control of the County Commission as required by state statutes.

MANAGEMENT’S RESPONSE – COUNTY MAYOR

This issue will be presented to the County Commission. We will then determine whether the library will be subject to an independent audit or will remit all collections to the county’s General Fund.

FINDING 07.05 TAX ANTICIPATION NOTES WERE NOT RETIRED IN COMPLIANCE WITH STATE STATUTE
(Material Noncompliance Under Government Auditing Standards)

In the prior year, the Solid Waste/Sanitation Fund borrowed \$60,000 from the General Fund to provide cash for operations. This note should have been retired by June 30, 2006, but was still outstanding as of June 30, 2007. In the current year, the Solid Waste/Sanitation Fund borrowed \$70,000 from the General Fund for operations. This tax anticipation note was not retired by June 30, 2007. Section 9-21-801, Tennessee Code Annotated, allows the County Commission to issue tax anticipation notes, with the approval of the state director of Local Finance, provided the notes are retired prior to the end of the fiscal year issued. These notes have been reflected in the financial statements of this report as notes receivable in the General Fund and notes payable in the Solid Waste/Sanitation Fund.

RECOMMENDATION

Tax anticipation notes should be retired prior to the end of the fiscal year issued as required by state statute.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

The County Commission and the state Comptroller's Office both agreed for this debt to be forgiven. A resolution will be presented at the November 2007 County Commission meeting to forgive this debt.

REBUTTAL

Upon inquiry from the county mayor, the state director of Local Finance, a division of the state Comptroller's Office, issued a letter to the county subsequent to June 30, 2007, indicating that the forgiveness of this debt was allowable under proper conditions. As of the date of this report, the Clay County Commission had given no formal authorization to forgive these loans.

FINDING 07.06 UNCLAIMED FUNDS WERE NOT REPORTED AND PAID TO THE STATE
(Noncompliance Under Government Auditing Standards)

The office did not report and pay to the state unclaimed funds (old outstanding warrants) totaling \$9,152. The Unclaimed Property Act, Section 66-29-101 et seq., Tennessee Code Annotated, provides that any funds held for more than one year and unclaimed by the owner are considered abandoned. This statute further provides for the funds to be reported and paid to the state Treasurer's Office.

RECOMMENDATION

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

MANAGEMENT’S RESPONSE – COUNTY MAYOR

We are in the process of reporting unclaimed funds to the state Treasurer’s Office.

OFFICE OF ROAD SUPERINTENDENT

FINDING 07.07 **A FORMAL PURCHASE ORDER SYSTEM HAD NOT BEEN ESTABLISHED**
(Internal Control – Significant Deficiency Under Government Auditing Standards)

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

RECOMMENDATION

The office should establish a formal purchase order system to improve internal controls over the purchasing process and to document purchasing commitments.

FINDING 07.08 **A COUNTY ROAD LIST WAS NOT SUBMITTED TO THE COUNTY COMMISSION FOR APPROVAL**
(Noncompliance Under Government Auditing Standards)

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

RECOMMENDATION

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

**FINDING 07.09 ADEQUATE CONTROLS WERE NOT MAINTAINED OVER FUEL AND ROCK
(Internal Control – Significant Deficiency Under Government Auditing Standards)**

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

RECOMMENDATION

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

OFFICE OF DIRECTOR OF SCHOOLS

**FINDING 07.10 EXPENDITURES EXCEEDED APPROPRIATIONS
(Noncompliance Under Government Auditing Standards)**

Central Cafeteria Fund expenditures exceeded total appropriations approved by the County Commission by \$26,025. Section 5-9-401, Tennessee Code Annotated, states that “All funds from whatever source derived, including, but not limited to, taxes, county aid funds, federal funds, and fines, that are to be used in the operation and respective programs of the various departments, commissions, institutions, boards, offices and agencies of county governments shall be appropriated to such use by the county legislative bodies.”

RECOMMENDATION

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

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

**FINDING 07.11 ACCOUNTING RECORDS WERE NOT MAINTAINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND STATE STATUTES
(A. and B. – Internal Control – Significant Deficiency;
C. – Noncompliance Under Government Auditing Standards)**

Numerous deficiencies were noted in the maintenance of the Circuit and General Sessions Courts’ accounting records. These deficiencies were so numerous and significant that we were unable to determine the propriety of the transactions reflected in the financial

statements of this report for both Circuit and General Sessions Courts. These deficiencies are discussed below:

- A. Bank transactions of the Circuit and General Sessions Courts were not reconciled properly with the general ledger cash accounts during the year. Personnel of the clerk's offices attempted to prepare monthly reconciliations in each court; however, these reconciliations reflected unexplained variances between bank balances and general ledger cash accounts at the end of each month. We reviewed the reconciliations, the general ledger cash accounts, and the bank statements and noted the following deficiencies:
1. At June 30, 2007, the cash balance reflected on the clerk's bank reconciliations exceeded the amount shown on the clerk's annual financial report in Circuit Court (\$61,888) and in General Sessions Court (\$13,968). Officials were unable to explain these differences.
 2. The outstanding check lists for each court that the clerk provided at year-end were not accurate. For example, the lists included some checks that had been paid and were no longer outstanding, some individual checks with outstanding amounts that differed from the amounts that were posted in the general ledgers, and several checks that had been physically voided and were on hand but had not been voided in the general ledgers.
 3. During the year, the clerk wrote several checks manually that were not posted to the computerized general ledger.
 4. On several occasions, collections were deposited without being receipted or posted to the general ledger. Section 9-2-103, Tennessee Code Annotated, requires receipts to be issued for all collections.
 5. During the year examined, the clerk had not posted interest earned or service charges from the offices bank accounts to the general ledgers.
- B. During the year examined, the clerk did not properly post short-term investment account activity to the general ledgers in Circuit and General Sessions Courts. Also, the clerk did not attempt to reconcile the bank statement balances of these short-term investment accounts with general ledger totals. Our examination of bank records for short-term investment accounts and the general ledgers revealed unexplained variances of \$9,266 in Circuit Court and \$13,828 in General Sessions Court.
- C. As of June 30, 2007, the clerk prepared execution docket trial balances for Circuit and General Sessions Courts as required by Section 18-2-103, Tennessee Code Annotated (TCA). However, these trial balances did not reconcile with the general ledgers by substantial amounts. Therefore, we were unable to determine if the clerk had complied with provisions of the Unclaimed Property Act, Section 66-29-110, TCA, as it relates to the execution docket balances. This statute provides that any funds held by the

