

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

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**SINGLE AUDIT REPORT**



**FOR THE YEAR ENDED JUNE 30, 2005**

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

**ANNUAL FINANCIAL REPORT**  
**CANNON COUNTY, TENNESSEE**  
**FOR THE YEAR ENDED JUNE 30, 2005**

*DEPARTMENT OF AUDIT*  
*JOHN G. MORGAN*  
*Comptroller of the Treasury*

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

*ARTHUR L. ALEXANDER*  
*Director*

*CARL LOWE, CGFM*  
*Audit Manager*

*MICHAEL FORD, CPA, CGFM*  
*Auditor 4*

*JESSICA L. COX, CGFM*  
*KELLEY J. McNEAL, CPA, CGFM*  
*State Auditors*

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# ***Audit Highlights***

Annual Financial Report  
Cannon County, Tennessee  
For the Year Ended June 30, 2005

## ***Scope***

We have audited the financial statements of each major fund and the aggregate remaining fund information of Cannon County as of and for the year ended June 30, 2005.

## ***Results***

Our report on Cannon 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 13 findings and recommendations, which we have reviewed with Cannon County management. Detailed findings and recommendations are included in the Single Audit Report.

## ***Findings***

The following are summaries of the audit findings:

### **CANNON COUNTY**

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

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### **OFFICE OF COUNTY EXECUTIVE**

- ◆ Two industrial development loans issued by the county were not authorized in accordance with state statutes.
  - ◆ Expenditures exceeded appropriations approved by the County Commission in two categories in the Industrial/Economic Development Fund. Expenditures exceeded appropriations approved by the County Commission in the Solid Waste/Sanitation Fund by \$19,306.
  - ◆ In some required instances, the office did not issue purchase orders, some invoices were paid without documentation of the receipt of goods or services, and not all invoices were marked as being paid.
  - ◆ Competitive bids were not solicited for certain purchases.
  - ◆ The County Executive's office did not follow the approved leave policies.
  - ◆ County officials did not maintain inventory records for assets owned by the general county government.
-

## **OFFICE OF HIGHWAY SUPERINTENDENT**

- ◆ The actual beginning fund balance in the Highway/Public Works Fund exceeded the estimated beginning fund balance by \$380,851.
- 

## **OFFICE OF SHERIFF**

- ◆ The sheriff did not maintain the forms and reports required by the Office of the Comptroller of the Treasury for drug-fund expenditures.
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## **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 Executive, Highway Superintendent, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff.
- ◆ The county's practice of paying the School Department's buildings and contents insurance premiums from the General Fund is of questionable legality.
- ◆ County officials had not adopted policies and procedures for travel reimbursement.

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# INTRODUCTORY SECTION

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# Cannon County Officials

## June 30, 2005

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### Officials:

Mike Gannon, County Executive  
Thomas J. Lovvorn, Highway Superintendent  
James E. Maxwell, Trustee  
Donald L. Preston, Assessor of Property  
Bobby Smith, County Clerk  
Robert H. Davenport, Circuit and General Sessions Court Clerk  
Harold Patrick, Clerk and Master  
Deborah A. Morris, Register  
Kenneth D. Wetzell, Sheriff

### Board of County Commissioners:

Mike Gannon, Chairman  
Karen Ashford  
Clarence M. Barker  
Lofton D. Barrett  
Sterling B. Bush, Jr.  
Palmer J. Cook, Jr.  
Wayne LeFevers  
Greg S. Mitchell  
Rebekah H. Parton  
Georgia F. Pitts  
Joe Wimberly

### Highway Commission:

Jerry Pelham, Chairman  
Wayne Alexander  
James Hancock



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**FINANCIAL SECTION**

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

INDEPENDENT AUDITOR'S REPORT

August 11, 2005

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

To the County Executive and County Commissioners:

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Cannon County, Tennessee, as of and for the year ended June 30, 2005, as shown on pages 11 through 32, 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 Cannon County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities and discretely presented component units. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the county's governmental activities and discretely presented component units are not reasonably determinable.

As described in Note I, Cannon 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 matter 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 Cannon County, Tennessee, as of June 30, 2005, 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 Cannon County, Tennessee, as of June 30, 2005, 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.

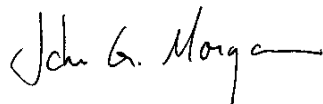
In accordance with Government Auditing Standards, we have also issued our report dated August 11, 2005, on our consideration of Cannon County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other 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 provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

As described in Note IV.B., Cannon County has implemented Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures which modifies the county's disclosures for custodial credit risk and adds disclosures about other types of risk.

The budgetary comparison information on pages 35 through 40 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 Cannon 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, miscellaneous schedules, and statistical tables 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 and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Very truly yours,



John G. Morgan  
Comptroller of the Treasury

JGM/rd

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# **BASIC FINANCIAL STATEMENTS**

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Exhibit A

Cannon County, Tennessee  
Balance Sheet  
Governmental Funds  
June 30, 2005

	Major Funds				Nonmajor	Total
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern- mental Funds	
<u>ASSETS</u>						
Cash	\$ 0	\$ 0	\$ 0	\$ 0	\$ 59,922	\$ 59,922
Equity in Pooled Cash and Investments	497,894	14,781	555,701	2,536,025	256,194	3,860,595
Accounts Receivable	1,183	1,946	0	0	0	3,129
Due from Other Governments	139,374	17,663	244,155	0	0	401,192
Due from Other Funds	26,389	0	0	0	0	26,389
Property Taxes Receivable	2,212,049	271,709	0	65,060	0	2,548,818
Allowance for Uncollectible Property Taxes	(37,851)	(4,044)	0	(1,113)	0	(43,008)
Total Assets	\$ 2,839,038	\$ 302,055	\$ 799,856	\$ 2,599,972	\$ 316,116	\$ 6,857,037
<u>LIABILITIES AND FUND BALANCES</u>						
<u>Liabilities</u>						
Accounts Payable	\$ 3,458	\$ 0	\$ 0	\$ 0	\$ 1,898	\$ 5,356
Payroll Deductions Payable	0	0	142	0	0	142
Due to Other Funds	0	26,369	0	0	20	26,389
Deferred Revenue - Current Property Taxes	2,062,403	257,801	0	60,659	0	2,380,863
Deferred Revenue - Delinquent Property Taxes	111,795	9,864	0	3,288	0	124,947
Other Deferred Revenues	21,500	5,100	115,615	0	0	142,215
Total Liabilities	\$ 2,199,156	\$ 299,134	\$ 115,757	\$ 63,947	\$ 1,918	\$ 2,679,912
<u>Fund Balances</u>						
Reserved for Purchase of Electronic Fingerprint Imaging System	\$ 0	\$ 0	\$ 0	\$ 0	\$ 14,007	\$ 14,007
Reserved for Alcohol and Drug Treatment	43,947	0	0	0	0	43,947
Reserved for Litigation Tax - Jail, Workhouse, or Courthouse	67,617	0	0	0	0	67,617
Reserved for Computer System - Register	7,618	0	0	0	0	7,618
Reserved for Automation Purposes - Circuit Court	353	0	0	0	0	353
Reserved for Automation Purposes - General Sessions Court	7,485	0	0	0	0	7,485
Reserved for Automation Purposes - Chancery Court	601	0	0	0	0	601
Reserved for Automation Purposes - Sheriff	4,452	0	0	0	0	4,452

(Continued)

Exhibit A

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

LIABILITIES AND FUND BALANCES (Cont.)

Fund Balances (Cont.)

Reserved for Other General Purposes

Unreserved, Reported In:

General Fund

Special Revenue Funds

Debt Service Funds

Total Fund Balances

Total Liabilities and Fund Balances

	Major Funds			Nonmajor Funds	Total Govern- mental Funds
General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern- mental Funds	
\$ 11,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 11,000
496,809	0	0	0	0	496,809
0	2,921	684,099	0	300,191	987,211
0	0	0	2,536,025	0	2,536,025
<u>\$ 639,882</u>	<u>\$ 2,921</u>	<u>\$ 684,099</u>	<u>\$ 2,536,025</u>	<u>\$ 314,198</u>	<u>\$ 4,177,125</u>
<u>\$ 2,839,038</u>	<u>\$ 302,055</u>	<u>\$ 799,856</u>	<u>\$ 2,599,972</u>	<u>\$ 316,116</u>	<u>\$ 6,857,037</u>

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

Cannon County, Tennessee  
Statement of Revenues, Expenditures,  
and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2005

Exhibit B

	Major Funds				Nonmajor	Total
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Governmental Funds	
<u>Revenues</u>						
Local Taxes	\$ 2,320,344	\$ 245,462	\$ 24,259	\$ 658,190	\$ 0	\$ 3,248,255
Licenses and Permits	969	0	0	0	0	969
Fines, Forfeitures and Penalties	104,923	0	0	0	22,093	127,016
Charges for Current Services	364,522	20,663	0	0	205,536	590,721
Other Local Revenues	256,189	0	34,171	0	140,131	430,491
Fees Received from County Officials	267,938	0	0	0	0	267,938
State of Tennessee	286,650	9,687	1,715,293	0	0	2,011,630
Federal Government	819,155	0	52,795	0	17,500	889,450
Other Governments and Citizens Groups	73,369	40,000	0	250,000	0	363,369
Total Revenues	\$ 4,494,059	\$ 315,812	\$ 1,826,518	\$ 908,190	\$ 385,260	\$ 7,929,839
<u>Expenditures</u>						
Current:						
General Government	\$ 391,853	\$ 0	\$ 0	\$ 0	\$ 5,035	\$ 396,888
Finance	105,634	0	0	0	185,920	291,554
Administration of Justice	385,945	0	0	0	0	385,945
Public Safety	1,186,483	0	0	0	4,676	1,191,159
Public Health and Welfare	842,480	387,940	0	0	0	1,230,420
Social, Cultural, and Recreational Services	100,216	0	0	0	0	100,216
Agricultural and Natural Resources	50,063	0	0	0	0	50,063
Other Operations	1,155,246	0	0	0	778,707	1,933,953
Highways	0	0	2,181,005	0	0	2,181,005
Debt Service:						
Principal	0	0	0	431,000	41,662	472,662
Interest	0	0	0	307,103	17,622	324,725
Other Debt Service	0	0	0	18,529	0	18,529
Total Expenditures	\$ 4,217,920	\$ 387,940	\$ 2,181,005	\$ 756,632	\$ 1,033,622	\$ 8,577,119
Excess (Deficiency) of Revenues						
Over Expenditures	\$ 276,139	\$ (72,128)	\$ (354,487)	\$ 151,558	\$ (648,362)	\$ (647,280)
<u>Other Financing Sources (Uses)</u>						
Other Loans Issued	\$ 0	\$ 0	\$ 0	\$ 0	\$ 732,500	\$ 732,500
Transfers In	0	20,000	0	0	0	20,000
Transfers Out	(20,000)	0	0	0	0	(20,000)
Total Other Financing Sources (Uses)	\$ (20,000)	\$ 20,000	\$ 0	\$ 0	\$ 732,500	\$ 732,500

(Continued)



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

Exhibit B

	Major Funds				Nonmajor	Total
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Funds Other Govern- mental Funds	
Net Change in Fund Balances	\$ 256,139	\$ (52,128)	\$ (354,487)	\$ 151,558	\$ 84,138	\$ 85,220
Fund Balance, July 1, 2004	383,743	55,049	1,038,586	2,384,467	230,060	4,091,905
Fund Balance, June 30, 2005	\$ 639,882	\$ 2,921	\$ 684,099	\$ 2,536,025	\$ 314,198	\$ 4,177,125

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

Exhibit C

Cannon County, Tennessee  
Statement of Fiduciary Assets and Liabilities  
Fiduciary Funds  
June 30, 2005

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash	\$ 525,126
Due from Other Governments	<u>48,000</u>
Total Assets	<u><u>\$ 573,126</u></u>
<u>LIABILITIES</u>	
Due to Other Taxing Units	\$ 48,000
Due to Litigants, Heirs, and Others	<u>525,126</u>
Total Liabilities	<u><u>\$ 573,126</u></u>

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

**CANNON COUNTY, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2005**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Cannon 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.

Cannon County has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities and discretely presented component units. The two government-wide financial statements, the statement of net assets and the statement of activities, should be included in the basic financial statements to conform with the provisions of GASB Statement 34 and accounting principles generally accepted in the United States of America. Cannon 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 Cannon County's auditor to issue an adverse opinion on the county's financial statements.

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

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

**A. Reporting Entity**

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

**Blended Component Units** – There are no legally separate component units of Cannon 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 Cannon 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 separated from the county.

The Cannon County School Department operates the public school system in the county, and the voters of Cannon 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 Cannon County Emergency Communications District provides a simplified means of securing emergency services through a uniform emergency number for the residents of Cannon County, and the Cannon 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 Cannon County School Department and the Cannon 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 this same cover as the county's financial statements. Cannon County Emergency Communications District's financial statements are published as a separate report. Complete financial statements of the Cannon County Emergency Communications District can be obtained from their administrative offices at the following address:

Cannon County Emergency Communications District  
P. O. Box 475  
Woodbury, TN 37910

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

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

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 single columns 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. Cannon County considers grant 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.

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. Property taxes collected within 30 days after year-end are considered to be immaterial for reporting purposes. 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. Revenues are recognized when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Cannon 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** – The Solid Waste/Sanitation Fund is used to account for transactions involving solid waste disposal.

**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, Cannon 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 Cannon 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 Cannon County and Cannon County School Department funds. Each fund's portion of this pool is displayed on the balance sheets or statements of net assets as Equity in Pooled Cash and Investments. Most income from these pooled investments is assigned to the General Fund. Cannon County and the Cannon 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. 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**

Outstanding balances between funds are reported as due to/from other funds.

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 shown with an allowance for uncollectibles. The allowance for uncollectible property taxes is equal to .92 percent of total taxes levied.

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 not material for financial reporting purposes and thus are not 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. Cannon 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, Cannon County does not present government-wide statements.

**4. Compensated Absences**

The general policy of Cannon County is to permit employees to accumulate a limited amount of vacation benefits, which will be paid

to the employee upon separation. Records are not maintained reflecting the dollar amount of accumulated vacation time at June 30, 2005; however, the amount of accumulated leave would not materially affect the financial statements. The general policy of the Cannon County permits the unlimited accumulation of unused sick leave days for county employees and up to 60 days for ambulances service employees. The granting of sick leave has no guaranteed payment attached and therefore is not required to be accrued or recorded.

The Highway Department does not allow for the accumulation of unused vacation leave beyond year-end.

**5. Long-term Obligations**

Only the matured portion (the portion that has come due for payment) of long-term indebtedness, including notes and 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.

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. Expenditures Exceeded Appropriations**

Expenditures exceeded appropriations in three of 36 major categories (the legal level of control) of the General Fund and two of three major categories of the Industrial/Economic Development Fund, a nonmajor fund, as follows:

<u>General Fund:</u>	
Agriculture Extension Services	\$ 376
Other Charges	697
Employee Benefits	5,714



Industrial/Economic Development Fund:

Principal – General Government	\$ 31,944
Interest – General Government	4,565

Expenditures exceeded total appropriations in the Solid Waste/Sanitation special revenue fund by \$19,306.

Such overexpenditures are a violation of state statutes. These overexpenditures were funded by greater than anticipated revenues in the case of the General Fund and by available fund balance in the case of the Solid Waste/Sanitation and the Industrial/Economic Development Fund, a nonmajor fund.

**B. The Actual Fund Balance Exceeded The Estimated Beginning Fund Balance by a Material Amount**

The actual fund balance in the Highway/Public Works Fund was \$1,038,586 at July 1, 2004; however, the estimated fund balance reflected in the county's budget document was \$657,735. Therefore, the actual fund balance was \$380,851 more than the estimated fund balance presented to the County Commission during the budget approval process.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

Cannon County and the Cannon County School Department participate in an internal cash and investment pool through the Office of Trustee. The Cannon County School Department meets the criteria for a discretely presented component unit of Cannon County. Since Cannon County is presenting fund financial statements only, the financial information for the Cannon 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 as Equity in Pooled Cash and Investments. Cash reflected in the fund financial statements represent nonpooled amounts held separately by individual funds.

**Deposits**

**Legal Provisions.** All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public fund accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to

protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

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

**Investments**

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

The county had no pooled and nonpooled investments as of June 30, 2005.

**B. Interfund Receivables, Payables, and Transfers**

The composition of interfund balances as of June 30, 2005, is as follows:

**Due to/from other funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Solid Waste/Sanitation	\$ 26,369
General	Nonmajor governmental	20

These balances resulted from the time lag between the dates that interfund

goods and services are provided or reimbursable expenditures occur and payments between funds are made.

**Interfund Transfers:**

Interfund transfers for the year ended June 30, 2005, consisted of the following amounts:

Transfers Out	<u>Transfers In</u> Solid Waste/ Sanitation Fund
General Fund	\$ 20,000
Total	<u>\$ 20,000</u>

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

**C. Long-term Debt**

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

Capital Outlay Notes and Other Loans

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

Capital outlay notes and other loans are direct obligations and pledge the full faith and credit of the government. Capital outlay notes and other loans outstanding were issued for original terms of up to five years for notes and up to 20 years for other loans. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All notes included in long-term debt as of June 30, 2005, will be retired from the General Debt Service Fund. Other loans included in long-term debt as of June 30, 2005, will be retired from the

General Debt Service Fund (\$13,065,000) and the Industrial/Economic Development Fund (\$985,370).

