

ELIZABETHTON, TENNESSEE  
CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION  
WITH  
INDEPENDENT AUDITORS' REPORT  
For the Fiscal Year Ended June 30, 2007

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
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For the Fiscal Year Ended June 30, 2007

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SECTION I  
FINANCIAL SECTION

## INDEPENDENT AUDITORS' REPORT

Interim Director of Schools  
and School Board Members  
Elizabethton, Tennessee City Schools  
Elizabethton, Tennessee

We have audited the accompanying financial statements of the governmental activities, and each major fund of the Elizabethton, Tennessee City Schools, a component unit of the City of Elizabethton, Tennessee as of and for the fiscal year ended June 30, 2007, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion 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 opinion.

As discussed in Note I, the financial statements present only the general purpose school fund, school federal projects fund and school nutrition fund and do not purport to, and do not, present fairly the financial position of the City of Elizabethton, Tennessee, as of June 30, 2007, and the changes in its financial position and budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Elizabethton, Tennessee City Schools, a component unit of the City of Elizabethton, Tennessee as of June 30, 2007, and the respective changes in financial positions, thereof, and the respective budgetary comparisons for each fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2007 on our consideration of the Elizabethton, Tennessee City School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Interim Director of Schools  
and School Board Members  
Elizabethton, Tennessee City Schools

The management's discussion and analysis and required supplementary information on pages 3 - 7 and on page 43 are not a required part of the financial statements but are 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 an opinion on the financial statements that collectively comprise the Elizabethton, Tennessee City Schools' basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements of Elizabethton, Tennessee City Schools. The schedule of expenditures of federal and state awards has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The Schedule of Funding Progress has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

BLACKBURN, CHILDERS & STEAGALL, PLC

December 4, 2007

**ELIZABETHTON BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

This section of the Elizabethton Board of Education's (the Board's) annual financial report presents the discussion and analysis of the Board of Education's financial performance during the fiscal year ending June 30, 2007. Please read it in conjunction with the Board of Education's financial statements, which immediately follow this section.

**Financial Highlights**

The financial status of the Board increased during the year due to conservative efforts and mild weather. Total net assets increased by 8.4% over the course of the year.

- The total General Purpose fund balance increased by \$114,916.
- The four classrooms addition and playground/parking improvements project at East Side Elementary was completed.
- The Board reduced its asbestos loan by \$4,000.

**Overview of the Financial Statements**

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the school system:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the Board of Education's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the school system, reporting the system's operations in more detail than the government-wide statements.

Government-Wide Statements

The government-wide statements report information about the school system as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Board's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash was received or paid.

The two government-wide statements report the Board's net assets and how they have changed. Net assets, the difference between the Board's assets and liabilities, are one way to measure the Board's financial health or position.

- Over time, increases or decreases in the Board's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the Board's overall health, additional nonfinancial factors such as changes in enrollment and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the Board's activities are reported as Governmental Activities. The Board has no business-type activities.

**Governmental Activities:** Includes the Board's basic services, such as regular and special education, transportation, child nutrition, and administration.

**ELIZABETHTON BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

Fund Financial Statements

The fund financial statements provide more detailed information about the Board's funds, focusing on its most significant or "major" funds, not the school system as a whole. Funds are accounting devices the school system uses to keep track of specific resources of funding and spending on particular programs.

- **Governmental funds:** All of the school system's services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in or out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the school system's programs.

**Financial Analysis of the Board as a Whole**

Condensed Statement of Net Assets

	Governmental Activities		Total %
	<u>2006</u>	<u>2007</u>	<u>Change 2006-2007</u>
Current and Other Assets	\$ 2,838,963	\$ 3,351,731	18.1%
Capital Assets	<u>7,915,262</u>	<u>8,334,850</u>	5.3%
Total Assets	<u>10,754,225</u>	<u>11,686,581</u>	8.7%
Current Liabilities	2,148,431	2,357,218	9.7%
Long-Term Liabilities	<u>17,868</u>	<u>18,746</u>	4.9%
Total Liabilities	<u>2,166,299</u>	<u>2,375,964</u>	9.7%
Net Assets Invested in Capital Assets, Net of Debt	7,915,262	8,334,850	5.3%
Unrestricted	<u>672,664</u>	<u>975,767</u>	45.1%
Total Net Assets	\$ <u>8,587,926</u>	\$ <u>9,310,617</u>	8.4%

Net Assets

The Board's Current and Other Assets increased by 18.1% during the 2006-2007 fiscal year. This increase is due to the increase of cash on hand due to conservative spending. The increase in Current Liabilities is the result of the negative cash balance in Federal Projects due to the reimbursement basis of funds and an increase in accounts payable.

The Board's financial position is the product of many factors. During the 2006-2007 fiscal year, several areas of the budget saw significant savings due to various factors mainly salaries and benefits due to mid-year changes in personnel; and electricity and natural gas due to a mild winter. The capital outlay project of the four classrooms addition and playground/parking improvements at East Side Elementary was completed.