courts for 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

We recommend the following actions:

- A. Bank reconciliations should be properly prepared, and any variances should be promptly corrected. Monthly listings of outstanding checks should be accurately prepared. All manually generated checks should be posted to the general ledger, and receipts should be issued for all collections. Furthermore, all bank activity should be posted to the general ledger.
- B. Short-term investment account activity should be properly posted to the general ledgers. Also, bank statements for these short-term investment accounts should be reconciled with the general ledgers monthly.
- C. The execution docket trial balances for Circuit and General Sessions Courts should be reconciled with general ledger accounts. Any funds held by the courts for more than one year and unclaimed by the owner are considered abandoned and should be reported and paid to the state Treasurer's Office in compliance with state statutes.

MANAGEMENT'S RESPONSE – CIRCUIT AND GENERAL SESSIONS COURTS CLERK

I hired a new bookkeeper in April and found that there were numerous problems that should have been cleared up by the previous bookkeeper. Together with Local Government Data Processing Center and County Technical Advisory Services, we have tried to correct the books without making some of the same mistakes. I no longer allow checks to be written manually unless there is an emergency and the check cannot wait. We are going through the outstanding check lists to see if we can clean-up the list. All money that is received in this office is receipted to the correct ledger account. Local Government Data Processing Center has set up an execution docket in the computer software so interest from our bank accounts and investments can be correctly receipted in the computer.

OFFICE OF CLERK AND MASTER

FINDING 07.12 **THE CLERK DID NOT POST SHORT-TERM ACCOUNT
ACTIVITY TO THE ACCOUNTING RECORDS**
(Internal Control – Significant Deficiency Under Government
Auditing Standards)

Short-term accounts held on behalf of litigants totaling \$12,545 at June 30, 2007, were not reflected in the office's cash journal. The cash journal is the official cash control record of

the office and should reflect all financial activity. Also, the clerk did not maintain subsidiary records to reflect the detailed activity for each of the short-term accounts. These short-term accounts have been reflected in the financial statements of this report.

RECOMMENDATION

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

OFFICE OF SHERIFF

FINDING 07.13 **FINGERPRINTS OF ARRESTEES WERE NOT SUBMITTED TO THE TENNESSEE BUREAU OF INVESTIGATION**
(Noncompliance Under Government Auditing Standards)

The Sheriff's Department did not submit fingerprints of all persons arrested to the Tennessee Bureau of Investigation (TBI) as required by Section 8-4-109, Tennessee Code Annotated. Data obtained from the TBI reflected that Clay County did not submit any fingerprints to TBI during the year ended June 30, 2007.

RECOMMENDATION

The sheriff should ensure that the fingerprints of all persons arrested are properly submitted to the Tennessee Bureau of Investigation as required by state statute.

MANAGEMENT'S RESPONSE – SHERIFF

My chief deputy has since fixed the problem. The problem was a program that was installed in the computer and not activated. We have now activated the program, and fingerprints are being sent daily. The computer has shown that all prints have been transmitted OK.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 07.14 **A CENTRAL SYSTEM OF ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**
(Internal Control – Control Finding 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 07.15 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF COUNTY MAYOR, ROAD SUPERINTENDENT, DIRECTOR OF SCHOOLS, TRUSTEE, COUNTY CLERK, CIRCUIT AND GENERAL SESSIONS COURTS CLERK, CLERK AND MASTER, REGISTER, AND SHERIFF**

(Internal Control – Significant Deficiency Under Government Auditing Standards)

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

MANAGEMENT'S RESPONSE – COUNTY MAYOR

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

REBUTTAL

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

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

There were no findings and questioned costs for federal awards.

**CLAY COUNTY, TENNESSEE, AND THE
CLAY COUNTY SCHOOL DEPARTMENT
AUDITEE REPORTING RESPONSIBILITIES
For the Year Ended June 30, 2007**

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

County Mayor – Summary Schedule of Prior Year's Findings

FINDINGS 06.06 and 06.18

All federal awards were disbursed through the Clay County Trustee's Office with warrants written through the Clay County Mayor's Office during the current year.

FINDINGS 06.08 and 06.19

No projects involving subrecipients were noted in the current year.

FINDINGS 06.17 and 06.20

Although the County Mayor's Office as a whole lacks sufficient segregation of duties, additional controls are in place over the expenditures of federal funds and reporting to federal agencies that we feel mitigates the lack of segregation of duties as it pertains to federal awards.

Director of Schools – Summary Schedule of Prior Year's Findings

FINDINGS 06.17 and 06.20

Although the School Department as a whole lacks sufficient segregation of duties, additional controls are in place over the expenditures of federal funds and reporting to federal agencies that we feel mitigates the lack of segregation of duties as it pertains to federal awards.