Capital outlay notes and other loans outstanding as of June 30, 2005, are as follows:

Type	Interest Rate	Amount
Capital Outlay Notes	2%	\$ 45,000
Other Loans	Variable	14,050,370

In prior years, Cannon County entered into loan agreements with the Montgomery County Public Building Authority. Under these agreements, the authority loaned Cannon County \$13,042,000 for school renovations and \$1,420,000 to refund jail construction bonds. These loans are repayable at interest rates that are tax-exempt variable rates determined by the remarketing agent daily or weekly, depending on the particular program. In addition, the county pays various other fees (trustee fees, letter of credit fees and debt remarketing fees) in connection with this loan. At June 30, 2005, the variable interest rate was 2.30 percent on the school renovation loans and 2.28 percent on the jail construction loan. On each of these loans, the remarketing fee was calculated at .08 percent of the outstanding loan principal, the letter of credit fee was calculated at .25 percent of the outstanding loan principal, and the trustee fee was charged at \$100 per month.

In prior years, Cannon County entered into a loan agreement with Cumberland Area Investment Corporation. Under this loan agreement, Cumberland Area Investment Corporation loaned the county \$300,000 at an interest rate of 4.5 percent for an industrial development building project.

During the 2004-05 year, Cannon County entered into a loan agreement with the Tennessee Department of Economic and Community Development. Under this loan agreement, the Tennessee Department of Economic and Community Development loaned the county \$482,500 at an interest rate of 1.0 to 3.0 percent for an industrial development building project. Also, during the 2004-05 year, Cannon County entered into a loan agreement with Cumberland Area Investment Corporation. Under this loan agreement, Cumberland Area Investment Corporation loaned the county \$250,000 at an interest rate of 3.5 percent for an industrial development building project.

The annual requirements to amortize all notes and other loans outstanding as of June 30, 2005, including interest payments of \$1,665 (notes), \$3,837,438 (other loans), and \$557,761 (other loans fees), are presented in the following table:

Year Ending June 30	Notes		Other Loan (\$250,000)	
	Principal	Interest	Principal	Interest
2006	\$ 15,000	\$ 745	\$ 47,113	\$ 7,462
2007	15,000	555	48,789	5,786
2008	15,000	365	50,524	4,051
2009	0	0	52,321	2,254
2010	0	0	35,911	473
Total	\$ 45,000	\$ 1,665	\$ 234,658	\$ 20,026

Year Ending June 30	Other Loan (\$482,500)		Other Loan (\$300,000)	
	Principal	Interest	Principal	Interest
2006	\$ 30,140	\$ 4,513	\$ 10,127	\$ 12,648
2007	30,443	4,210	10,592	12,183
2008	30,749	3,904	11,047	11,728
2009	31,058	3,595	11,587	11,189
2010	30,506	5,165	12,119	10,656
2011-2015	157,995	25,522	69,446	44,431
2016-2020	154,166	10,632	86,929	26,948
2021-2024	0	0	73,808	6,122
Total	\$ 465,057	\$ 57,541	\$ 285,655	\$ 135,905

Year Ending June 30	Other Loan (\$13,042,000)			Total
	Principal	Interest	Other Fees	
2006	\$ 362,000	\$ 272,320	\$ 40,272	\$ 674,592
2007	379,000	263,994	39,077	682,071
2008	399,000	255,277	37,827	692,104
2009	419,000	246,100	36,510	701,610
2010	440,000	236,463	35,127	711,590
2011-2015	2,551,000	1,020,050	152,355	3,723,405
2016-2020	3,123,000	695,911	105,848	3,924,759
2021-2025	3,385,000	356,454	57,143	3,798,597
2026	782,000	66,953	7,543	856,496
Total	\$ 11,840,000	\$ 3,413,522	\$ 511,702	\$ 15,765,224

Year Ending June 30	Other Loan (\$1,420,000)			Total
	Principal	Interest	Other Fees	
2006	\$ 74,000	\$ 27,930	\$ 5,243	\$ 107,173
2007	77,000	26,243	4,998	108,241
2008	80,000	24,487	4,744	109,231
2009	83,000	22,663	4,480	110,143
2010	86,000	20,771	4,206	110,977
2011-2015	486,000	72,755	16,530	575,285
2016-2018	339,000	15,595	5,858	360,453
Total	\$ 1,225,000	\$ 210,444	\$ 46,059	\$ 1,481,503

There is \$2,536,025 available in the General Debt Service Fund to service long-term debt. Total debt per capita, including notes and other loans, amounted to \$1,099, based on the 2000 federal census.

#### Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Notes	Other Loans
Governmental Activities:		
Balance, July 1, 2004	\$ 60,000	\$ 13,775,532
Additions	0	732,500
Deductions	(15,000)	(457,662)
Balance, June 30, 2005	\$ 45,000	\$ 14,050,370
Balance Due Within One Year	\$ 15,000	\$ 523,380

#### **D. Short-term Debt**

Cannon County issued tax anticipation notes in advance of property tax collections and deposited the proceeds in various county funds. These notes were necessary because funds were not available to meet debt service payments coming due before current tax collections. Short-term debt activity for the year ended June 30, 2005, was as follows:

Fund	Balance 7-1-04	Issued	Redeemed	Balance 6-30-05
General Fund	\$ 0	\$ 400,000	\$ 400,000	\$ 0
Solid Waste/ Sanitation	0	100,000	100,000	0

#### IV. OTHER INFORMATION

##### A. Risk Management

Cannon County's risks of loss relating to general liability, property, casualty, and workers' compensation are covered by participation in the Tennessee School Boards Liability Trust and the Tennessee School Boards – Workers' Compensation Trust, which are public entity risk pools established by the Tennessee Schools Boards Association. Annual premiums are paid to the pool for the risk coverage noted above. The creation of this pool provides for it to be self-sustaining through member premiums.

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

##### B. Accounting Change

During the year, Cannon County adopted the provisions of Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures. These provisions modified the county's previous custodial risk disclosures for deposits and investments and related collateral. These provisions also added disclosures about other types of risk, including credit risk, interest rate risk, foreign currency risk, and concentrations of credit risk. Governments are also required to provide brief disclosures about their deposit and investment policies that are related to any of the risks required to be disclosed.

##### C. Subsequent Event

On July 5, 2005, the county's General Debt Service Fund issued a \$100,000 tax anticipation note to the Solid Waste/Sanitation Fund for temporary operating funds.

##### D. Contingent Liabilities

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

**E. Change in Administration**

On December 31, 2004, Jackie Haley left the Office of Highway Superintendent and was succeeded by Thomas J. Lovvorn.

**F. Joint Venture**

The Sixteenth Judicial District Drug Task Force (DTF) is a joint venture formed by an interlocal agreement between the district attorney general of the Sixteenth Judicial District and the municipalities within the district. The district comprises Cannon and Rutherford Counties and the municipalities. The purpose of the DTF is to provide multi-jurisdictional law enforcement to promote the investigation and prosecution of drug-related activities. Funds for the operations of the DTF come primarily from federal grants, drug funds, and the forfeiture of drug-related assets to the DTF. The DTF is overseen by the district attorney general and is governed by a Board of Directors that includes the district attorney general and the sheriffs and police chiefs of the participating law enforcement agencies within the judicial district. Cannon County made no contributions to the DTF for the year ended June 30, 2005, and does not have any equity interest in this joint venture. Complete financial statements for the DTF can be obtained from its administrative office at the following address:

District Attorney General's Office  
Sixteenth Judicial District  
20 North Side Public Square, Suite 303  
Murfreesboro, TN 37130

**G. Retirement Commitments**

**Plan Description**

Employees of Cannon 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, Chapter 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as



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

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

### **Funding Policy**

Cannon County requires employees to contribute five percent of earnable compensation to the plan. The county is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2005, was 5.92 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Cannon County is established and may be amended by the TCRS Board of Trustees.

### **Annual Pension Cost**

For the year ended June 30, 2005, Cannon County's annual pension cost of \$164,197 to TCRS was equal to Cannon County's required and actual contributions. The required contribution was determined as part of the July 1, 2003, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post-retirement increases of three percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Cannon County's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2003, was 12 years.

Trend Information

Fiscal Year Ended	Annual Pension Cost(APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2005	\$ 164,197	100%	\$ 0
June 30, 2004	157,924	100	0
June 30, 2003	138,302	100	0

**Required Supplementary Information**  
Schedule of Funding Progress for Cannon County

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/c)
6/30/2003	\$ 5,060	\$ 5,391	\$ 331	93.86%	\$ 2,657	12.46%
6/30/2001	4,590	5,012	422	91.58	2,195	19.23
6/30/1999	3,977	4,283	306	92.86	1,822	16.80

**H. Purchasing Laws**

Office of County Executive

Purchasing procedures for the Office of County Executive 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 to be made after public advertisement and solicitation of competitive bids.

Office of Highway Superintendent

Purchasing procedures for the Highway Department are governed by Chapter 788, Private Acts of 1933, and provisions of the Uniform Road Law, Section 54-7-113, TCA. Provisions of the Private Act provide for the Highway Commission to make all purchases and to rent or lease equipment as necessary. Provisions of the County Uniform Road Law require that competitive bids be solicited through public advertisement on all purchases exceeding \$5,000.

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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## Exhibit D-1

Cannon County, Tennessee  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual and Budget  
General Fund  
For the Year Ended June 30, 2005

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 2,320,344	\$ 2,198,052	\$ 2,187,696	\$ 132,648
Licenses and Permits	969	300	300	669
Fines, Forfeitures and Penalties	104,923	90,425	90,425	14,498
Charges for Current Services	364,522	321,328	321,328	43,194
Other Local Revenues	256,189	216,395	242,960	13,229
Fees Received from County Officials	267,938	251,650	252,175	15,763
State of Tennessee	286,650	389,749	580,149	(293,499)
Federal Government	819,155	600,000	613,469	205,686
Other Governments and Citizens Groups	73,369	71,850	127,927	(54,558)
Total Revenues	\$ 4,494,059	\$ 4,139,749	\$ 4,416,429	\$ 77,630
<u>Expenditures</u>				
<u>General Government</u>				
County Commission	\$ 2,630	\$ 4,000	\$ 4,000	\$ 1,370
County Executive	122,855	121,003	125,134	2,279
Election Commission (Including Voter Registration)	88,107	99,395	99,395	11,288
Register of Deeds	79,302	80,633	80,633	1,331
County Buildings	97,667	100,450	141,014	43,347
Preservation of Records	1,292	5,000	4,286	2,994
<u>Finance</u>				
Property Assessor's Office	81,243	82,616	82,616	1,373
County Trustee's Office	9,150	9,650	9,650	500
County Clerk's Office	15,241	15,241	15,241	0
<u>Administration of Justice</u>				
Circuit Court	134,722	150,335	150,335	15,613
General Sessions Court	62,108	63,169	63,169	1,061
Chancery Court	69,968	73,182	73,182	3,214
Juvenile Court	18,248	21,256	21,256	3,008
Judicial Commissioners	15,000	15,000	15,000	0
Other Administration of Justice	85,899	85,900	85,900	1
<u>Public Safety</u>				
Sheriff's Department	693,473	689,060	729,403	35,930
Jail	443,446	461,000	461,441	17,995
Fire Prevention and Control	30,678	43,800	43,800	13,122
Other Emergency Management	18,886	107,800	107,800	88,914
<u>Public Health and Welfare</u>				
Local Health Center	35,903	36,762	36,863	960
Ambulance/Emergency Medical Services	598,416	599,390	636,066	37,650
Maternal and Child Health Services	150,000	0	150,000	0
Crippled Children Services	784	784	784	0
Other Local Health Services	5,000	0	5,000	0
Regional Mental Health Center	1,200	0	3,800	2,600
General Welfare Assistance	12,822	14,781	14,781	1,959

(Continued)

## Exhibit D-1

Cannon 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>				
Other Local Welfare Services	\$ 3,999	\$ 4,000	\$ 4,000	\$ 1
Sanitation Management	28,362	31,737	31,737	3,375
Other Public Health and Welfare	5,994	6,000	6,000	6
<u>Social, Cultural and Recreational Services</u>				
Libraries	50,293	49,579	50,293	0
Parks and Fair Boards	49,923	50,000	50,500	577
<u>Agriculture &amp; Natural Resources</u>				
Agriculture Extension Service	50,063	49,687	49,687	(376)
<u>Other Operations</u>				
Other Charges	219,266	222,669	218,569	(697)
Contributions to Other Agencies	15,850	17,700	17,700	1,850
Employee Benefits	324,814	315,000	319,100	(5,714)
Miscellaneous	595,316	836,500	879,981	284,665
Total Expenditures	<u>\$ 4,217,920</u>	<u>\$ 4,463,079</u>	<u>\$ 4,788,116</u>	<u>\$ 570,196</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 276,139	\$ (323,330)	\$ (371,687)	\$ 647,826
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 0	\$ 283,000	\$ 283,000	\$ (283,000)
Transfers Out	(20,000)	0	(20,000)	0
Total Other Financing Sources (Uses)	<u>\$ (20,000)</u>	<u>\$ 283,000</u>	<u>\$ 263,000</u>	<u>\$ (283,000)</u>
Net Change in Fund Balance	\$ 256,139	\$ (40,330)	\$ (108,687)	\$ 364,826
Fund Balance, July 1, 2004	<u>383,743</u>	<u>286,434</u>	<u>286,434</u>	<u>97,309</u>
Fund Balance, June 30, 2005	<u>\$ 639,882</u>	<u>\$ 246,104</u>	<u>\$ 177,747</u>	<u>\$ 462,135</u>

## Exhibit D-2

Cannon County, Tennessee  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual and Budget  
Solid Waste/Sanitation Fund  
For the Year Ended June 30, 2005

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 245,462	\$ 235,847	\$ 235,847	\$ 9,615
Charges for Current Services	20,663	23,500	23,500	(2,837)
Other Local Revenues	0	40,000	0	0
State of Tennessee	9,687	9,805	9,805	(118)
Other Governments and Citizens Groups	40,000	0	60,000	(20,000)
Total Revenues	\$ 315,812	\$ 309,152	\$ 329,152	\$ (13,340)
<u>Expenditures</u>				
<u>Public Health and Welfare</u>				
Sanitation Management	\$ 387,940	\$ 328,634	\$ 368,634	\$ (19,306)
Total Expenditures	\$ 387,940	\$ 328,634	\$ 368,634	\$ (19,306)
Excess (Deficiency) of Revenues Over Expenditures	\$ (72,128)	\$ (19,482)	\$ (39,482)	\$ (32,646)
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 20,000	\$ 0	\$ 20,000	\$ 0
Total Other Financing Sources (Uses)	\$ 20,000	\$ 0	\$ 20,000	\$ 0
Net Change in Fund Balance	\$ (52,128)	\$ (19,482)	\$ (19,482)	\$ (32,646)
Fund Balance, July 1, 2004	55,049	44,227	44,227	10,822
Fund Balance, June 30, 2005	\$ 2,921	\$ 24,745	\$ 24,745	\$ (21,824)

## Exhibit D-3

Cannon County, Tennessee  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual and Budget  
Highway/Public Works Fund  
For the Year Ended June 30, 2005

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 24,259	\$ 26,500	\$ 26,500	\$ (2,241)
Other Local Revenues	34,171	36,000	36,000	(1,829)
State of Tennessee	1,715,293	1,903,508	1,858,508	(143,215)
Federal Government	52,795	100,000	145,000	(92,205)
Total Revenues	<u>\$ 1,826,518</u>	<u>\$ 2,066,008</u>	<u>\$ 2,066,008</u>	<u>\$ (239,490)</u>
<u>Expenditures</u>				
<u>Highways</u>				
Administration	\$ 110,617	\$ 114,390	\$ 114,390	\$ 3,773
Highway and Bridge Maintenance	1,102,634	1,128,188	1,128,188	25,554
Operation and Maintenance of Equipment	192,840	171,244	201,830	8,990
Other Charges	90,929	91,260	91,260	331
Employee Benefits	47,220	34,500	51,540	4,320
Capital Outlay	636,765	624,900	640,874	4,109
Total Expenditures	<u>\$ 2,181,005</u>	<u>\$ 2,164,482</u>	<u>\$ 2,228,082</u>	<u>\$ 47,077</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (354,487)</u>	<u>\$ (98,474)</u>	<u>\$ (162,074)</u>	<u>\$ (192,413)</u>
Net Change in Fund Balance	\$ (354,487)	\$ (98,474)	\$ (162,074)	\$ (192,413)
Fund Balance, July 1, 2004	1,038,586	657,735	657,735	380,851
Fund Balance, June 30, 2005	<u>\$ 684,099</u>	<u>\$ 559,261</u>	<u>\$ 495,661</u>	<u>\$ 188,438</u>

**CANNON COUNTY, TENNESSEE**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**For the Year Ended June 30, 2005**

**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 Executive, County Attorney, etc.). Management may make revisions within major categories, but only the governing body may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

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

**B. EXPENDITURES EXCEEDED APPROPRIATIONS**

Expenditures exceeded appropriations in three of 36 major categories (the legal level of control) of the General Fund as follows:

Agriculture Extension Services	\$ 376
Other Charges	697
Employee Benefits	5,714

Expenditures exceeded total appropriations in the Solid Waste/Sanitation Fund by \$19,306.

Such overexpenditures are a violation of state statutes. These overexpenditures were funded by greater than anticipated revenues in the case of the General Fund and by available fund balance in the case of the Solid Waste/Sanitation Fund.



C. **THE ACTUAL FUND BALANCE EXCEEDED THE ESTIMATED BEGINNING FUND BALANCE BY A MATERIAL AMOUNT**

The actual fund balance in the Highway/Public Works Fund was \$1,038,586 at July 1, 2004; however, the estimated fund balance reflected in the county's budget was \$657,735. Therefore, the actual fund balance was \$380,851 more than the estimated fund balance presented to the County Commission during the budget approval process.

