

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

Sample County is a public municipal corporation governed by an elected 15-member board. As required by GAAP, these financial statements present Sample County (the primary government) and its component units. The component units discussed below are included in the county's reporting entity because of the significance of their operational or financial relationships with the county.

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

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

The Sample County School Department operates the public school system in the county, and the voters of Sample 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. Also, 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 Industrial Development Board of Sample County was organized to promote industrial development and provide additional job opportunities in Sample County and the surrounding counties in accordance with Title 7, Chapter 53, of Tennessee Code Annotated. The Industrial Development Board of Sample County is governed by a nine-member board of directors appointed by the Sample County Commission. During the year, Sample County provided \$287,112 to the Industrial Development Board to be applied toward operations of the board.

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

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	40
Other Capital Assets	5 - 10
Infrastructure	10 - 100

5. Compensated Absences

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

6. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt using the straight-line method. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt. In refunding transactions, the difference between the reacquisition price and the net carrying amount of the old debt is netted against the new debt and amortized over the remaining life of the refunded debt or the life of the new debt issued, whichever is shorter.

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

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

7. Net Assets and Fund Equity

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

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

On the government-wide statement of net assets (Exhibit A), the account restricted for Schools Workers' Compensation of \$182,228, represents the portion of the internal service funds net assets that are restricted by agreement to be used for claims and expenses related to the discretely presented Sample County School Department.

As of June 30, 2007, Sample County had \$31,859,367 in outstanding debt for capital purposes of other entities (schools of \$22,185,747 and industrial purposes of \$9,673,620). This debt is a liability of Sample County; but the capital assets acquired are reported in the financial statements of the other entities. Therefore, Sample County has incurred a liability, significantly decreasing its unrestricted net assets with no corresponding increase in the county's capital assets.

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

specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The following table reflects designations on June 30, 2007:

<u>Entity/Fund</u>	<u>Purpose</u>	<u>Amount</u>
Sample County:		
General	Cash Management	\$ 426,705
General	Roane County Park	34,531
Industrial/Economic Development	Cash Management	100,000
General Debt Service	Cash Management	300,000
Solid Waste/Sanitation	Cash Management	200,000
Ambulance Service	Cash Management	100,000
Other Special Revenue	Cash Management	100,000
Sample County School Department:		
General Purpose School	Post-employment benefits	571,940

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Primary Government

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

Discretely Presented Sample County School Department

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

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

Primary Government

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

Investment Balances. As of June 30, 2007, Sample County had the following investments carried at cost. All investments are in the county trustee's investment pool. Separate disclosures concerning pooled investments cannot be made for Sample County and the discretely presented Sample County School Department since both pool their deposits and investments through the county trustee.

Investment	Maturities	Cost
State Treasurer's Investment Pool	Daily	\$ 15,511,970

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. State statutes limit the maturities of certain investments as previously disclosed. Sample County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statutes limit the ratings of certain investments as previously explained. Sample County has no investment policy that would further limit its investment choices. As of June 30, 2007, Sample County's investment in the State Treasurer's Investment Pool was unrated.

B. Notes Receivable

Notes receivable consists of industrial loans of \$450,173, that represent loans made from the Community Development - Agency Fund to local businesses.

C. Capital Assets

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

Primary Government

Governmental Activities:

	Balance 7-1-06	Increases	Decreases	Balance 6-30-07
Capital Assets				
Not Depreciated:				
Land	\$ 3,693,746	\$ 949,286	\$ 0	\$ 4,643,032
Construction in Progress	3,247	828,411	(119,770)	711,888
Total Capital Assets Not Depreciated	\$ 3,696,993	\$ 1,777,697	\$ (119,770)	\$ 5,354,920

Governmental Activities (Cont.):

Capital Assets Depreciated:

Buildings and Improvements	\$ 5,066,808	\$ 30,238	\$ 0	\$ 5,097,046
Roads and Bridges	22,802,874	1,502,838	0	24,305,712
Other Capital Assets	5,794,201	630,868	(333,353)	6,091,716
Total Capital Assets Depreciated	<u>\$ 33,663,883</u>	<u>\$ 2,163,944</u>	<u>\$ (333,353)</u>	<u>\$ 35,494,474</u>

Less Accumulated Depreciation For:

Buildings and Improvements	\$ 2,012,772	\$ 132,437	\$ 0	\$ 2,145,209
Roads and Bridges	6,093,820	809,078	0	6,902,898
Other Capital Assets	3,525,414	553,567	(247,111)	3,831,870
Total Accumulated Depreciation	<u>\$ 11,632,006</u>	<u>\$ 1,495,082</u>	<u>\$ (247,111)</u>	<u>\$ 12,879,977</u>

Total Capital Assets Depreciated, Net	<u>\$ 22,031,877</u>	<u>\$ 668,862</u>	<u>\$ (86,242)</u>	<u>\$ 22,614,497</u>
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Governmental Activities Capital Assets, Net	<u>\$ 25,728,870</u>	<u>\$ 2,446,559</u>	<u>\$ (206,012)</u>	<u>\$ 27,969,417</u>
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Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 118,012
Finance	27,602
Administration of Justice	11,557
Public Safety	150,403
Public Health and Welfare	321,207
Social, Cultural, and Recreational Services	17,288
Highways/Public Works	849,013
Total Depreciation Expense - Governmental Activities	<u>\$ 1,495,082</u>

Primary Government

Transfers Out	Transfers In		
	General Fund	General Debt Service Fund	Nonmajor Governmental Funds
General Fund	\$ 0	\$ 197,905	\$ 148,000
Highway/Public Works Fund	0	120,060	0
General Debt Service Fund	440,000	0	300,000
Internal Service Funds	515,000		0
Nonmajor governmental funds	0	770,762	0
Total	\$ 955,000	\$ 1,088,727	\$ 448,000

Discretely Presented Sample County School Department

Transfers Out	Transfers In Nonmajor Governmental Funds
General Purpose School Fund	\$ 450,000

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

F. Capital Leases

On February 23, 2007, Sample County entered into a three-year lease-purchase agreement for data processing equipment. The terms of the agreement require total lease payments of \$121,573 plus interest of 5.6 percent. Sample County maintains title to the equipment during the term of the lease and has granted the lessor a first priority security interest in the equipment to secure payment of all lease payments and the performance of all other obligations. The lease payments were made from the General Debt Service Fund.

Future minimum lease payments and the net present value of these minimum lease payments as of June 30, 2007, were as follows:

Year Ending June 30	Governmental Funds
2008	\$ 42,752
2009	42,751
Total Minimum Lease Payments	<u>\$ 85,503</u>
Amount Representing Interest	<u>(6,681)</u>
 Present Value of Minimum Lease Payments	 <u>\$ 78,822</u>

G. Long-term Debt

Primary Government

General Obligation Bonds, Notes, and Other Loans

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

General obligation bonds, capital outlay notes, and other loans are direct obligations and pledge the full faith and credit of the government. General obligation bonds, capital outlay notes, and other loans outstanding were issued for original terms of up to 38 years for bonds, up to 12 years for notes, and up to 26 years for other loans. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All bonds, notes, and other loans included in long-term debt as of June 30, 2007, will be retired from the county's debt service funds.

Included in the county's outstanding debt as of June 30, 2007, is \$395,000 of bonded debt assumed from the City of Harriman as a result of the merger of the two school systems on July 1, 2003. This assumed debt will be retired from the Education Debt Service Fund.

General obligation bonds, capital outlay notes, other loans, and capital leases outstanding as of June 30, 2007, are as follows:

Type	Interest Rate	Original Amount of Issue	Balance 6-30-07
General Obligation Bonds	3 to 4.65%	\$ 1,700,000	\$ 1,250,000
Revenue and Tax Bonds	4.75	620,000	586,744
Rural School Bonds	4.1 to 4.65	775,000	775,000
Rural School Refunding Bonds	2 to 4.3	23,250,000	18,615,000
School Refunding Bonds	4.2 to 4.75	1,280,000	395,000
Capital Outlay Notes	3 to 5.25	5,827,000	5,430,503
Other Loans - Variable Rate	Variable	27,800,000	12,850,293
Other Loans - Fixed	1.6 to 5.85	4,475,000	3,125,000
Capital Lease	5.6	121,573	78,822

Sample County has entered into various loan agreements with Public Building Authorities (PBAs) to finance various capital projects for the county and the discretely presented Sample County School Department. Under the loan agreements, the PBAs issued their revenue bonds and made the proceeds available for loan to Sample County. The following table summarizes loan agreements outstanding at June 30, 2007:

Description	Original Amount of Loan Agreement	Outstanding Principal 6-30-07	Interest Type	Interest Rates as of 6-30-07
<u>Sevier County Public</u>				
<u>Building Authority (Series III-A-4)</u>				
Industrial Park	\$ 3,800,000	\$ 1,200,000	Variable	3.8 %
Landfill Closure	1,200,000	205,000	Variable	3.8
<u>Blount County Public</u>				
<u>Building Authority (Series A-1-F)</u>				
Voting Machines	386,000	238,467	Variable	3.8
General Improvement Projects	450,000	279,925	Variable	3.8
School Buses	645,000	399,325	Variable	3.8
Retire Capital Outlay Notes	2,119,000	1,312,283	Variable	3.8
<u>Sevier County Public</u>				
<u>Building Authority (Series V-C-3)</u>				
Refunding	5,060,000	5,060,000	Variable	3.5
Health Facilities	565,000	565,000	Variable	3.5

Description (Cont.)	Original Amount of Loan Agreement	Outstanding Principal 6-30-07	Interest Type	Interest Rates as of 6-30-07
<u>Sevier County Public</u>				
<u>Building Authority (Series B-3-A)</u>				
Industrial Park				
Refunding	\$ 3,640,000	\$ 2,542,580	Fixed	1.6 to 5.85 %
Industrial Park - Land	835,000	582,420	Fixed	1.6 to 5.85
<u>Blount County Public</u>				
<u>Building Authority (Series D-5-E)</u>				
Public Improvement-County	2,000,000	1,875,000	Variable	3.8
Public Improvement-Schools	1,600,000	1,600,000	Variable	3.8
<u>Blount County Public</u>				
<u>Building Authority (Series D-10-B)*</u>				
Public Improvement-County	9,975,000	115,293	Variable	3.8
Total		<u>\$ 15,975,293</u>		

*At June 30, 2007, \$9,859,707 remains available for future draws under this loan agreement.

In addition to the debt issued during the year, on February 20, 2007, the county authorized an additional \$2,500,000 in loan agreements for the purpose of making a loan, jointly with Cumberland and Morgan counties to the Industrial Development Board of the counties of Cumberland, Morgan, and Sample, Tennessee, for expenditures related to a new industrial park. Of this amount, \$1,750,000 was issued on October 18, 2007. The remaining \$750,000 had not been issued as of the date of this report.

The annual requirements to amortize all bonds, notes, and other loans outstanding as of June 30, 2007, including interest payments and other loan fees, are presented in the following table. The Series III-A-4, A-1-F, V-C-3, D-5-E, and D-10-B carry variable interest rates that are functions of the Bond Market Association Index with the rates changing daily or weekly. Interest payments included in the table for the variable rate issues are computed based on the rates in effect at June 30, 2007. In addition, the county pays various other fees (trustee, letter of credit, and debt remarketing) in connection with the variable rate loans.

Year Ending June 30	Bonds		Notes	
	Principal	Interest	Principal	Interest
2008	\$ 1,297,630	\$ 902,769	\$ 95,503	\$ 225,445
2009	1,243,001	856,457	50,000	221,455
2010	1,138,389	811,121	700,000	218,830
2011	1,183,796	771,504	750,000	182,080
2012	1,229,223	729,427	800,000	142,705
2013-2017	6,838,284	2,856,341	3,035,000	229,860
2018-2022	8,267,536	1,173,609	0	0
2023-2027	85,602	91,098	0	0
2028-2032	108,497	68,203	0	0
2033-2037	137,518	39,182	0	0
2038-2040	92,268	6,453	0	0
Total	<u>\$ 21,621,744</u>	<u>\$ 8,306,164</u>	<u>\$ 5,430,503</u>	<u>\$ 1,220,375</u>

Year Ending June 30	Other Loans		
	Principal	Interest	Other Fees
2008	\$ 1,080,000	\$ 626,368	\$ 65,763
2009	1,170,000	582,671	64,029
2010	665,000	532,746	61,966
2011	690,000	505,775	59,296
2012	725,000	477,476	56,494
2013-2017	5,180,000	1,881,091	237,956
2018-2022	6,465,293	569,788	78,681
Total	<u>\$ 15,975,293</u>	<u>\$ 5,175,915</u>	<u>\$ 624,185</u>