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

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# Nonmajor Governmental Funds

## Special Revenue Funds

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

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Industrial/Economic Development Fund – The Industrial/Economic Development Fund is used to account for lease payments collected from industries that lease buildings from the county. Expenditures from this fund are limited to the maintenance and improvement of the leased properties and other economic development purposes.

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

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

Exhibit E-1

Cannon County, Tennessee  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2005

	<u>Special Revenue Funds</u>				
	Industrial / Economic Development	Drug Control	Constitu - tional Officers - Fees	Total	Total Nonmajor Governmental Funds
<u>ASSETS</u>					
Cash	\$ 0	\$ 0	\$ 59,922	\$ 59,922	\$ 59,922
Equity in Pooled Cash and Investments	177,446	78,748	0	256,194	256,194
Total Assets	<u>\$ 177,446</u>	<u>\$ 78,748</u>	<u>\$ 59,922</u>	<u>\$ 316,116</u>	<u>\$ 316,116</u>
<u>LIABILITIES AND FUND BALANCES</u>					
<u>Liabilities</u>					
Accounts Payable	\$ 1,898	\$ 0	\$ 0	\$ 1,898	\$ 1,898
Due to Other Funds	0	0	20	20	20
Total Liabilities	<u>\$ 1,898</u>	<u>\$ 0</u>	<u>\$ 20</u>	<u>\$ 1,918</u>	<u>\$ 1,918</u>
<u>Fund Balances</u>					
Reserved for Purchase of Electronic Fingerprint Imaging System	\$ 0	\$ 14,007	\$ 0	\$ 14,007	\$ 14,007
Unreserved	175,548	64,741	59,902	300,191	300,191
Total Fund Balances	<u>\$ 175,548</u>	<u>\$ 78,748</u>	<u>\$ 59,902</u>	<u>\$ 314,198</u>	<u>\$ 314,198</u>
Total Liabilities and Fund Balances	<u>\$ 177,446</u>	<u>\$ 78,748</u>	<u>\$ 59,922</u>	<u>\$ 316,116</u>	<u>\$ 316,116</u>

Exhibit E-2

Cannon County, Tennessee  
Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2005

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Industrial / Economic Development	Drug Control	Constitu - tional Officers - Fees	Total	
<u>Revenues</u>					
Fines, Forfeitures and Penalties	\$ 0	\$ 22,093	\$ 0	\$ 22,093	\$ 22,093
Charges for Current Services	0	0	205,536	205,536	205,536
Other Local Revenues	140,131	0	0	140,131	140,131
Federal Government	17,500	0	0	17,500	17,500
Total Revenues	<u>\$ 157,631</u>	<u>\$ 22,093</u>	<u>\$ 205,536</u>	<u>\$ 385,260</u>	<u>\$ 385,260</u>
<u>Expenditures</u>					
Current:					
General Government	\$ 0	\$ 0	\$ 5,035	\$ 5,035	\$ 5,035
Finance	0	0	185,920	185,920	185,920
Public Safety	0	4,676	0	4,676	4,676
Other Operations	778,707	0	0	778,707	778,707
Debt Service:					
Principal	41,662	0	0	41,662	41,662
Interest	17,622	0	0	17,622	17,622
Total Expenditures	<u>\$ 837,991</u>	<u>\$ 4,676</u>	<u>\$ 190,955</u>	<u>\$ 1,033,622</u>	<u>\$ 1,033,622</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (680,360)</u>	<u>\$ 17,417</u>	<u>\$ 14,581</u>	<u>\$ (648,362)</u>	<u>\$ (648,362)</u>
<u>Other Financing Sources (Uses)</u>					
Other Loans Issued	\$ 732,500	\$ 0	\$ 0	\$ 732,500	\$ 732,500
Total Other Financing Sources (Uses)	<u>\$ 732,500</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 732,500</u>	<u>\$ 732,500</u>
Net Change in Fund Balances	\$ 52,140	\$ 17,417	\$ 14,581	\$ 84,138	\$ 84,138
Fund Balance, July 1, 2004	123,408	61,331	45,321	230,060	230,060
Fund Balance, June 30, 2005	<u>\$ 175,548</u>	<u>\$ 78,748</u>	<u>\$ 59,902</u>	<u>\$ 314,198</u>	<u>\$ 314,198</u>

Exhibit E-3

Cannon County, Tennessee  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual (Budgetary Basis) and Budget  
Industrial/Economic Development Fund  
For the Year Ended June 30, 2005

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2004	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Revenues</u>						
Other Local Revenues	\$ 140,131	\$ 0	\$ 140,131	\$ 123,809	\$ 123,809	\$ 16,322
Federal Government	17,500	0	17,500	392,613	124,887	(107,387)
Total Revenues	<u>\$ 157,631</u>	<u>\$ 0</u>	<u>\$ 157,631</u>	<u>\$ 516,422</u>	<u>\$ 248,696</u>	<u>\$ (91,065)</u>
<u>Expenditures</u>						
<u>Other Operations</u>						
Industrial Development	\$ 778,707	\$ (668,600)	\$ 110,107	\$ 479,662	\$ 944,436	\$ 834,329
<u>Principal</u>						
General Government	41,662	0	41,662	9,718	9,718	(31,944)
<u>Interest</u>						
General Government	17,622	0	17,622	13,057	13,057	(4,565)
Total Expenditures	<u>\$ 837,991</u>	<u>\$ (668,600)</u>	<u>\$ 169,391</u>	<u>\$ 502,437</u>	<u>\$ 967,211</u>	<u>\$ 797,820</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (680,360)</u>	<u>\$ 668,600</u>	<u>\$ (11,760)</u>	<u>\$ 13,985</u>	<u>\$ (718,515)</u>	<u>\$ 706,755</u>
<u>Other Financing Sources (Uses)</u>						
Other Loans Issued	\$ 732,500	\$ 0	\$ 732,500	\$ 0	\$ 732,500	\$ 0
Total Other Financing Sources (Uses)	<u>\$ 732,500</u>	<u>\$ 0</u>	<u>\$ 732,500</u>	<u>\$ 0</u>	<u>\$ 732,500</u>	<u>\$ 0</u>
Net Change in Fund Balance	\$ 52,140	\$ 668,600	\$ 720,740	\$ 13,985	\$ 13,985	\$ 706,755
Fund Balance, July 1, 2004	123,408	(668,600)	(545,192)	208,429	208,429	(753,621)
Fund Balance, June 30, 2005	<u>\$ 175,548</u>	<u>\$ 0</u>	<u>\$ 175,548</u>	<u>\$ 222,414</u>	<u>\$ 222,414</u>	<u>\$ (46,866)</u>

Exhibit E-4

Cannon County, Tennessee  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual and Budget  
Drug Control Fund  
For the Year Ended June 30, 2005

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Fines, Forfeitures and Penalties	\$ 22,093	\$ 27,800	\$ 27,800	\$ (5,707)
Total Revenues	\$ 22,093	\$ 27,800	\$ 27,800	\$ (5,707)
<u>Expenditures</u>				
<u>Public Safety</u>				
Sheriff's Department	\$ 4,676	\$ 31,770	\$ 31,770	\$ 27,094
Total Expenditures	\$ 4,676	\$ 31,770	\$ 31,770	\$ 27,094
Excess (Deficiency) of Revenues Over Expenditures	\$ 17,417	\$ (3,970)	\$ (3,970)	\$ 21,387
Net Change in Fund Balance	\$ 17,417	\$ (3,970)	\$ (3,970)	\$ 21,387
Fund Balance, July 1, 2004	61,331	55,355	55,355	5,976
Fund Balance, June 30, 2005	\$ 78,748	\$ 51,385	\$ 51,385	\$ 27,363

# **Major Governmental Fund**

## **General Debt Service Fund**

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

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Exhibit F

Cannon County, Tennessee  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual and Budget  
General Debt Service Fund  
For the Year Ended June 30, 2005

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 658,190	\$ 613,744	\$ 613,744	\$ 44,446
Other Governments and Citizens Groups	250,000	0	250,000	0
Total Revenues	<u>\$ 908,190</u>	<u>\$ 613,744</u>	<u>\$ 863,744</u>	<u>\$ 44,446</u>
<u>Expenditures</u>				
<u>Principal</u>				
General Government	\$ 86,000	\$ 86,000	\$ 86,000	\$ 0
Education	345,000	345,000	345,000	0
<u>Interest</u>				
General Government	30,044	65,925	65,925	35,881
Education	277,059	300,000	300,000	22,941
<u>Other Debt Service</u>				
General Government	3,721	4,500	4,500	779
Education	14,808	15,000	15,000	192
Total Expenditures	<u>\$ 756,632</u>	<u>\$ 816,425</u>	<u>\$ 816,425</u>	<u>\$ 59,793</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 151,558	\$ (202,681)	\$ 47,319	\$ 104,239
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 0	\$ 250,000	\$ 0	\$ 0
Total Other Financing Sources (Uses)	<u>\$ 0</u>	<u>\$ 250,000</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Change in Fund Balance	\$ 151,558	\$ 47,319	\$ 47,319	\$ 104,239
Fund Balance, July 1, 2004	2,384,467	2,402,974	2,402,974	(18,507)
Fund Balance, June 30, 2005	<u>\$ 2,536,025</u>	<u>\$ 2,450,293</u>	<u>\$ 2,450,293</u>	<u>\$ 85,732</u>

# Agency Funds

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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.

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

Constitutional Officers - Agency Fund – The Constitutional Officers - Agency Fund is used to account for amounts collected in an agency capacity by the county clerk, circuit 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

Cannon County, Tennessee  
Combining Statement of Fiduciary Assets and Liabilities  
Fiduciary Funds  
June 30, 2005

	<u>Agency Funds</u>		
	Cities - Sales Tax	Constitu- tional Officers - Agency	Total
<u>ASSETS</u>			
Cash	\$ 0	\$ 525,126	\$ 525,126
Due from Other Governments	48,000	0	48,000
Total Assets	<u>\$ 48,000</u>	<u>\$ 525,126</u>	<u>\$ 573,126</u>
<u>LIABILITIES</u>			
Due to Other Taxing Units	\$ 48,000	\$ 0	\$ 48,000
Due to Litigants, Heirs, and Others	0	525,126	525,126
Total Liabilities	<u>\$ 48,000</u>	<u>\$ 525,126</u>	<u>\$ 573,126</u>

Exhibit G-2

Cannon County, Tennessee  
Combining Statement of Changes in Assets and  
Liabilities - All Agency Funds  
For the Year Ended June 30, 2005

	Beginning Balance	Additions	Deductions	Ending Balance
<u>Cities - Sales Tax Fund</u>				
<u>Assets</u>				
Equity in Pooled Cash and Investments	\$ 0	\$ 286,434	\$ 286,434	\$ 0
Due From Other Governments	46,000	48,000	46,000	48,000
Total Assets	\$ 46,000	\$ 334,434	\$ 332,434	\$ 48,000
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 46,000	\$ 334,434	\$ 332,434	\$ 48,000
Total Liabilities	\$ 46,000	\$ 334,434	\$ 332,434	\$ 48,000
<u>Constitutional Officers - Agency Fund</u>				
<u>Assets</u>				
Cash	\$ 406,455	\$ 6,381,014	\$ 6,262,343	\$ 525,126
Total Assets	\$ 406,455	\$ 6,381,014	\$ 6,262,343	\$ 525,126
<u>Liabilities</u>				
Due to Litigants, Heirs, and Others	\$ 406,455	\$ 6,381,014	\$ 6,262,343	\$ 525,126
Total Liabilities	\$ 406,455	\$ 6,381,014	\$ 6,262,343	\$ 525,126
<u>Totals - All Agency Funds</u>				
<u>Assets</u>				
Equity in Pooled Cash and Investments	\$ 0	\$ 286,434	\$ 286,434	\$ 0
Cash	406,455	6,381,014	6,262,343	525,126
Due From Other Governments	46,000	48,000	46,000	48,000
Total Assets	\$ 452,455	\$ 6,715,448	\$ 6,594,777	\$ 573,126
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 46,000	\$ 334,434	\$ 332,434	\$ 48,000
Due to Litigants, Heirs, and Others	406,455	6,381,014	6,262,343	525,126
Total Liabilities	\$ 452,455	\$ 6,715,448	\$ 6,594,777	\$ 573,126

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## MISCELLANEOUS SCHEDULES

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Exhibit H-1

Cannon County, Tennessee  
Schedule of Changes in Long-term Notes and Other Loans  
For the Year Ended June 30, 2005

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-04	Issued During Period	Paid and/or Matured During Period	Outstanding 6-30-05
<u>NOTES PAYBLE</u>								
<u>Payable through General Debt Service Fund</u>								
Ambulance	\$ 75,000	2.4 %	7-17-03	7-18-08	\$ 60,000	\$ 0	\$ 15,000	\$ 45,000
Total Notes Payable					\$ 60,000	\$ 0	\$ 15,000	\$ 45,000
<u>OTHER LOANS PAYABLE</u>								
<u>Payable through General Debt Service Fund</u>								
School Construction/Improvements	13,042,000	Variable	9-17-99	5-25-19	\$ 12,185,000	\$ 0	\$ 345,000	\$ 11,840,000
Jail Construction Bond Refunding	1,420,000	Variable	7-18-02	5-25-18	1,296,000	0	71,000	1,225,000
Total Payable through General Debt Service Fund					\$ 13,481,000	\$ 0	\$ 416,000	\$ 13,065,000
<u>Payable through Industrial/Economic Development Fund</u>								
Industrial Development	300,000	4.5	12-10-03	12-10-23	\$ 294,532	\$ 0	\$ 8,877	\$ 285,655
Industrial Development	482,500	1 to 3	7-5-04	11-30-19	0	482,500	17,443	465,057
Industrial Development	250,000	3.5	1-21-05	2-28-10	0	250,000	15,342	234,658
Total Payable through Industrial/Economic Development Fund					\$ 294,532	\$ 732,500	\$ 41,662	\$ 985,370
Total Other Loans Payable					\$ 13,775,532	\$ 732,500	\$ 457,662	\$ 14,050,370

Exhibit H-2

Cannon County, Tennessee  
Schedule of Transfers - All Funds  
For the Year Ended June 30, 2005

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Solid Waste/Sanitation	Operations	<u>\$ 20,000</u>
Total Transfers			<u><u>\$ 20,000</u></u>

Cannon County, Tennessee  
Schedule of Salaries and Official Bonds of Principal Officials  
For the Year Ended June 30, 2005

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
County Executive	Section 8-24-102, <u>TCA</u>	\$ 55,403	\$ 25,000	Nationwide Mutual Insurance Company
Highway Superintendent:				
Jackie Haley (7-1-04 to 12-31-04)	Section 8-24-102, <u>TCA</u>	26,383	100,000	Nationwide Mutual Insurance Company
Thomas J. Lovvorn (1-5-05 to 6-30-05)	Section 8-24-102, <u>TCA</u>	26,382	100,000	Western Surety Company
Trustee	Section 8-24-102, <u>TCA</u>	47,969	407,000	RLI Insurance Company
Assessor of Property	Section 8-24-102, <u>TCA</u>	47,969	10,000	Nationwide Mutual Insurance Company
County Clerk	Section 8-24-102, <u>TCA</u>	47,969	25,000	Nationwide Mutual Insurance Company
Circuit Court Clerk	Section 8-24-102, <u>TCA</u>	47,969	25,000	Nationwide Mutual Insurance Company
Clerk and Master	Section 8-24-102, <u>TCA</u>	53,004 (1)	45,000	Allied Mutual Insurance Company
Register	Section 8-24-102, <u>TCA</u>	47,969	15,000	Nationwide Mutual Insurance Company
Sheriff	Section 8-24-102, <u>TCA</u>	52,765	25,000	
Employee Blanket Bond Coverage:				
General County Employees			150,000	Tennessee School Boards Liability Trust

(1) Includes special commissions of \$5,035.



Exhibit H-4

Cannon County, Tennessee  
Schedule of Detailed Revenues -  
All Governmental Fund Types  
For the Year Ended June 30, 2005

	Special Revenue Funds						Debt Service Fund	Total
	General	Solid Waste / Sanitation	Industrial / Economic Development	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>Local Taxes</u>								
<u>County Property Taxes</u>								
Current Property Tax	\$ 1,920,917	\$ 169,493	\$ 0	\$ 0	\$ 0	\$ 0	\$ 56,498	\$ 2,146,908
Trustee's Collections - Prior Year	98,753	8,801	0	0	0	0	2,904	110,458
Circuit/Clerk & Master Collections - Prior Years	22,232	1,738	0	0	0	0	694	24,664
Interest and Penalty	20,748	1,743	0	0	0	0	610	23,101
<u>County Local Option Taxes</u>								
Local Option Sales Tax	62,519	62,519	0	0	0	0	0	125,038
Wheel Tax	0	0	0	0	0	0	597,094	597,094
Litigation Tax - General	48,128	0	0	0	0	0	0	48,128
Litigation Tax - Special Purpose	15,717	0	0	0	0	0	0	15,717
Litigation Tax - Jail, Workhouse, or Courthouse	13,563	0	0	0	0	0	0	13,563
Business Tax	35,759	0	0	0	0	1,500	0	37,259
Mineral Severance Tax	0	0	0	0	0	22,759	0	22,759
<u>Statutory Local Taxes</u>								
Bank Excise Tax	13,241	1,168	0	0	0	0	390	14,799
Wholesale Beer Tax	68,767	0	0	0	0	0	0	68,767
<b>Total Local Taxes</b>	<b>\$ 2,320,344</b>	<b>\$ 245,462</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 24,259</b>	<b>\$ 658,190</b>	<b>\$ 3,248,255</b>
<u>Licenses and Permits</u>								
<u>Licenses</u>								
Marriage Licenses	\$ 469	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 469
<u>Permits</u>								
Beer Permits	500	0	0	0	0	0	0	500
<b>Total Licenses and Permits</b>	<b>\$ 969</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 969</b>
<u>Fines, Forfeitures and Penalties</u>								
<u>Circuit Court</u>								
Fines	\$ 20,979	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 20,979
Drug Control Fines	669	0	0	8,416	0	0	0	9,085
Drug Court Fees	34	0	0	0	0	0	0	34
DUI Treatment Fines	695	0	0	0	0	0	0	695
Data Entry Fee - Circuit Court	353	0	0	0	0	0	0	353

(Continued)

Exhibit H-4

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

	Special Revenue Funds							Debt Service Fund	Total
	General	Solid Waste / Sanitation	Industrial / Economic Development	Drug Control	Constitu - tional Officers - Fees	Highway / Public Works	General Debt Service		
<u>Fines, Forfeitures and Penalties (Cont.)</u>									
<u>General Sessions Court</u>									
Fines	\$ 46,518	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	46,518
Officers Costs	16,128	0	0	0	0	0	0	0	16,128
Drug Control Fines	0	0	0	10,868	0	0	0	0	10,868
Interpreter Fee	1,614	0	0	0	0	0	0	0	1,614
DUI Treatment Fines	3,418	0	0	0	0	0	0	0	3,418
Data Entry Fee - General Sessions Court	3,124	0	0	0	0	0	0	0	3,124
<u>Juvenile Court</u>									
Jail Fees	1,475	0	0	0	0	0	0	0	1,475
<u>Chancery Court</u>									
Officers Costs	2,299	0	0	0	0	0	0	0	2,299
Data Entry Fee - Chancery Court	232	0	0	0	0	0	0	0	232
<u>Other Courts - In-county</u>									
Fines	7,385	0	0	0	0	0	0	0	7,385
<u>Other Fines, Forfeitures, and Penalties</u>									
Proceeds from Confiscated Property	0	0	0	2,809	0	0	0	0	2,809
<b>Total Fines, Forfeitures and Penalties</b>	<b>\$ 104,923</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 22,093</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>127,016</b>
<u>Charges for Current Services</u>									
<u>General Service Charges</u>									
Commercial and Industrial Waste Collection Charge	\$ 0	\$ 20,663	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	20,663
Patient Charges	343,015	0	0	0	0	0	0	0	343,015
Other General Service Charges	7,291	0	0	0	0	0	0	0	7,291
Service Charges	20	0	0	0	0	0	0	0	20
<u>Fees</u>									
Copy Fees	883	0	0	0	0	0	0	0	883
Telephone Commissions	4,128	0	0	0	0	0	0	0	4,128
Vending Machine Collections	607	0	0	0	0	0	0	0	607
Constitutional Officers' Fees and Commissions	0	0	0	0	205,536	0	0	0	205,536
Data Processing Fee - Register	6,544	0	0	0	0	0	0	0	6,544
Data Processing Fee - Sheriff	1,794	0	0	0	0	0	0	0	1,794
Sexual Offender Registration Fee	240	0	0	0	0	0	0	0	240
<b>Total Charges for Current Services</b>	<b>\$ 364,522</b>	<b>\$ 20,663</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 205,536</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>590,721</b>

(Continued)

Exhibit H-4

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

	Special Revenue Funds						Debt Service Fund	Total
	General	Solid Waste / Sanitation	Industrial / Economic Development	Drug Control	Constitu - tional Officers - Fees	Highway / Public Works	General Debt Service	
<u>Other Local Revenues</u>								
<u>Recurring Items</u>								
Investment Income	\$ 135,355	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	135,355
Lease/Rentals	43,700	0	123,700	0	0	0	0	167,400
Sale of Materials and Supplies	23,252	0	16,431	0	0	0	0	39,683
Commissary Sales	4,540	0	0	0	0	0	0	4,540
Sale of Gasoline	100	0	0	0	0	30,244	0	30,344
Miscellaneous Refunds	29,077	0	0	0	0	3,927	0	33,004
<u>Nonrecurring Items</u>								
Insurance Recovery	7,325	0	0	0	0	0	0	7,325
Damages Recovered from Individuals	625	0	0	0	0	0	0	625
Contributions & Gifts	12,215	0	0	0	0	0	0	12,215
<b>Total Other Local Revenues</b>	<b>\$ 256,189</b>	<b>\$ 0</b>	<b>\$ 140,131</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 34,171</b>	<b>\$ 0</b>	<b>430,491</b>
<u>Fees Received from County Officials</u>								
<u>Excess Fees</u>								
Trustee	\$ 45,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	45,000
<u>Fees In Lieu of Salary</u>								
Circuit Court Clerk	34,245	0	0	0	0	0	0	34,245
General Sessions Court Clerk	83,743	0	0	0	0	0	0	83,743
Clerk and Master	23,173	0	0	0	0	0	0	23,173
Juvenile Court Clerk	105	0	0	0	0	0	0	105
Register	77,822	0	0	0	0	0	0	77,822
Sheriff	3,850	0	0	0	0	0	0	3,850
<b>Total Fees Received from County Officials</b>	<b>\$ 267,938</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>267,938</b>
<u>State of Tennessee</u>								
<u>General Government Grants</u>								
Juvenile Services Program	\$ 9,300	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	9,300
State Reappraisal Grant	4,448	0	0	0	0	0	0	4,448
Solid Waste Grants	0	9,687	0	0	0	0	0	9,687
<u>Health and Welfare Grants</u>								
Health Department Programs	1,200	0	0	0	0	0	0	1,200

(Continued)

Exhibit H-4

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

	Special Revenue Funds						Debt Service Fund	Total
	General	Solid Waste / Sanitation	Industrial / Economic Development	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>State of Tennessee (Cont.)</u>								
<u>Public Works Grants</u>								
Bridge Program	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 125,344	\$ 0	\$ 125,344
State Aid Program	0	0	0	0	0	202,571	0	202,571
Litter Program	31,629	0	0	0	0	0	0	31,629
<u>Other State Revenues</u>								
Income Tax	1,939	0	0	0	0	0	0	1,939
Beer Tax	16,778	0	0	0	0	0	0	16,778
Alcoholic Beverage Tax	18,208	0	0	0	0	0	0	18,208
Contracted Prisoner Boarding	190,863	0	0	0	0	0	0	190,863
Gasoline and Motor Fuel Tax	0	0	0	0	0	1,377,060	0	1,377,060
Petroleum Special Tax	0	0	0	0	0	10,318	0	10,318
Registrar's Salary Supplement	12,285	0	0	0	0	0	0	12,285
Total State of Tennessee	\$ 286,650	\$ 9,687	\$ 0	\$ 0	\$ 0	\$ 1,715,293	\$ 0	\$ 2,011,630
<u>Federal Government</u>								
<u>Federal Through State</u>								
Community Development	\$ 500,000	\$ 0	\$ 17,500	\$ 0	\$ 0	\$ 0	\$ 0	\$ 517,500
Disaster Relief	0	0	0	0	0	7,795	0	7,795
Homeland Security Grants	20,316	0	0	0	0	0	0	20,316
Medicaid	1,000	0	0	0	0	0	0	1,000
Other Federal through State	297,839	0	0	0	0	45,000	0	342,839
Total Federal Government	\$ 819,155	\$ 0	\$ 17,500	\$ 0	\$ 0	\$ 52,795	\$ 0	\$ 889,450
<u>Other Governments and Citizens Groups</u>								
<u>Other Governments</u>								
Contributions	\$ 0	\$ 40,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 250,000	\$ 290,000
Contracted Services	33,280	0	0	0	0	0	0	33,280
<u>Citizens Groups</u>								
Donations	40,089	0	0	0	0	0	0	40,089
Total Other Governments and Citizens Groups	\$ 73,369	\$ 40,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 250,000	\$ 363,369
Total	\$ 4,494,059	\$ 315,812	\$ 157,631	\$ 22,093	\$ 205,536	\$ 1,826,518	\$ 908,190	\$ 7,929,839

Exhibit H-5

Cannon County, Tennessee  
Schedule of Detailed Expenditures -  
All Governmental Fund Types  
For the Year Ended June 30, 2005

General Fund

General Government

County Commission

Other Per Diem & Fees	\$ 2,630	
Total County Commission		\$ 2,630

County Executive

County Official/Administrative Officer	\$ 55,403	
Accountants/Bookkeepers	35,623	
Audit Services	2,966	
Communication	3,493	
Contracts with Government Agencies	8,500	
Contracts with Other Public Agencies	3,367	
Legal Services	2,476	
Legal Notices, Recording and Court Costs	2,091	
Maintenance & Repair Services- Office Equipment	1,753	
Postal Charges	1,271	
Travel	74	
Office Supplies	5,838	
Total County Executive		122,855

Election Commission (Including Voter Registration)

County Official/Administrative Officer	\$ 38,375	
Clerical Personnel	12,122	
Election Commission	2,390	
Election Workers	18,065	
In-Service Training	1,324	
Communication	1,519	
Legal Notices, Recording and Court Costs	2,701	
Maintenance Agreements	4,245	
Maintenance & Repair Services- Office Equipment	2,849	
Postal Charges	1,371	
Printing, Stationery and Forms	1,266	
Office Supplies	1,880	
Total Election Commission (Including Voter Registration)		88,107

Register of Deeds

County Official/Administrative Officer	\$ 47,969
Secretary(s)	18,100
Communication	1,714
Data Processing Services	7,165
Dues and Memberships	428
Postal Charges	750

(Continued)

Exhibit H-5

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

General Fund (Cont.)

General Government (Cont.)

Register of Deeds (Cont.)

Printing, Stationery and Forms	\$	2,744	
Office Supplies		432	
Total Register of Deeds			\$ 79,302

County Buildings

Communication	\$	411	
Contracts with Private Agencies		203	
Janitorial Services		11,781	
Maintenance & Repair Services- Buildings		23,014	
Custodial Supplies		2,246	
Utilities		60,012	
Total County Buildings			97,667

Preservation of Records

Other Supplies and Materials	\$	1,292	
Total Preservation of Records			1,292

Finance

Property Assessor's Office

County Official/Administrative Officer	\$	47,969	
Secretary(s)		18,100	
Other Salaries & Wages		2,272	
Board and Committee Members Fees		1,050	
Advertising		47	
Audit Services		5,505	
Communication		677	
Data Processing Services		3,128	
Dues and Memberships		825	
Postal Charges		483	
Travel		243	
Office Supplies		944	
Total Property Assessor's Office			81,243

County Trustee's Office

Communication	\$	875	
Data Processing Services		1,890	
Dues and Memberships		313	
Legal Notices, Recording and Court Costs		1,004	
Postal Charges		2,600	
Printing, Stationery and Forms		578	

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Finance (Cont.)

County Trustee's Office (Cont.)

Office Supplies	\$ 1,890	
Total County Trustee's Office		\$ 9,150

County Clerk's Office

Secretary(s)	\$ 7,129	
Board and Committee Members Fees	262	
Communication	1,137	
Dues and Memberships	313	
Postal Charges	1,469	
Printing, Stationery and Forms	2,589	
Office Supplies	2,342	
Total County Clerk's Office		15,241

Administration of Justice

Circuit Court

County Official/Administrative Officer	\$ 47,969	
Clerical Personnel	60,275	
Jury and Witness Fees	11,658	
Communication	1,738	
Contracts with Other Public Agencies	2,486	
Dues and Memberships	333	
Legal Notices, Recording and Court Costs	178	
Maintenance & Repair Services- Office Equipment	423	
Postal Charges	1,484	
Printing, Stationery and Forms	3,482	
Other Contracted Services	1,175	
Office Supplies	3,521	
Total Circuit Court		134,722

General Sessions Court

Judge(s)	\$ 58,469	
Communication	658	
Dues and Memberships	35	
Travel	1,031	
Other Contracted Services	1,800	
Office Supplies	115	
Total General Sessions Court		62,108

Chancery Court

County Official/Administrative Officer	\$ 47,969
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(Continued)

Exhibit H-5

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

General Fund (Cont.)

Administration of Justice (Cont.)

Chancery Court (Cont.)

Deputy(ies)	\$	18,100	
Communication		949	
Dues and Memberships		313	
Postal Charges		444	
Printing, Stationery and Forms		1,607	
Office Supplies		586	
Total Chancery Court			\$ 69,968

Juvenile Court

Other Salaries & Wages	\$	13,256	
Contracts with Other Public Agencies		4,000	
Other Supplies and Materials		992	
Total Juvenile Court			18,248

Judicial Commissioners

Other Salaries & Wages	\$	14,400	
Communication		600	
Total Judicial Commissioners			15,000

Other Administration of Justice

Other Salaries & Wages	\$	32,148	
Other Fringe Benefits		4,200	
Communication		1,400	
Contracts with Vehicle Owners		22,801	
Rentals		2,500	
Travel		2,499	
Other Contracted Services		17,893	
Other Supplies and Materials		2,458	
Total Other Administration of Justice			85,899

Public Safety

Sheriff's Department

County Official/Administrative Officer	\$	52,765	
Deputy(ies)		155,372	
Investigator(s)		18,798	
Captain(s)		26,506	
Lieutenant(s)		5,201	
Sergeant(s)		49,543	
Accountants/Bookkeepers		21,056	
Dispatchers/Radio Operators		143,330	

(Continued)



Exhibit H-5

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

General Fund (Cont.)

Public Safety (Cont.)

Sheriff's Department (Cont.)

Clerical Personnel	\$	19,548	
Overtime Pay		38,645	
Other Salaries & Wages		22,867	
In-Service Training		3,957	
Advertising		55	
Communication		11,942	
Maintenance & Repair Services- Equipment		9,745	
Maintenance & Repair Services- Vehicles		16,165	
Postal Charges		924	
Gasoline		32,625	
Office Supplies		6,675	
Uniforms		3,769	
Vehicle and Equipment Insurance		24,254	
Law Enforcement Equipment		9,731	
Motor Vehicles		20,000	
Total Sheriff's Department			\$ 693,473

Jail

Medical Personnel	\$	36,220	
Guards		179,169	
Cafeteria Personnel		29,099	
Maintenance & Repair Services- Buildings		9,042	
Travel		1,315	
Other Contracted Services		4,784	
Custodial Supplies		15,331	
Food Supplies		66,897	
Utilities		38,983	
Medical Claims		59,335	
Food Service Equipment		1,848	
Office Equipment		1,423	
Total Jail			443,446

Fire Prevention and Control

Consultants	\$	1,200	
Forest Resource Services		1,500	
Maintenance & Repair Services- Equipment		887	
Maintenance & Repair Services- Vehicles		5,790	
Gasoline		2,021	
Uniforms		7,502	
Other Supplies and Materials		1,312	

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Public Safety (Cont.)

Fire Prevention and Control (Cont.)

Vehicle and Equipment Insurance	\$	1,516	
Communication Equipment		3,000	
Other Equipment		5,950	
Total Fire Prevention and Control			\$ 30,678

Other Emergency Management

In-Service Training	\$	595	
Communication		3,039	
Maintenance & Repair Services- Vehicles		1,000	
Gasoline		2,173	
Other Supplies and Materials		505	
Other Charges		11,574	
Total Other Emergency Management			18,886

Public Health and Welfare

Local Health Center

Communication	\$	2,288	
Contracts with Government Agencies		15,630	
Janitorial Services		2,777	
Maintenance & Repair Services- Buildings		3,685	
Custodial Supplies		1,272	
Drugs and Medical Supplies		791	
Office Supplies		3,241	
Utilities		6,219	
Total Local Health Center			35,903

Ambulance/Emergency Medical Services

Supervisor/Director	\$	36,750	
Medical Personnel		382,106	
Secretary(s)		7,500	
Overtime Pay		10,240	
In-Service Training		2,147	
Employee and Dependent Insurance		42,896	
Communication		7,531	
Dues and Memberships		760	
Maintenance Agreements		2,749	
Maintenance & Repair Services- Equipment		222	
Maintenance & Repair Services- Vehicles		6,168	
Postal Charges		888	
Custodial Supplies		998	

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Public Health and Welfare (Cont.)

Ambulance/Emergency Medical Services (Cont.)

Drugs and Medical Supplies	\$	16,125	
Gasoline		8,910	
Office Supplies		4,752	
Uniforms		4,795	
Utilities		3,378	
Other Supplies and Materials		10,979	
Vehicle and Equipment Insurance		13,643	
Other Equipment		34,879	
Total Ambulance/Emergency Medical Services			\$ 598,416

Maternal and Child Health Services

Accountants/Bookkeepers	\$	7,000	
Educational Assistants		46,355	
Other Salaries & Wages		32,500	
Other Fringe Benefits		14,060	
Communication		5,000	
Travel		4,072	
Other Contracted Services		31,336	
Other Supplies and Materials		9,677	
Total Maternal and Child Health Services			150,000

Crippled Children Services

Contributions	\$	784	
Total Crippled Children Services			784

Other Local Health Services

Accountants/Bookkeepers	\$	250	
Travel		175	
Other Contracted Services		2,575	
Other Supplies and Materials		2,000	
Total Other Local Health Services			5,000

Regional Mental Health Center

Other Salaries & Wages	\$	1,000	
Travel		200	
Total Regional Mental Health Center			1,200

General Welfare Assistance

Contributions	\$	11,830	
Other Contracted Services		992	
Total General Welfare Assistance			12,822

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Public Health and Welfare (Cont.)