There is \$4,604,654 available in the debt service funds to service long-term debt. Bonded debt per capita totaled \$504, based on the 2000 federal census for residents living outside the Harriman and Oak Ridge school districts, \$43 for residents living inside the Harriman school district, and \$35 for residents living inside the Oak Ridge school district. Debt per capita, including bonds, notes, other loans, and capital leases totaled \$920, for residents living outside the Harriman and Oak Ridge school districts, \$459 for residents living inside the Harriman school district, and \$418 for residents living inside the Oak Ridge school district based on the 2000 federal census.

Changes in Long-term Liabilities

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

Governmental Activities:

	<u>Bonds</u>	<u>Notes</u>
Balance, July 1, 2006	\$ 22,874,021	\$ 5,524,680
Deductions	<u>(1,252,277)</u>	<u>(94,177)</u>
Balance, June 30, 2007	<u>\$ 21,621,744</u>	<u>\$ 5,430,503</u>
Balance Due Within One Year	<u>\$ 1,297,630</u>	<u>\$ 95,503</u>
	<u>Other</u>	<u>Capital</u>
	<u>Loans</u>	<u>Leases</u>
Balance, July 1, 2006	\$ 16,900,000	\$ 0
Additions	115,293	121,573
Deductions	<u>(1,040,000)</u>	<u>(42,751)</u>
Balance, June 30, 2007	<u>\$ 15,975,293</u>	<u>\$ 78,822</u>
Balance Due Within One Year	<u>\$ 1,080,000</u>	<u>\$ 38,338</u>
	<u>Landfill</u>	
	<u>Postclosure</u>	<u>Compensated</u>
	<u>Care Costs</u>	<u>Absences</u>
Balance, July 1, 2006	\$ 933,520	\$ 284,149
Additions	0	391,248
Deductions	<u>(39,000)</u>	<u>(319,739)</u>
Balance, June 30, 2007	<u>\$ 894,520</u>	<u>\$ 355,658</u>
Balance Due Within One Year	<u>\$ 39,000</u>	<u>\$ 300,649</u>

Analysis of Noncurrent Liabilities Presented on Exhibit A:

Total Noncurrent Liabilities, June 30, 2007	\$ 44,356,540
Less: Balance Due Within One Year	(2,851,120)
Add: Unamortized Premium on Debt	422,689
Less: Deferred Amount on Refunding	<u>(1,047,433)</u>
Noncurrent Liabilities - Due in More Than One Year - Exhibit A	<u>\$ 40,880,676</u>

Compensated absences will be paid from the employing funds. Landfill postclosure care costs will be paid by the Other Special Revenue Fund.

Defeasance of Prior Debt

In prior years, Sample County defeased certain outstanding general obligation bonds by placing the proceeds of new bonds into an irrevocable trust to provide for all future debt service payments on the old bonds. The trustee is empowered and required to pay all principal and interest on the defeased bonds as originally scheduled. Accordingly, the trust accounts and the defeased bonds are not included in the county’s financial statements. At June 30, 2007, \$8,700,000 of the 2000 Rural School Series Bonds, with a call date of April 1, 2008, are considered defeased.

Discretely Presented Sample County School Department

Capital Outlay Notes

Capital outlay notes were issued to fund capital expenditures for asbestos abatement. Capital outlay notes are direct obligations and pledge the full faith and credit of the government. Debt obligations outstanding were issued for original terms of 17 years for notes. These notes carry no interest rate and are repayable annually at \$2,000 until retired. Capital outlay notes outstanding as of June 30, 2007, are as follows:

Type	Interest Rate	Original Amount of Issue	Balance 6-30-07
Capital Outlay Note	0%	\$ 31,508	\$ 12,508

This capital outlay note is to be retired from the General Purpose School Fund of the discretely presented Sample County School Department.

The annual requirements to amortize the note outstanding as of June 30, 2007, is presented in the following table:

Year Ending June 30	Notes Principal
2008	\$ 12,508

Although the original requirements of the note specified annual payments of \$2,000 through year 2015, the Sample County School Department has retired this note subsequent to June 30, 2007.