Other Local Welfare Services

Supervisor/Director	\$	3,532	
Other Fringe Benefits		268	
Travel		199	
Total Other Local Welfare Services			\$ 3,999

Sanitation Management

Laborers	\$	19,500	
Advertising		998	
Communication		394	
Maintenance & Repair Services- Vehicles		479	
Other Contracted Services		859	
Instructional Supplies and Materials		5,394	
Other Supplies and Materials		738	
Total Sanitation Management			28,362

Other Public Health and Welfare

Travel	\$	188	
Other Contracted Services		5,806	
Total Other Public Health and Welfare			5,994

Social, Cultural and Recreational Services

Libraries

County Official/Administrative Officer	\$	22,848	
Assistant(s)		17,445	
Contributions		10,000	
Total Libraries			50,293

Parks and Fair Boards

Assistant(s)	\$	4,056	
Supervisor/Director		18,000	
Other Salaries & Wages		6,526	
Communication		542	
Dues and Memberships		340	
Maintenance & Repair Services- Buildings		5,073	
Maintenance & Repair Services- Equipment		92	
Custodial Supplies		242	
Office Supplies		175	
Utilities		11,524	
Other Supplies and Materials		3,353	
Total Parks and Fair Boards			49,923

(Continued)

Exhibit H-5

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

General Fund (Cont.)

Agriculture & Natural Resources

Agriculture Extension Service

Salary Supplements	\$	35,609	
Other Fringe Benefits		7,954	
Communication		2,783	
Maintenance & Repair Services- Buildings		1,690	
Maintenance & Repair Services- Equipment		1,220	
Custodial Supplies		228	
Other Supplies and Materials		579	
Total Agriculture Extension Service			\$ 50,063

Other Operations

Other Charges

Building and Contents Insurance	\$	106,733	
Premiums on Corporate Surety Bonds		2,441	
Trustee's Commission		46,648	
Workers' Compensation Insurance		62,352	
Other Charges		1,092	
Total Other Charges			219,266

Contributions to Other Agencies

Contributions	\$	15,850	
Total Contributions to Other Agencies			15,850

Employee Benefits

Social Security	\$	165,197	
State Retirement		83,840	
Employee and Dependent Insurance		58,830	
Unemployment Compensation		16,947	
Total Employee Benefits			324,814

Miscellaneous

Contracts with Government Agencies	\$	500,000	
Contracts with Private Agencies		5,137	
Other Contracted Services		12,888	
Gasoline		32,238	
Other Supplies and Materials		43,929	
Other Charges		1,124	
Total Miscellaneous			595,316

Total General Fund \$ 4,217,920

(Continued)

Exhibit H-5

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

Solid Waste/Sanitation Fund

Public Health and Welfare

Sanitation Management

Laborers	\$	34,876	
Overtime Pay		435	
Social Security		2,474	
State Retirement		409	
Employee and Dependent Insurance		2,533	
Communication		654	
Contracts with Other Public Agencies		317,078	
Maintenance & Repair Services- Equipment		12,283	
Maintenance & Repair Services- Vehicles		4,237	
Other Contracted Services		2,565	
Gasoline		1,101	
Utilities		1,050	
Trustee's Commission		4,245	
Solid Waste Equipment		4,000	
Total Sanitation Management			\$ 387,940

Total Solid Waste/Sanitation Fund \$ 387,940

Industrial/Economic Development Fund

Other Operations

Industrial Development

Dues and Memberships	\$	20	
Trustee's Commission		1,179	
Other Charges		7,663	
Building Construction		769,845	
Total Industrial Development			\$ 778,707

Principal

General Government

Principal on Other Loans Payable	\$	41,662	
Total General Government			41,662

Interest

General Government

Interest on Other Loans Payable	\$	17,622	
Total General Government			17,622

Total Industrial/Economic Development Fund 837,991

(Continued)

Exhibit H-5

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

Drug Control Fund

Public Safety

Sheriff's Department

Contributions	\$	752	
Maintenance & Repair Services- Vehicles		316	
Other Charges		2,257	
Law Enforcement Equipment		1,351	
Total Sheriff's Department		<u>1,351</u>	\$ <u>4,676</u>

Total Drug Control Fund \$ 4,676

Constitutional Officers - Fees Fund

General Government

Other General Administration

Constitutional Officers' Operating Expenses	\$	<u>5,035</u>	\$ 5,035
Total Other General Administration			

Finance

County Trustee's Office

Constitutional Officers' Operating Expenses	\$	<u>79,348</u>	79,348
Total County Trustee's Office			

County Clerk's Office

Constitutional Officers' Operating Expenses	\$	<u>106,572</u>	106,572
Total County Clerk's Office			

Total Constitutional Officers - Fees Fund 190,955

Highway/Public Works Fund

Highways

Administration

County Official/Administrative Officer	\$	52,765
Accountants/Bookkeepers		29,640
Board and Committee Members Fees		1,200
Social Security		4,968
State Retirement		3,717
Employer Medicare		1,162
Communication		5,954
Data Processing Services		2,951
Dues and Memberships		1,562
Legal Services		226
Legal Notices, Recording and Court Costs		304
Licenses		17

(Continued)

Exhibit H-5

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

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Administration (Cont.)

Postal Charges	\$	333	
Printing, Stationery and Forms		1,834	
Electricity		2,070	
Natural Gas		1,300	
Water and Sewer		164	
Other Supplies and Materials		450	
Total Administration			\$ 110,617

Highway and Bridge Maintenance

Equipment Operators	\$	95,870	
Truck Drivers		69,900	
Laborers		145,065	
Social Security		18,208	
State Retirement		6,804	
Employer Medicare		4,258	
Other Contracted Services		4,947	
Asphalt		305,172	
Asphalt - Cold Mix		29,860	
Asphalt - Liquid		122,631	
Concrete		755	
Crushed Stone		234,907	
Pipe - Metal		19,938	
Road Signs		5,000	
Structural Steel		37,648	
Wood Products		514	
Other Supplies and Materials		1,157	
Total Highway and Bridge Maintenance			1,102,634

Operation and Maintenance of Equipment

Mechanic(s)	\$	42,611	
Social Security		2,607	
State Retirement		1,059	
Employer Medicare		610	
Maintenance & Repair Services- Equipment		5,410	
Other Contracted Services		429	
Diesel Fuel		66,741	
Equipment and Machinery Parts		30,688	
Garage Supplies		8,639	
Gasoline		24,934	
Lubricants		2,767	

(Continued)



Exhibit H-5

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

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Operation and Maintenance of Equipment (Cont.)

Tires and Tubes	\$ 6,345	
Total Operation and Maintenance of Equipment		\$ 192,840

Other Charges

Liability Insurance	\$ 27,590	
Trustee's Commission	13,669	
Vehicle and Equipment Insurance	14,856	
Workers' Compensation Insurance	34,814	
Total Other Charges		90,929

Employee Benefits

Medical Insurance	\$ 41,721	
Unemployment Compensation	5,499	
Total Employee Benefits		47,220

Capital Outlay

Engineering Services	\$ 8,408	
Bridge Construction	170,002	
Highway Equipment	65,974	
State Aid Projects	274,630	
Other Capital Outlay	117,751	
Total Capital Outlay		636,765

Total Highway/Public Works Fund		\$ 2,181,005
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General Debt Service Fund

Principal

General Government

Principal on Notes	\$ 15,000	
Principal on Other Loans Payable	71,000	
Total General Government		\$ 86,000

Education

Principal on Other Loans Payable	\$ 345,000	
Total Education		345,000

Interest

General Government

Interest on Notes	\$ 1,474	
Interest on Other Loans Payable	28,570	
Total General Government		30,044

(Continued)

Exhibit H-5

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

General Debt Service Fund (Cont.)

Interest (Cont.)

Education

Interest on Other Loans Payable	\$ 277,059	
Total Education		\$ 277,059

Other Debt Service

General Government

Trustee's Commission	\$ 1,210	
Other Debt Service	<u>2,511</u>	
Total General Government		3,721

Education

Other Debt Service	\$ 14,808	
Total Education		<u>14,808</u>

Total General Debt Service Fund		<u>\$ 756,632</u>
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Total Governmental Funds - Primary Government		<u>\$ 8,577,119</u>
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Exhibit H-6

Cannon County, Tennessee  
Schedule of Detailed Receipts, Disbursements,  
and Changes in Cash Balance - City Agency Fund  
For the Year Ended June 30, 2005

	Cities - Sales Tax Fund
<hr/>	
<u>Cash Receipts</u>	
Local Option Sales Tax	<u>\$ 286,434</u>
<u>Cash Disbursements</u>	
Remittance of Revenues Collected	\$ 283,570
Trustee's Commission	<u>2,864</u>
Total Cash Disbursements	<u>\$ 286,434</u>
Excess of Cash Receipts Over (Under) Cash Disbursements	\$ 0
Cash Balance, July 1, 2004	<u>0</u>
Cash Balance, June 30, 2005	<u><u>\$ 0</u></u>

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## STATISTICAL SECTION

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Table 1

Cannon County, Tennessee  
Uncollected Taxes Filed in Chancery Court  
June 30, 2005

<u>Year</u>	<u>Amount</u>
2001	\$ 426
2002	1,512
2003	<u>15,094</u>
Total	<u>\$ 17,032</u>

Table 2

Cannon County, Tennessee  
Tax Rates and Assessments  
Last Ten Years

Fund	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
General	\$ 0.860	\$ 1.22	\$ 1.22	\$ 0.96	\$ 0.96	\$ 0.96	\$ 0.80	\$ 0.90	\$ 1.36	\$ 1.36
Solid Waste/Sanitation	0.120	0.12	0.12	0.10	0.10	0.10	0.06	0.06	0.12	0.12
General Purpose School	1.545	1.46	1.46	1.15	1.15	1.15	0.93	1.06	1.07	1.07
General Debt Service	0.035	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.04	0.04
Total Tax Rate	<u>\$ 2.56</u>	<u>\$ 2.83</u>	<u>\$ 2.83</u>	<u>\$ 2.24</u>	<u>\$ 2.24</u>	<u>\$ 2.24</u>	<u>\$ 1.82</u>	<u>\$ 2.05</u>	<u>\$ 2.59</u>	<u>\$ 2.59</u>
<u>Assessed Valuations</u>										
Real and Personal	\$ 70,703,628	\$ 73,342,086	\$ 75,185,457	\$ 97,814,337	\$ 101,526,141	\$ 106,343,162	\$ 133,892,788	\$ 135,609,442	\$ 137,865,283	\$ 140,136,563
Public Utilities	9,031,113	8,539,423	5,953,185	7,290,731	9,257,624	7,962,648	9,462,817	9,543,774	8,694,882	8,986,749
Total Assessed Valuation	<u>\$ 79,734,741</u>	<u>\$ 81,881,509</u>	<u>\$ 81,138,642</u>	<u>\$ 105,105,068</u>	<u>\$ 110,783,765</u>	<u>\$ 114,305,810</u>	<u>\$ 143,355,605</u>	<u>\$ 145,153,216</u>	<u>\$ 146,560,165</u>	<u>\$ 149,123,312</u>

**ANNUAL FINANCIAL REPORT**  
**CANNON COUNTY SCHOOL DEPARTMENT**  
**A COMPONENT UNIT OF CANNON COUNTY, TENNESSEE**  
**FOR THE YEAR ENDED JUNE 30, 2005**

*DEPARTMENT OF AUDIT*  
*JOHN G. MORGAN*  
*Comptroller of the Treasury*

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

*ARTHUR L. ALEXANDER*  
*Director*

*CARL LOWE, CGFM*  
*Audit Manager*

*MICHAEL FORD, CPA, CGFM*  
*Auditor 4*

*JESSICA L. COX, CGFM*  
*KELLEY J. McNEAL, CPA, CGFM*  
*State Auditors*

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

Annual Financial Report  
Cannon County School Department  
For the Year Ended June 30, 2005

## ***Scope***

We have audited the basic financial statements of the Cannon County School Department as of and for the year ended June 30, 2005.

## ***Results***

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

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

## ***Findings***

The following are summaries of the audit findings:

### **CANNON COUNTY SCHOOL DEPARTMENT**

- ◆ Government-wide financial statements were not presented in accordance with generally accepted accounting principles, resulting in an adverse opinion.
- ◆ Actual fund balance and reserves of the General Purpose School Fund at July 1, 2004, exceeded the estimated fund balance and reserves by \$655,886.
- ◆ In some required instances, the office did not issue purchase orders, and some invoices were paid without documentation of receipt of goods or services.

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### **OTHER FINDINGS**

- ◆ County officials had not adopted a central system of accounting, budgeting, and purchasing.
- ◆ Duties were not segregated adequately in the Office of Director of Schools.
- ◆ The county's practice of paying the School Department's buildings and contents insurance premiums from the General Fund is of questionable legality.
- ◆ The Board of Education had not adopted formal travel policies.

*State of Tennessee*  
*Comptroller of the Treasury*  
*Department of Audit*  
*Division of County Audit*

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# INTRODUCTORY SECTION

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Cannon County School Officials  
June 30, 2005

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Officials:

Edward Diden, Director of Schools

Board of Education:

Darryl Deason, Chairman

Mark Bailey

Charles Cooper

Tommy Hale

Ray Todd

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## FINANCIAL SECTION

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

**INDEPENDENT AUDITOR'S REPORT**

August 11, 2005

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

To the Director of Schools and Board of Education:

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Cannon County School Department, a component unit of Cannon County, Tennessee, as of and for the year ended June 30, 2005, as shown on pages 11 through 21, which collectively comprise a portion of the Cannon County School Department's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Cannon County School Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

In our opinion, because of the effects of the matters discussed in the two preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Cannon County School Department as of June 30, 2005, or the changes in its financial position for the year then ended.

However, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the Cannon County School Department as of June 30, 2005, 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.

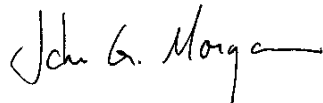
In accordance with Government Auditing Standards, we have also issued our report dated August 11, 2005, on our consideration of the Cannon County School Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

As described in Note IV.B., the Cannon County School Department has implemented Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures which modifies the county's disclosures for custodial credit risk and adds disclosures about other types of risk.

The budgetary comparison information on pages 25 through 29 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 Cannon County School Department's basic financial statements. The introductory section, individual nonmajor fund financial statements, the budgetary comparison schedule of the nonmajor governmental fund, and miscellaneous schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual nonmajor fund financial statements, the budgetary comparison schedule of the nonmajor governmental fund, and the miscellaneous schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Very truly yours,



John G. Morgan  
Comptroller of the Treasury

JGM/yu

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# BASIC FINANCIAL STATEMENTS

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Exhibit A

Cannon County, Tennessee  
Balance Sheet - Governmental Funds  
Cannon County School Department  
June 30, 2005

	Major Funds		Nonmajor	Total Govern- mental Funds
	General Purpose School	School Federal Projects	Central Cafeteria	
<b>ASSETS</b>				
Cash	\$ 0	\$ 0	\$ 100	\$ 100
Equity in Pooled Cash and Investments	3,213,057	65,428	122,851	3,401,336
Due from Other Governments	103,587	208,046	0	311,633
Property Taxes Receivable	1,740,362	0	0	1,740,362
Allowance for Uncollectible Property Taxes	(29,779)	0	0	(29,779)
<b>Total Assets</b>	<b>\$ 5,027,227</b>	<b>\$ 273,474</b>	<b>\$ 122,951</b>	<b>\$ 5,423,652</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Contracts Payable	\$ 137,000	\$ 0	\$ 0	\$ 137,000
Due to Cities	0	2,125	0	2,125
Deferred Revenue - Current Property Taxes	1,622,626	0	0	1,622,626
Deferred Revenue - Delinquent Property Taxes	87,957	0	0	87,957
Other Deferred Revenues	34,000	0	0	34,000
<b>Total Liabilities</b>	<b>\$ 1,881,583</b>	<b>\$ 2,125</b>	<b>\$ 0</b>	<b>\$ 1,883,708</b>
<b>Fund Balances</b>				
Reserved for Encumbrances	\$ 1,420,165	\$ 92,510	\$ 0	\$ 1,512,675
Reserved for Career Ladder - Extended Contract	36,677	0	0	36,677
Reserved for Career Ladder Program	7,592	0	0	7,592
Reserved for Basic Education Program	1,616,836	0	0	1,616,836
Reserved for Title I Grants to Local Education Agencies	0	92,668	0	92,668
Reserved for Innovative Education Program Strategies	0	9,911	0	9,911
Reserved for Special Education - Grants to States	0	71,636	0	71,636
Other Federal Reserves	0	4,624	0	4,624
Unreserved, Reported In:				
General Fund	64,374	0	0	64,374
Special Revenue Funds	0	0	122,951	122,951
<b>Total Fund Balances</b>	<b>\$ 3,145,644</b>	<b>\$ 271,349</b>	<b>\$ 122,951</b>	<b>\$ 3,539,944</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,027,227</b>	<b>\$ 273,474</b>	<b>\$ 122,951</b>	<b>\$ 5,423,652</b>

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

Exhibit B

Cannon County, Tennessee  
Statement of Revenues, Expenditures,  
and Changes in Fund Balances -  
Governmental Funds  
Cannon County School Department  
For the Year Ended June 30, 2005

	Major Funds		Nonmajor	Total Governmental Funds
	General Purpose School	School Federal Projects	Central Cafeteria	
<u>Revenues</u>				
Local Taxes	\$ 2,055,754	\$ 0	\$ 0	\$ 2,055,754
Licenses and Permits	469	0	0	469
Charges for Current Services	7,400	0	406,968	414,368
Other Local Revenues	51,382	1,612	122	53,116
State of Tennessee	9,357,056	0	11,262	9,368,318
Federal Government	74,859	1,539,886	434,424	2,049,169
Total Revenues	<u>\$ 11,546,920</u>	<u>\$ 1,541,498</u>	<u>\$ 852,776</u>	<u>\$ 13,941,194</u>
<u>Expenditures</u>				
Current:				
Instruction	\$ 7,434,618	\$ 851,840	\$ 0	\$ 8,286,458
Support Services	3,471,081	612,540	0	4,083,621
Operation of Non-Instructional Services	0	0	857,875	857,875
Capital Outlay	982,377	0	0	982,377
Debt Service:				
Other Debt Service	250,000	0	0	250,000
Total Expenditures	<u>\$ 12,138,076</u>	<u>\$ 1,464,380</u>	<u>\$ 857,875</u>	<u>\$ 14,460,331</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (591,156)</u>	<u>\$ 77,118</u>	<u>\$ (5,099)</u>	<u>\$ (519,137)</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 17,920	\$ 0	\$ 0	\$ 17,920
Transfers Out	0	(17,920)	0	(17,920)
Total Other Financing Sources (Uses)	<u>\$ 17,920</u>	<u>\$ (17,920)</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Change in Fund Balances	\$ (573,236)	\$ 59,198	\$ (5,099)	\$ (519,137)
Fund Balance, July 1, 2004	<u>3,718,880</u>	<u>212,151</u>	<u>128,050</u>	<u>4,059,081</u>
Fund Balance, June 30, 2005	<u>\$ 3,145,644</u>	<u>\$ 271,349</u>	<u>\$ 122,951</u>	<u>\$ 3,539,944</u>

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

**CANNON COUNTY SCHOOL DEPARTMENT  
A COMPONENT UNIT OF CANNON COUNTY, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

**A. Reporting Entity**

The Cannon County School Department operates the public school system in the county, and the voters of Cannon County elect its five-member board. The School Department is a component unit of Cannon 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 County Commission's approval. The

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

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

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

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

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

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. Property taxes collected within 30 days after year-end are considered to be immaterial for reporting purposes. Applicable business taxes, litigation taxes, state-shared excise taxes, fines, forfeitures, and penalties are not susceptible to accrual since they are not measurable (reasonably estimable). All other revenue items are considered to be measurable and available only when the School Department receives cash.

The School Department reports the following major governmental funds:

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

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

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

1. **Deposits and Investments**

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

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

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 shown with an allowance for uncollectibles. The allowance for uncollectible property taxes is equal to 0.92 percent of total taxes levied.

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 not material for financial reporting purposes and are thus not accrued. The allowance for uncollectible taxes represents the estimated amount of the receivable that will be filed in court for collection. Delinquent taxes filed in court for collection are not included in taxes receivable since they are neither measurable nor available.

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

**3. Capital Assets**

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

**4. Compensated Absences**

The general policy of the School Department is to permit employees to accumulate a limited amount of vacation benefits, which will be paid to the employee upon separation. Records are not maintained reflecting the dollar amount of accumulated vacation time at June 30, 2005; however, the amount of accumulated leave would not materially affect the financial statements. The general policy of the School Department for professional personnel (teachers) permits the unlimited accumulation of unused sick leave days. The granting of sick leave has no guaranteed payment attached and therefore is not required to be accrued or recorded.

**5. Fund Equity**

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

## II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### The Actual Fund Balance Exceeded the Estimated Beginning Fund Balance Fund Balance by a Material Amount

The General Purpose School Fund's actual fund balance and reserves at July 1, 2004, were \$2,845,880; however, the estimated fund balance and reserves reflected in the county's budget at July 1, 2004, was \$2,189,994. Therefore, the actual fund balance and reserves were \$655,886 more than the estimated fund balance and reserves presented to the County Commission during the budget approval process.

## III. DETAILED NOTES ON ALL FUNDS

### A. Deposits and Investments

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

#### Deposits

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

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

**Investments**

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

The county had no pooled and nonpooled investments as of June 30, 2005.

**B. Construction Commitments**

At June 30, 2005, the General Purpose School Fund had uncompleted construction contracts of approximately \$1,067,000 for an addition to the high school. Funding has been received for these future expenditures.

**C. Interfund Transfers**

Interfund transfers for the year ended June 30, 2005, consisted of the following amounts:

Transfers Out	<u>Transfers In</u> General Purpose School Fund
School Federal Projects Fund	\$ 17,920
Total	<u>\$ 17,920</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.



#### IV. OTHER INFORMATION

##### A. Risk Management

The School Department's risks of loss relating to general liability, property, casualty, and workers' compensation are covered by participation in the Tennessee School Boards Liability Trust and the Tennessee School Boards – Workers' Compensation Trust, which are public entity risk pools established by the Tennessee Schools Boards Association. Annual premiums are paid to the pool for the risk coverage noted above. The creation of these pools provides for them to be self-sustaining through member premiums.

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

##### B. Accounting Change

During the year the School Department adopted the provisions of Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures. These provisions modified the School Department's previous custodial risk disclosures for deposits and investments and related collateral. These provisions also added disclosures about other types of risk, including credit risk, interest rate risk, foreign currency risk, and concentrations of credit risk. Governments are also required to provide brief disclosures about their deposit and investment policies that are related to any of the risks required to be disclosed.

##### C. Contingent Liabilities

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

##### D. Retirement Commitments

###### **Plan Description**

Employees of Cannon 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, Chapter 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Cannon County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

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

## SCHOOL TEACHERS

### **Plan Description**

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

vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979, are vested after five years of service. Members joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. A cost of living adjustment (COLA) is provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

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

### **Funding Policy**

Most teachers are required by state statute to contribute five percent of their salaries to the plan. The employer contribution rate for Cannon County School Department is established at an actuarially determined rate. The employer rate for the fiscal year ended June 30, 2005, was 5.5 percent of annual covered payroll. The employer contribution requirement for the Cannon County School Department is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ended June 30, 2005, 2004, and 2003, were, \$388,501, \$227,207, and \$199,916, respectively, equal to the required contributions for each year.

### **E. Purchasing Law**

Purchasing procedures for the School Department are governed by purchasing laws applicable to the schools as set forth in Section 49-2-203, Tennessee Code Annotated, which provides for the county Board of Education, through its executive committee (director of schools and the chairman of the Board of Education), to make all purchases. This statute also requires that competitive bids be solicited through newspaper advertisement on all purchases exceeding \$5,000.

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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Exhibit C-1

Cannon County, Tennessee  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual (Budgetary Basis) and Budget  
Cannon County School Department  
General Purpose School Fund  
For the Year Ended June 30, 2005

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2004	Add: Encumbrances 6/30/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Revenues</u>							
Local Taxes	\$ 2,055,754	\$ 0	\$ 0	\$ 2,055,754	\$ 1,995,080	\$ 1,995,080	\$ 60,674
Licenses and Permits	469	0	0	469	500	500	(31)
Charges for Current Services	7,400	0	0	7,400	6,300	6,300	1,100
Other Local Revenues	51,382	0	0	51,382	25,000	47,180	4,202
State of Tennessee	9,357,056	0	0	9,357,056	9,205,350	9,261,350	95,706
Federal Government	74,859	0	0	74,859	89,300	89,300	(14,441)
<b>Total Revenues</b>	<b>\$ 11,546,920</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 11,546,920</b>	<b>\$ 11,321,530</b>	<b>\$ 11,399,710</b>	<b>\$ 147,210</b>
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 6,036,846	\$ (272,914)	\$ 248,743	\$ 6,012,675	\$ 6,099,855	\$ 6,110,855	\$ 98,180
Alternative Instruction Program	45,099	0	0	45,099	46,610	46,610	1,511
Special Education Program	1,048,200	0	0	1,048,200	1,086,990	1,086,990	38,790
Vocational Education Program	266,180	(2,513)	13,595	277,262	295,570	309,570	32,308
Adult Education Program	38,293	(19,368)	1,853	20,778	54,700	54,700	33,922
<u>Support Services</u>							
Attendance	68,029	(76)	150	68,103	79,940	83,440	15,337
Health Services	35,018	0	655	35,673	35,300	39,300	3,627
Other Student Support	186,438	(450)	0	185,988	165,075	194,691	8,703
Regular Instruction Program	392,276	(687)	70	391,659	411,890	410,570	18,911
Special Education Program	87,360	0	0	87,360	92,250	98,570	11,210
Adult Programs	74,743	0	0	74,743	106,580	106,580	31,837
Board of Education	202,280	(84)	70	202,266	238,760	238,760	36,494
Director of Schools	121,433	0	0	121,433	123,510	123,510	2,077
Office of the Principal	760,508	0	0	760,508	761,030	785,030	24,522
Fiscal Services	143,785	(12,220)	8,150	139,715	143,780	143,780	4,065

(Continued)

Exhibit C-1

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2004	Add: Encumbrances 6/30/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Expenditures (Cont.)</u>							
<u>Support Services (Cont.)</u>							
Operation of Plant	\$ 724,777	\$ (8,008)	\$ 2,290	\$ 719,059	\$ 757,660	\$ 757,660	\$ 38,601
Maintenance of Plant	141,119	(400)	1,077	141,796	155,650	155,650	13,854
Transportation	533,315	(95)	150	533,370	536,540	536,540	3,170
<u>Capital Outlay</u>							
Regular Capital Outlay	982,377	(556,185)	1,143,362	1,569,554	850,000	1,917,892	348,338
<u>Other Debt Service</u>							
Education	250,000	0	0	250,000	250,000	250,000	0
Total Expenditures	\$ 12,138,076	\$ (873,000)	\$ 1,420,165	\$ 12,685,241	\$ 12,291,690	\$ 13,450,698	\$ 765,457
Excess (Deficiency) of Revenues Over Expenditures	\$ (591,156)	\$ 873,000	\$ (1,420,165)	\$ (1,138,321)	\$ (970,160)	\$ (2,050,988)	\$ 912,667
<u>Other Financing Sources (Uses)</u>							
Transfers In	\$ 17,920	\$ 0	\$ 0	\$ 17,920	\$ 10,000	\$ 10,000	\$ 7,920
Total Other Financing Sources (Uses)	\$ 17,920	\$ 0	\$ 0	\$ 17,920	\$ 10,000	\$ 10,000	\$ 7,920
Net Change in Fund Balance	\$ (573,236)	\$ 873,000	\$ (1,420,165)	\$ (1,120,401)	\$ (960,160)	\$ (2,040,988)	\$ 920,587
Fund Balance, July 1, 2004	3,718,880	(873,000)	0	2,845,880	2,189,994	2,189,994	655,886
Fund Balance, June 30, 2005	\$ 3,145,644	\$ 0	\$ (1,420,165)	\$ 1,725,479	\$ 1,229,834	\$ 149,006	\$ 1,576,473

Exhibit C-2

Cannon County, Tennessee  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual (Budgetary Basis) and Budget  
Cannon County School Department  
School Federal Projects Fund  
For the Year Ended June 30, 2005

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2004	Add: Encumbrances 6/30/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Revenues</u>							
Other Local Revenues	\$ 1,612	\$ 0	\$ 0	\$ 1,612	\$ 0	\$ 0	\$ 1,612
Federal Government	1,539,886	0	0	1,539,886	1,506,556	1,597,502	(57,616)
<b>Total Revenues</b>	<b>\$ 1,541,498</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 1,541,498</b>	<b>\$ 1,506,556</b>	<b>\$ 1,597,502</b>	<b>\$ (56,004)</b>
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 466,508	\$ (81,482)	\$ 9,318	\$ 394,344	\$ 461,402	\$ 465,893	\$ 71,549
Special Education Program	322,240	(3,870)	495	318,865	357,675	413,116	94,251
Vocational Education Program	63,092	(34,377)	13,268	41,983	36,527	42,428	445
<u>Support Services</u>							
Health Services	58,537	(2,092)	0	56,445	75,481	75,481	19,036
Other Student Support	151,721	(7,032)	19,010	163,699	147,562	163,954	255
Regular Instruction Program	303,661	(16,925)	50,016	336,752	384,922	388,748	51,996
Special Education Program	61,653	(723)	403	61,333	52,359	62,818	1,485
Vocational Education Program	2,997	0	0	2,997	2,713	2,998	1
Transportation	33,971	(112)	0	33,859	26,500	34,149	290
<b>Total Expenditures</b>	<b>\$ 1,464,380</b>	<b>\$ (146,613)</b>	<b>\$ 92,510</b>	<b>\$ 1,410,277</b>	<b>\$ 1,545,141</b>	<b>\$ 1,649,585</b>	<b>\$ 239,308</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ 77,118	\$ 146,613	\$ (92,510)	\$ 131,221	\$ (38,585)	\$ (52,083)	\$ 183,304
<u>Other Financing Sources (Uses)</u>							
Transfers Out	\$ (17,920)	\$ 0	\$ 0	\$ (17,920)	\$ (18,642)	\$ (23,633)	\$ 5,713
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (17,920)</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ (17,920)</b>	<b>\$ (18,642)</b>	<b>\$ (23,633)</b>	<b>\$ 5,713</b>

(Continued)

Exhibit C-2

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2004	Add: Encumbrances 6/30/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
Net Change in Fund Balance	\$ 59,198	\$ 146,613	\$ (92,510)	\$ 113,301	\$ (57,227)	\$ (75,716)	\$ 189,017
Fund Balance, July 1, 2004	212,151	(146,613)	0	65,538	212,151	212,151	(146,613)
Fund Balance, June 30, 2005	\$ 271,349	\$ 0	\$ (92,510)	\$ 178,839	\$ 154,924	\$ 136,435	\$ 42,404



**CANNON COUNTY SCHOOL DEPARTMENT  
A COMPONENT UNIT OF CANNON COUNTY, TENNESSEE  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2005**

**A. BUDGETARY INFORMATION**

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

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

**B. THE ACTUAL FUND BALANCE AND RESERVES EXCEEDED THE ESTIMATED BEGINNING FUND BALANCE AND RESERVES BY A MATERIAL AMOUNT**

The General Purpose School Fund's actual fund balance and reserves at July 1, 2004, were \$2,845,880; however, the estimated fund balance and reserves reflected in the county's budget at July 1, 2004, were only \$2,189,994. Therefore, the actual fund balance and reserves were \$655,886 more than the estimated fund balance and reserves presented to the County Commission.

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**INDIVIDUAL FUND  
FINANCIAL STATEMENTS AND SCHEDULES**

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# Nonmajor Governmental Fund

## Special Revenue Fund

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

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

Exhibit D

Cannon County, Tennessee  
Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Actual and Budget  
Cannon County School Department  
Central Cafeteria Fund  
For the Year Ended June 30, 2005

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Charges for Current Services	\$ 406,968	\$ 395,500	\$ 405,500	\$ 1,468
Other Local Revenues	122	90	90	32
State of Tennessee	11,262	11,500	11,500	(238)
Federal Government	434,424	412,500	412,500	21,924
Total Revenues	<u>\$ 852,776</u>	<u>\$ 819,590</u>	<u>\$ 829,590</u>	<u>\$ 23,186</u>
<u>Expenditures</u>				
<u>Operation of Non-Instructional Services</u>				
Food Service	\$ 857,875	\$ 878,900	\$ 888,901	\$ 31,026
Total Expenditures	<u>\$ 857,875</u>	<u>\$ 878,900</u>	<u>\$ 888,901</u>	<u>\$ 31,026</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (5,099)	\$ (59,310)	\$ (59,311)	\$ 54,212
Net Change in Fund Balance	\$ (5,099)	\$ (59,310)	\$ (59,311)	\$ 54,212
Fund Balance, July 1, 2004	128,050	148,696	148,696	(20,646)
Fund Balance, June 30, 2005	<u>\$ 122,951</u>	<u>\$ 89,386</u>	<u>\$ 89,385</u>	<u>\$ 33,566</u>

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## MISCELLANEOUS SCHEDULES

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Exhibit E-1

Cannon County, Tennessee  
Schedule of Transfers - All Funds  
Cannon County School Department  
For the Year Ended June 30, 2005

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
School Federal Projects	General Purpose School	Indirect costs	<u>\$ 17,920</u>
Total Transfers			<u><u>\$ 17,920</u></u>

Exhibit E-2

Cannon County, Tennessee  
Schedule of Salaries and Official Bonds of Principal Officials  
Cannon County School Department  
For the Year Ended June 30, 2005

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
Director of Schools	State Board of Education and Cannon County Board of Education	\$ 81,000 (1)	\$ (2)	
Other Bonds:				
Public Employee Dishonesty			150,000	Tennessee School Boards Liability Trust

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

(2) The director of schools is covered under the public employee dishonesty bond.

Exhibit E-3

Cannon County, Tennessee  
Schedule of Detailed Revenues -  
All Governmental Fund Types  
Cannon County School Department  
For the Year Ended June 30, 2005

	General Purpose School	School Federal Projects	Central Cafeteria	Total
<u>Local Taxes</u>				
<u>County Property Taxes</u>				
Current Property Tax	\$ 1,511,310	\$ 0	\$ 0	\$ 1,511,310
Trustee's Collections - Prior Year	77,696	0	0	77,696
Circuit/Clerk & Master Collections - Prior Years	21,540	0	0	21,540
Interest and Penalty	16,324	0	0	16,324
<u>County Local Option Taxes</u>				
Local Option Sales Tax	418,466	0	0	418,466
<u>Statutory Local Taxes</u>				
Bank Excise Tax	10,418	0	0	10,418
Total Local Taxes	\$ 2,055,754	\$ 0	\$ 0	\$ 2,055,754
<u>Licenses and Permits</u>				
<u>Licenses</u>				
Marriage Licenses	\$ 469	\$ 0	\$ 0	\$ 469
Total Licenses and Permits	\$ 469	\$ 0	\$ 0	\$ 469
<u>Charges for Current Services</u>				
<u>Education Charges</u>				
Lunch Payments - Children	\$ 0	\$ 0	\$ 186,820	\$ 186,820
Lunch Payments - Adults	0	0	25,241	25,241
Income from Breakfast	0	0	21,635	21,635
Special Milk Sales	0	0	1,894	1,894
A la carte Sales	0	0	171,378	171,378
Receipts from Individual Schools	25	0	0	25
<u>Other Charges for Services</u>				
Other Charges for Services	7,375	0	0	7,375
Total Charges for Current Services	\$ 7,400	\$ 0	\$ 406,968	\$ 414,368
<u>Other Local Revenues</u>				
<u>Recurring Items</u>				
Investment Income	\$ 0	\$ 0	\$ 122	\$ 122
Miscellaneous Refunds	17,028	1,612	0	18,640
<u>Nonrecurring Items</u>				
Insurance Recovery	9,992	0	0	9,992
Sale of Equipment	5,121	0	0	5,121
Contributions & Gifts	18,947	0	0	18,947
<u>Other Local Revenues</u>				
Other Local Revenues	294	0	0	294
Total Other Local Revenues	\$ 51,382	\$ 1,612	\$ 122	\$ 53,116
<u>State of Tennessee</u>				
<u>State Education Funds</u>				
Basic Education Program	\$ 8,827,716	\$ 0	\$ 0	\$ 8,827,716
School Food Service	0	0	11,262	11,262
Driver Education	7,560	0	0	7,560
Other State Education Funds	142,648	0	0	142,648
Career Ladder Program	113,606	0	0	113,606
Career Ladder - Extended Contract	43,696	0	0	43,696

(Continued)



Exhibit E-3

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

	General Purpose School	School Federal Projects	Central Cafeteria	Total
<u>State of Tennessee (Cont.)</u>				
<u>Other State Revenues</u>				
State Revenue Sharing - T.V.A.	\$ 221,830	\$ 0	\$ 0	\$ 221,830
Total State of Tennessee	\$ 9,357,056	\$ 0	\$ 11,262	\$ 9,368,318
<u>Federal Government</u>				
<u>Federal Through State</u>				
USDA School Lunch Program	\$ 0	\$ 0	\$ 325,827	\$ 325,827
Breakfast	0	0	108,597	108,597
Adult Education State Grant Program	54,789	0	0	54,789
Vocational Education - Basic Grants to States	0	47,240	0	47,240
Title I Grants to Local Education Agencies	0	451,844	0	451,844
Innovative Education Program Strategies	0	10,645	0	10,645
Special Education - Grants to States	0	477,184	0	477,184
Special Education Preschool Grants	0	12,502	0	12,502
Eisenhower Professional Development State Grants	0	115,650	0	115,650
Job Training Partnership Act	8,434	0	0	8,434
Other Federal through State	11,636	211,321	0	222,957
<u>Direct Federal Revenue</u>				
Other Direct Federal Revenue	0	213,500	0	213,500
Total Federal Government	\$ 74,859	\$ 1,539,886	\$ 434,424	\$ 2,049,169
Total	\$ 11,546,920	\$ 1,541,498	\$ 852,776	\$ 13,941,194

Exhibit E-4

Cannon County, Tennessee  
Schedule of Detailed Expenditures -  
All Governmental Fund Types  
Cannon County School Department  
For the Year Ended June 30, 2005

General Purpose School Fund

Instruction

Regular Instruction Program

Teachers	\$	4,263,606	
Career Ladder Program		60,090	
Career Ladder Extended Contracts		34,129	
Educational Assistants		96,432	
Certified Substitute Teachers		91,200	
Social Security		268,879	
State Retirement		243,576	
Medical Insurance		383,596	
Unemployment Compensation		21,389	
Employer Medicare		62,883	
Other Contracted Services		6,053	
Instructional Supplies and Materials		100,156	
Textbooks		209,355	
Other Charges		97,960	
Regular Instruction Equipment		97,542	
Total Regular Instruction Program			\$ 6,036,846

Alternative Instruction Program

Teachers	\$	39,858	
Social Security		2,471	
State Retirement		2,192	
Employer Medicare		578	
Total Alternative Instruction Program			45,099

Special Education Program

Teachers	\$	693,572	
Career Ladder Program		7,255	
Career Ladder Extended Contracts		3,000	
Homebound Teachers		2,786	
Educational Assistants		25,463	
Social Security		43,002	
State Retirement		40,132	
Medical Insurance		78,837	
Employer Medicare		10,057	
Tuition		13,331	
Other Contracted Services		130,765	
Total Special Education Program			1,048,200

(Continued)

Exhibit E-4

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

General Purpose School Fund (Cont.)

Instruction (Cont.)

Vocational Education Program

Teachers	\$	208,413	
Career Ladder Program		4,000	
Social Security		13,675	
State Retirement		12,561	
Medical Insurance		14,139	
Employer Medicare		3,198	
Instructional Supplies and Materials		10,194	
Total Vocational Education Program			\$ 266,180

Adult Education Program

Teachers	\$	15,900	
Social Security		986	
Unemployment Compensation		171	
Employer Medicare		231	
Instructional Supplies and Materials		21,005	
Total Adult Education Program			38,293

Support Services

Attendance

Supervisor/Director	\$	51,541	
Career Ladder Program		1,000	
Social Security		2,908	
State Retirement		2,890	
Medical Insurance		6,992	
Employer Medicare		760	
Travel		1,454	
Other Supplies and Materials		484	
Total Attendance			68,029

Health Services

Medical Personnel	\$	30,544	
Social Security		1,894	
State Retirement		1,680	
Employer Medicare		443	
Drugs and Medical Supplies		457	
Total Health Services			35,018

Other Student Support

Career Ladder Program	\$	1,000	
-----------------------	----	-------	--

(Continued)

Exhibit E-4

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Other Student Support (Cont.)

Guidance Personnel	\$	129,953	
Career Ladder Extended Contracts		2,000	
Social Security		8,116	
State Retirement		7,312	
Medical Insurance		8,175	
Employer Medicare		1,898	
Evaluation and Testing		8,930	
Other Contracted Services		19,054	
Total Other Student Support			\$ 186,438

Regular Instruction Program

Supervisor/Director	\$	63,492	
Career Ladder Program		3,995	
Librarians		145,335	
Instructional Computer Personnel		74,833	
Educational Assistants		18,265	
Social Security		18,394	
State Retirement		15,821	
Medical Insurance		19,384	
Employer Medicare		4,302	
Travel		5,236	
Library Books/Media		17,349	
In Service/Staff Development		5,870	
Total Regular Instruction Program			392,276

Special Education Program

Supervisor/Director	\$	42,410	
Career Ladder Program		1,000	
Psychological Personnel		23,527	
Social Security		3,734	
State Retirement		3,682	
Medical Insurance		9,728	
Employer Medicare		873	
Travel		2,406	
Total Special Education Program			87,360

Adult Programs

Supervisor/Director	\$	52,876	
Other Salaries & Wages		6,486	

(Continued)

Exhibit E-4

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Adult Programs (Cont.)

Social Security	\$	3,611	
State Retirement		2,997	
Medical Insurance		3,640	
Unemployment Compensation		162	
Employer Medicare		844	
Other Charges		4,127	
Total Adult Programs			\$ 74,743

Board of Education

Board and Committee Members Fees	\$	7,200	
Social Security		446	
Employer Medicare		104	
Audit Services		3,300	
Dues and Memberships		3,461	
Legal Services		11,892	
Travel		5,082	
Liability Insurance		21,783	
Trustee's Commission		59,523	
Workers' Compensation Insurance		76,291	
Criminal Investigation of Applicants - TBI		1,502	
Other Charges		11,696	
Total Board of Education			202,280

Director of Schools

County Official/Administrative Officer	\$	80,000	
Career Ladder Program		1,000	
Social Security		4,974	
State Retirement		4,463	
Medical Insurance		3,866	
Employer Medicare		1,163	
Communication		12,844	
Dues and Memberships		2,721	
Postal Charges		5,045	
Travel		2,099	
Office Supplies		923	
Other Charges		2,335	
Total Director of Schools			121,433

(Continued)

Exhibit E-4

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Office of the Principal

Principals	\$	406,709	
Career Ladder Program		10,000	
Assistant Principals		48,417	
Secretary(s)		145,643	
Social Security		35,670	
State Retirement		33,883	
Medical Insurance		54,183	
Employer Medicare		8,342	
Communication		7,718	
Dues and Memberships		2,700	
Travel		4,033	
Other Contracted Services		665	
Office Supplies		2,545	
Total Office of the Principal			\$ 760,508

Fiscal Services

Accountants/Bookkeepers	\$	34,343	
Secretary(s)		29,383	
Clerical Personnel		27,514	
Social Security		5,036	
State Retirement		5,401	
Medical Insurance		13,984	
Employer Medicare		1,178	
Travel		339	
Other Contracted Services		5,232	
Data Processing Supplies		1,300	
Office Supplies		6,065	
Other Charges		10,010	
Administration Equipment		4,000	
Total Fiscal Services			143,785

Operation of Plant

Custodial Personnel	\$	191,597	
Social Security		11,433	
State Retirement		10,744	
Medical Insurance		26,513	
Employer Medicare		2,674	
Other Contracted Services		27,159	
Electricity		290,923	

(Continued)

Exhibit E-4

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Operation of Plant (Cont.)

Natural Gas	\$	78,994	
Water and Sewer		43,809	
Other Supplies and Materials		39,941	
Boiler Insurance		530	
Plant Operation Equipment		460	
Total Operation of Plant			\$ 724,777

Maintenance of Plant

Maintenance Personnel	\$	67,270	
Social Security		3,899	
State Retirement		3,982	
Medical Insurance		6,318	
Employer Medicare		912	
Other Contracted Services		29,672	
Other Supplies and Materials		21,169	
Other Charges		309	
Plant Operation Equipment		7,588	
Total Maintenance of Plant			141,119

Transportation

Supervisor/Director	\$	4,450	
Bus Drivers		112,456	
Other Salaries & Wages		9,920	
Social Security		7,927	
State Retirement		6,324	
Employer Medicare		1,774	
Contracts with Vehicle Owners		237,000	
Gasoline		36,065	
Tires and Tubes		5,867	
Vehicle Parts		34,817	
Vehicle and Equipment Insurance		17,147	
Other Charges		78	
Transportation Equipment		59,490	
Total Transportation			533,315

Capital Outlay

Regular Capital Outlay

Architects	\$	60,856	
Contracts with Private Agencies		1,804	

(Continued)

Exhibit E-4

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

General Purpose School Fund (Cont.)

Capital Outlay (Cont.)

Regular Capital Outlay (Cont.)

Building Construction	\$	37,501	
Building Improvements		881,418	
Furniture and Fixtures		798	
Total Regular Capital Outlay			\$ 982,377

Other Debt Service

Education

Debt Service Contribution to Primary Government	\$	250,000	
Total Education			250,000

Total General Purpose School Fund \$ 12,138,076

School Federal Projects Fund

Instruction

Regular Instruction Program

Teachers	\$	289,136	
Clerical Personnel		3,300	
Certified Substitute Teachers		13,450	
Social Security		18,157	
State Retirement		16,045	
Medical Insurance		26,341	
Unemployment Compensation		784	
Employer Medicare		4,246	
Instructional Supplies and Materials		74,308	
Other Charges		50	
Regular Instruction Equipment		20,691	
Total Regular Instruction Program			\$ 466,508

Special Education Program

Teachers	\$	2,000	
Educational Assistants		223,280	
Certified Substitute Teachers		3,200	
Social Security		13,742	
State Retirement		10,987	
Medical Insurance		20,902	
Unemployment Compensation		1,808	
Employer Medicare		3,214	
Other Contracted Services		6,842	
Instructional Supplies and Materials		31,241	

(Continued)



Exhibit E-4

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

School Federal Projects Fund (Cont.)

Instruction (Cont.)

Special Education Program (Cont.)

Other Supplies and Materials	\$	1,334	
Special Education Equipment		3,690	
Total Special Education Program			\$ 322,240

Vocational Education Program

Other Salaries & Wages	\$	15,973	
Instructional Supplies and Materials		7,979	
Vocational Instruction Equipment		39,140	
Total Vocational Education Program			63,092

Support Services

Health Services

Medical Personnel	\$	47,769	
Social Security		2,504	
State Retirement		2,207	
Medical Insurance		2,991	
Unemployment Compensation		388	
Employer Medicare		586	
Drugs and Medical Supplies		2,092	
Total Health Services			58,537

Other Student Support

Guidance Personnel	\$	81,158	
Social Workers		27,709	
Clerical Personnel		2,600	
Social Security		6,928	
State Retirement		6,179	
Medical Insurance		1,320	
Unemployment Compensation		444	
Employer Medicare		1,620	
Travel		11,038	
Other Contracted Services		2,125	
Instructional Supplies and Materials		554	
Other Supplies and Materials		9,692	
In Service/Staff Development		354	
Total Other Student Support			151,721

Regular Instruction Program

Supervisor/Director	\$	59,357	
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(Continued)

Exhibit E-4

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

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Regular Instruction Program (Cont.)

Other Salaries & Wages	\$	1,000	
Certified Substitute Teachers		3,350	
Social Security		3,950	
State Retirement		3,320	
Unemployment Compensation		102	
Employer Medicare		924	
Consultants		5,200	
Maintenance & Repair Services- Equipment		15,596	
Travel		18,021	
Other Contracted Services		2,125	
Instructional Supplies and Materials		29,839	
Other Supplies and Materials		72,182	
In Service/Staff Development		81,067	
Other Charges		7,628	
Total Regular Instruction Program			\$ 303,661

Special Education Program

Supervisor/Director	\$	3,813	
Psychological Personnel		23,168	
Social Security		1,493	
State Retirement		1,484	
Medical Insurance		4,182	
Unemployment Compensation		130	
Employer Medicare		349	
Maintenance & Repair Services- Equipment		670	
Travel		7,955	
Instructional Supplies and Materials		333	
Other Supplies and Materials		13,826	
In Service/Staff Development		4,250	
Total Special Education Program			61,653

Vocational Education Program

Supervisor/Director	\$	1,500	
Social Security		93	
State Retirement		82	
Unemployment Compensation		18	
Employer Medicare		22	
Travel		982	
Other Supplies and Materials		300	
Total Vocational Education Program			2,997

(Continued)

Exhibit E-4

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

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Transportation

Contracts with Parents	\$ 2,645	
Maintenance & Repair Services- Equipment	2,805	
Maintenance & Repair Services- Vehicles	12,261	
Transportation Equipment	16,260	
Total Transportation	\$ 33,971	

Total School Federal Projects Fund \$ 1,464,380

Central Cafeteria Fund

Operation of Non-Instructional Services

Food Service

Supervisor/Director	\$ 54,471	
Accountants/Bookkeepers	21,310	
Cafeteria Personnel	296,234	
Social Security	22,064	
State Retirement	19,698	
Medical Insurance	34,527	
Unemployment Compensation	905	
Employer Medicare	5,160	
Communication	1,775	
Data Processing Services	500	
Maintenance & Repair Services- Equipment	8,354	
Travel	1,718	
Other Contracted Services	990	
Food Supplies	351,251	
Office Supplies	1,098	
Other Supplies and Materials	29,616	
Other Charges	1,248	
Food Service Equipment	6,956	
Total Food Service	\$ 857,875	

Total Central Cafeteria Fund 857,875

Total Governmental Funds - Cannon County School Department \$ 14,460,331

**SINGLE AUDIT REPORT**  
**CANNON COUNTY, TENNESSEE**  
**AND**  
**CANNON COUNTY SCHOOL DEPARTMENT**  
**FOR THE YEAR ENDED JUNE 30, 2005**

***DEPARTMENT OF AUDIT***  
***JOHN G. MORGAN***  
***Comptroller of the Treasury***

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

***ARTHUR L. ALEXANDER***  
***Director***

***CARL LOWE, CGFM***  
***Audit Manager***

***MICHAEL FORD, CPA, CGFM***  
***Auditor 4***

***JESSICA L. COX, CGFM***  
***KELLEY J. McNEAL, CPA, CGFM***  
***State Auditors***

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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

August 11, 2005

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

To the County Executive, 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 Cannon County, Tennessee, and the Cannon County School Department as of and for the year ended June 30, 2005, which collectively comprise a portion Cannon County's and the Cannon County School Department's basic financial statements and have issued our reports thereon dated August 11, 2005. Our reports on the financial statements of Cannon County, Tennessee, and the Cannon County School Department express adverse opinions because the government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

over financial reporting that, in our judgment, could adversely affect Cannon County's and the Cannon County School Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 05.04, 05.07, 05.08, 05.09, 05.10, 05.12, 05.13, and 05.15.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 05.08 and 05.09 to be material weaknesses.

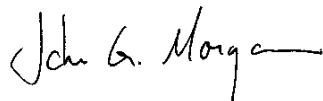
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cannon County's and the Cannon County School Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and are described in the accompanying Schedule of Findings and Questioned Costs as items 05.01, 05.02, 05.03, 05.05, 05.06, 05.11, and 05.14.

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

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

Very truly yours,



John G. Morgan  
Comptroller of the Treasury

JGM/yu



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

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

August 11, 2005

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

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

Compliance

We have audited the compliance of Cannon County and the Cannon 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, 2005. Cannon County's and the Cannon 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 Cannon County's and the Cannon County School Department's management. Our responsibility is to express an opinion on Cannon County's and the Cannon County School Department's compliance based on our audit.

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



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

In our opinion, Cannon County and the Cannon 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, 2005.

#### Internal Control Over Compliance

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

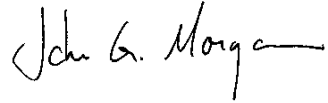
Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively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

#### Schedule of Federal Awards

We have audited the financial statements of each major fund and the aggregate remaining fund information of Cannon County, Tennessee, and the Cannon County School Department as of and for the year ended June 30, 2005, and have issued our reports thereon dated August 11, 2005. Our reports on the financial statements of Cannon County and the Cannon County School Department express adverse opinions because the government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34. Our audit was performed for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and State Grants is presented for purposes of additional analysis, as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of County Commissioners, Board of Education, management, and federal awarding agencies and 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". The signature is written in a cursive style with a long horizontal flourish at the end.

John G. Morgan  
Comptroller of the Treasury

JGM/yu

Cannon County, Tennessee, and the Cannon County School Department  
Schedule of Expenditures of Federal Awards and State Grants (1)  
For the Year Ended June 30, 2005

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Pass -Through Entity Identifying Number	Expenditures
U.S. Department of Agriculture:			
Passed-through State Department of Agriculture:			
Food Donation (Noncash Assistance)	10.550	N/A	\$ 57,057
Passed-through State Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	\$ 108,597
National School Lunch Program	10.555	N/A	325,857
Total Passed-through State Department of Education			<u>\$ 434,454</u>
Passed-through State Department of Human Services:			
Child and Adult Care Food Program	10.558	(2)	\$ 21,339
Total U.S. Department of Agriculture			<u>\$ 512,850</u>
U.S. Department of Housing and Urban Development:			
Passed-through State Department of Economic and Community Development:			
Community Development Block Grants/State's Program	14.228	(2)	\$ 500,000
Community Development Block Grants/State's Program	14.228	GG-04-10882-00	17,500
Community Development Block Grants/State's Program (Loan Program)	14.228	GG-04-10882-00	482,500
Total U.S. Department of Housing and Urban Development			<u>\$ 1,000,000</u>
U.S. Department of Justice:			
Passed-through State Commission on Children and Youth:			
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	Z-04-018626-00	\$ 4,000
U.S. Department of Labor:			
Passed-through Upper Cumberland Human Resource Agency:			
WIA Youth Activities	17.259	(2)	\$ 8,434
Passed-through State Department of Labor and Workforce Development:			
WIA Incentive Grants - Section 503 Grants to States	17.267	Z-04-025606-01	\$ 1,436
Total U.S. Department of Labor			<u>\$ 9,870</u>
U.S. Federal Highway Administration:			
Passed-through State Department of Transportation:			
Highway Planning and Construction	20.205	STP-H-800(24)	\$ 45,000
U.S. Department of Education:			
Passed-through State Department of Labor and Workforce Development:			
Adult Education - State Grant Program	84.002	Z-04-016648-00	\$ 53,353
Passed-through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	N/A	\$ 396,291
Special Education - Grants to States	84.027	N/A	421,929
Vocational Education - Basic Grants to States	84.048	N/A	47,240
Safe and Drug-Free Schools and Communities - State Grants	84.186	(2)	4,713
Twenty-First Century Community Learning Centers	84.287	Z-05-021754-00	150,000
Innovative Education Program Strategies	84.298	N/A	3,185
Reading First State Grants	84.357	(2)	217,136
Improving Teacher Quality State Grants	84.367	N/A	134,227
Total Passed-through State Department of Education			<u>\$ 1,374,721</u>
Total U.S. Department of Education			<u>\$ 1,428,074</u>

(Continued)

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

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Pass -Through Entity Identifying Number	Expenditures
U.S. Department of Health and Human Services:			
Passed-through State Department of Health and Human Services:			
State Rural Hospital Flexibility Program	93.241	GG-05-11671-00	\$ 36,600
Rural Health Outreach and Rural Network Development Program	93.912	(2)	213,500
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Z-05-020777-00	85,900
Total U.S. Department of Health and Human Services			\$ 336,000
U.S. Department of Homeland Security:			
Passed-through State Department of the Military:			
State Domestic Preparedness Equipment Support Program	97.004	Z-03-017729-01	\$ 11,574 (3)
State Domestic Preparedness Equipment Support Program	97.004	Z-04-022422-00	8,742 (3)
Public Assistance Grants	97.036	Z-03-017833-00	7,795
Total U.S. Department of Homeland Security			\$ 28,111
Total Expenditures of Federal Awards			\$ 3,363,905
<u>State Grants</u>			
Juvenile Justice - State Commission on Children and Youth	N/A	(2)	\$ 9,300
Litter Program - State Department of Transportation	N/A	(2)	31,629
State Reappraisal Program - Comptroller of the Treasury	N/A	(2)	4,448
Waste Tire Grant - State Department of Environment and Conservation	N/A	(2)	9,687
Total State Grants			\$ 55,064

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) - Pass-through entity identifying number not available.

(3) - Total State Domestic Preparedness Equipment Support Program (CFDA #97.004) from the  
U.S. Department of Homeland Security was \$ 20,316.

Cannon County, Tennessee, and The Cannon County School Department  
Schedule of Audit Findings Not Corrected  
June 30, 2005

Government Auditing Standards require auditors to report the status of uncorrected findings from prior audits. Presented below are findings from the Annual Financial Report for Cannon County, Tennessee, for the year ended June 30, 2004, which have not been corrected.

**CANNON COUNTY AND THE CANNON COUNTY SCHOOL DEPARTMENT**

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
04.01	12	Government-wide financial statements were not presented in accordance with generally accepted accounting principles

**OFFICE OF COUNTY EXECUTIVE**

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
04.02	13	An industrial development loan was not authorized in accordance with state statute
04.03	13	Expenditures and encumbrances exceeded appropriations approved by the County Commission
04.04	14	The office had deficiencies in purchasing procedures
04.05	14	Inventory records were not maintained

**OFFICE OF HIGHWAY SUPERINTENDENT**

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
04.08	15	Actual beginning fund balance exceeded the estimated beginning fund balance by a material amount

**OFFICE OF DIRECTOR OF SCHOOLS**

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
04.10	16	The office had deficiencies in purchasing procedures

**OFFICE OF SHERIFF**

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
04.11A	17	Deficiencies were noted in the administration of drug control funds

**OTHER FINDINGS AND RECOMMENDATIONS**

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
04.13	18	A system of central accounting, budgeting, and purchasing had not been adopted
04.14	18	Duties were not segregated adequately in the Offices of County Mayor, Highway Superintendent, Director of Schools, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff
04.15	18	The practice of paying School Department buildings and contents insurance from the General Fund is of questionable legality

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For the Year Ended June 30, 2005**

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

1. Adverse opinions were issued on the financial statements of Cannon County and the Cannon County School Department.
2. Reportable conditions in internal control were disclosed by the audit of the financial statements of Cannon County and the Cannon County School Department. Two of these conditions were also considered to be material weaknesses, one in Cannon County and one in the Cannon County School Department.
3. The audit disclosed five instances of noncompliance that are material to the financial statements of Cannon County and two instances of noncompliance that are material to the financial statements of the Cannon County School Department.
4. The audit disclosed no reportable conditions in internal control over major programs.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit revealed no findings that are required to be reported under Section 510(a) of OMB Circular A-133.
7. The Child Nutrition Cluster: School Breakfast Program and National School Lunch Program (CFDA Nos. 10.553 and 10.555), the Community Development Block Grant (CFDA No. 14.228), the Title I Grants to Local Educational Agencies (CFDA No. 84.010), and the Special Education – Grants to State Program (CFDA No. 84.027) were determined to be major programs.
8. A threshold of \$300,000 was used to distinguish between Type A and Type B federal programs.
9. Cannon County and Cannon 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. Management offered oral responses to the findings and recommendations; however, these oral responses have not been included in this report.

### CANNON COUNTY AND CANNON COUNTY SCHOOL DEPARTMENT

FINDING 05.01      **GOVERNMENT-WIDE FINANCIAL STATEMENTS WERE NOT PRESENTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

(Material Noncompliance Under Government Auditing Standards)

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

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

### RECOMMENDATION

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



**OFFICE OF COUNTY EXECUTIVE**

**FINDING 05.02      TWO INDUSTRIAL DEVELOPMENT LOANS WERE NOT ISSUED IN ACCORDANCE WITH STATE STATUTES  
(Material Noncompliance Under Government Auditing Standards)**

Our examination of loans revealed the following deficiencies:

- A.      During the year, the Cannon County Industrial Board entered into loan agreements with the Cumberland Area Investment Corporation (\$250,000) and the Department of Economic and Community Development (\$482,500) on behalf of the county to provide funds for the construction of an industrial building. The proceeds of these loans were deposited into the Industrial/Economic Development Fund and the loans are being repaid from the Industrial/Economic Development Fund. The office did not file a Report on Debt Obligations for these loan agreements with the state director of Local Finance. Section 9-21-151, Tennessee Code Annotated (TCA), requires that within 45 days following the issuance of debt, the county must provide to the state director of Local Finance certain information, such as a description of the purchase/construction for which the debt was issued, a description of the debt obligation, and an itemized description of the costs of issuance.
  
- B.      The County Commission did not approve the loan agreement with the Cumberland Area Investment Corporation. Section 9-21-108, TCA, requires the County Commission to approve debt obligations.

**RECOMMENDATION**

The office should file a Report on Debt Obligations with the state director of Local Finance for each debt issuance, and all loan agreements should be approved by the County Commission.

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**FINDING 05.03      THE OFFICE HAD DEFICIENCIES IN BUDGET OPERATIONS  
(Material Noncompliance Under Government Auditing Standards)**

Our examination of budget operations revealed the following deficiencies:

- A.      Expenditures exceeded appropriations in the Principal-General Government (\$31,944) and Interest-General Government (\$4,565) major appropriation categories in the Industrial/Economic Development Fund.
  
- B.      Expenditures exceeded appropriations approved by the County Commission in the Solid Waste/Sanitation Fund by \$19,306.

Section 5-9-401, Tennessee Code Annotated, states that “all funds ... including, but not limited to ... taxes, county aid funds, federal funds, and fines, which 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.

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FINDING 05.04      **THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination of purchasing procedures revealed the following deficiencies:

- A. Purchase orders were not issued in some required instances. Purchase orders are necessary to control who has purchasing authority for the county and to document purchasing commitments.
- B. In several instances, invoices were paid without documentation that goods had been received or services had been rendered. This practice weakens controls over the purchasing process. We extended our audit procedures and determined that these goods were received and services were rendered.
- C. In some instances, the office paid invoices without cancelling or marking them paid. This weakness could result in the office paying invoices more than once.

#### RECOMMENDATION

The office should improve purchasing procedures by issuing purchase orders for all applicable county purchases and by obtaining documentation that goods have been received or services rendered before invoices are paid. Also, all invoices should be cancelled when paid.

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FINDING 05.05      **COMPETITIVE BIDS WERE NOT SOLICITED FOR CERTAIN PURCHASES**  
(Material Noncompliance Under Government Auditing Standards)

Competitive bids were not solicited for the purchase of jail food (\$66,000), sheriff's vehicles (\$20,000), waste collection (\$164,455), defibrillators (\$22,453), or hauling waste collections

(\$104,505) to a landfill. Section 5-14-101 et seq., Tennessee Code Annotated, requires that sealed bids be solicited on purchases exceeding \$5,000.

RECOMMENDATION

Competitive bids should be solicited for all purchases exceeding \$5,000.

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FINDING 05.06      **EMPLOYEE LEAVE RECORDS WERE NOT MAINTAINED**  
(Noncompliance Under Government Auditing Standards)

All departments within the county's General Fund were governed by uniform leave policies, except for the Ambulance Service and the Sheriff's Department, which followed their own approved policies. The uniform leave policies allowed employees to earn one-half day of sick leave and one-half day of vacation leave for each month employed with unlimited accumulation of all unused sick days and up to a maximum of 20 days of annual leave. Records were not maintained to document leave earned and used during the month and their beginning and ending leave balances. Therefore, we could not determine that employees were entitled to the amount of sick or vacation time taken.

RECOMMENDATION

The County Executive's Office should aggregate and maintain leave records for all departments within the General Fund that document employees' annual and sick leave earned, used, and beginning and ending balances.

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FINDING 05.07      **INVENTORY RECORDS WERE NOT MAINTAINED**  
(Internal Control – Reportable Condition 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 resulted in a loss of control over assets.

RECOMMENDATION

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

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**OFFICE OF HIGHWAY SUPERINTENDENT**

**FINDING 05.08      THE ACTUAL FUND BALANCE OF THE HIGHWAY/PUBLIC WORKS FUND AT JULY 1, 2004, EXCEEDED THE ESTIMATED FUND BALANCE BY A MATERIAL AMOUNT**  
(Internal Control – Material Weakness Under Government Auditing Standards)

The Highway/Public Works Fund’s actual fund balance at July 1, 2004, was \$1,038,586; however, the estimated fund balance reflected in the county’s budget at July 1, 2004, was \$657,735. Therefore, the actual fund balance was \$380,851 more than the estimated fund balance presented to the County Commission.

**RECOMMENDATION**

The estimated beginning fund balance should be made on a more realistic basis to provide county officials with accurate information to base funding decisions.

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**OFFICE OF DIRECTOR OF SCHOOLS**

**FINDING 05.09      THE ACTUAL FUND BALANCE AND RESERVES OF THE GENERAL PURPOSE SCHOOL FUND EXCEEDED THE ESTIMATED FUND BALANCE AND RESERVES BY A MATERIAL AMOUNT**  
(Internal Control – Material Weakness Under Government Auditing Standards)

The General Purpose School Fund’s actual fund balance and reserves at July 1, 2004, were \$2,845,880; however, the estimated fund balance and reserves reflected in the county’s budget at July 1, 2004, were \$2,189,994. Therefore, the actual fund balance and reserves were \$655,886 more than the estimated fund balance and reserves presented to the County Commission.

**RECOMMENDATION**

The estimated beginning fund balance and reserves should be made on a more realistic basis to provide county officials with accurate information to base funding decisions.

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**FINDING 05.10      THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination of purchasing procedures revealed the following deficiencies:

- A. Purchase orders were not issued in some required instances. Purchase orders are necessary to control who has purchasing authority for the county and to document purchasing commitments.
- B. In several instances, invoices were paid without documentation that goods had been received or services had been rendered. This practice weakens controls over the purchasing process. We extended our audit procedures and determined that these goods were received and services were rendered.

**RECOMMENDATION**

The department should improve purchasing procedures by issuing purchase orders for all applicable county purchases and by obtaining documentation that goods have been received or services have been rendered before invoices are paid.

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**OFFICE OF SHERIFF**

**FINDING 05.11      DEFICIENCIES WERE NOTED IN THE ADMINISTRATION OF DRUG CONTROL FUNDS**  
(Noncompliance Under Government Auditing Standards)

The office did not maintain forms and reports required by the Office of the Comptroller of the Treasury. These forms and reports are necessary to document the administration of confidential funds and to account for cash transactions related to undercover investigative operations.

**RECOMMENDATION**

The office should maintain drug-control forms and reports, as required by the Office of the Comptroller of the Treasury.

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## OTHER FINDINGS AND RECOMMENDATIONS

**FINDING 05.12      A CENTRAL SYSTEM OF ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

### RECOMMENDATION

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

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**FINDING 05.13      DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF COUNTY EXECUTIVE, HIGHWAY SUPERINTENDENT, DIRECTOR OF SCHOOLS, TRUSTEE, COUNTY CLERK, CIRCUIT AND GENERAL SESSIONS COURTS CLERK, CLERK AND MASTER, REGISTER, AND SHERIFF**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

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**FINDING 05.14      THE PRACTICE OF PAYING SCHOOL DEPARTMENT BUILDINGS AND CONTENTS INSURANCE PREMIUMS FROM THE GENERAL FUND IS OF QUESTIONABLE LEGALITY**  
(Material Noncompliance Under Government Auditing Standards)

During the year, the county expended \$37,000 from the General Fund to pay buildings and contents insurance premiums for the School Department. Opinion No. 92-03 issued by the Tennessee Attorney General's Office states "...a county legislative body cannot lawfully

divert revenues collected for general county purposes, or other non-education purposes, and apply those moneys to education purposes.” Therefore, we question the legality of using General Fund monies to pay buildings and contents insurance premiums for the School Department.

RECOMMENDATION

Buildings and contents insurance premiums for the School Department should be appropriated and paid from school funds. General Fund monies should not be used to pay education expenses.

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FINDING 05.15      **THE COUNTY COMMISSION AND THE BOARD OF EDUCATION HAD NOT ADOPTED FORMAL TRAVEL POLICIES**

(Internal Control – Reportable Condition Under Government Auditing Standards)

The County Commission and the Board of Education had not adopted formal policies and procedures governing travel reimbursements for county employees. During the period under examination, the county and the School Department used several different methods to reimburse employees for travel expenses. Without a formal travel policy, employees have no limitations placed on their mileage, lodging, and meal expenses.

RECOMMENDATION

The County Commission and the Board of Education 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, and meals.

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

There were no findings and questioned costs for federal awards.



**CANNON COUNTY, TENNESSEE, AND THE  
CANNON COUNTY SCHOOL DEPARTMENT  
AUDITEE REPORTING RESPONSIBILITIES  
For the Year Ended June 30, 2005**

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