**ELIZABETHTON BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

Changes in Net Assets from Operating Results

	Governmental Activities		Total % Change 2006-2007
	<u>2006</u>	<u>2007</u>	
Revenues			
Programs Revenues			
Charges for Services	\$ 695,156	\$ 686,421	(1.3)%
Operating Grants	2,016,944	1,986,971	(1.5)%
Capital Grants & Contributions	0	13,503	100.00%
General Revenues			
Property Taxes	1,552,922	1,764,591	13.6%
Other Taxes	1,222,878	1,235,619	1.0%
State Revenues	7,632,812	8,094,271	6.0%
Other	<u>2,427,750</u>	<u>3,030,846</u>	25.0%
Total Revenues	<u>15,548,462</u>	<u>16,812,222</u>	8.1%
Expenses			
Instruction	9,798,582	9,852,226	0.5%
Student Services	536,722	504,008	(6.1)%
Instructional Staff Services	860,296	908,663	5.6%
General Administration	471,317	503,775	6.9%
School Administration	784,551	799,557	1.9%
Business Services	203,070	210,435	3.6%
Maintenance and Operations	1,835,087	1,782,673	(2.9)%
Transportation	215,473	247,780	15.0%
Central Services	230,138	245,120	6.5%
Food Services	837,491	847,811	1.2%
Community Services	122,416	131,134	7.1%
Early Childhood Education	<u>282,960</u>	<u>285,310</u>	0.8%
Total Expenses	<u>16,178,103</u>	<u>16,318,492</u>	0.9%
Increase In Net Assets	<u>(629,341)</u>	<u>493,730</u>	
Beginning Net Assets	9,217,567	8,587,926	
Prior Period Adjustment	<u>0</u>	<u>228,961</u>	
Ending Net Assets	\$ <u>8,587,926</u>	\$ <u>9,310,617</u>	

The total cost of all programs and services rose 0.9% to \$16.3 million. The Board's expenses are predominately related to instructing, servicing, and transporting students (80% of total costs). The Board's administrative and business activities accounted for 9% of total costs. The operation and maintenance of facilities accounted for 11% of total costs. The total increase of 0.9% reflects increases in salary and insurance costs, and minor operating increases. Staff members of the school system were extremely conservative throughout the year and the system experienced savings in utility expenditure accounts due to a mild winter.

Governmental Activities

Revenues for the Board's governmental activities increased by 8.1%, while total expenses increased 0.9%. The increase in net assets for governmental activities was \$493,730 in 2007.



**ELIZABETHTON BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

**Financial Analysis of the Board's Funds**

The financial performance of the Board as a whole is reflected in its governmental funds as well. As the Board completed the year, its governmental funds reported combined fund balances of \$757,674, which were more than last year's ending fund balances of \$629,641. This increase is due to savings due to conservative spending and a mild winter as previously mentioned.

The Board's governmental funds experienced revenues and other sources more/(less) than expenditures in 2007 as follows:

General Purpose	\$ 99,416
Federal Projects	\$(26,614)
Child Nutrition	\$(17,621)

General Fund Budgetary Highlights

Over the course of the year, the Board revised the annual operating budget. These budget amendments fall into three categories:

- To adjust federal monies to the grants awarded
- To budget reserves and reappropriate monies to areas of need
- To increase/decrease revenues as received

Although the Board's final budget for the general fund anticipated \$14,813,097 of revenues and other sources would be received, the Board actually received \$8,359 less than anticipated. The Board originally budgeted \$14,844,943 of expenditures (\$51,205 of this amount came from reserves). The actual expenditures of \$14,705,322 were \$369,802 under budget, due reasons previously cited.

**Capital Asset and Debt Administration**

By the end of 2007 the Elizabethton City Schools had invested \$8.3 million in a broad range of capital assets, including school buildings, athletic facilities, computer equipment, and school vehicles (mainly buses). This amount represents an increase of \$419,588 or 5.3% from last year. (More detailed information about assets can be found in the notes to the financial statements.) Total depreciation expense for the year totaled \$328,700, while building improvements and additions to equipment amounted to \$923,224 (net of decreases.)

Capital Assets (Net of Depreciation)

	Governmental Activities		Total %
	<u>2006</u>	<u>2007</u>	<u>Change 2006-2007</u>
Land	\$ 216,170	\$ 216,170	0.0%
Construction in Progress	184,596	9,660	(94.8)%
Buildings	7,274,822	7,905,764	8.7%
Equipment and Vehicles	<u>239,674</u>	<u>203,256</u>	(15.2)%
Total Assets	\$ <u>7,915,262</u>	\$ <u>8,334,850</u>	5.3%

The Board's fiscal year 2007 capital expenditures included the completion of the addition of four classrooms and parking and playground modifications.

**ELIZABETHTON BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

**Factors Bearing on the Board's Future**

- Decline in student enrollment
- Increasing insurance and benefit costs
- Extensive need of maintenance and repairs to facilities
- Meeting the needs of special education students
- Aging bus fleet

**Contacting the Board's Financial Management**

This financial report is designed to provide the Board's citizens, taxpayers, customers, investors, and creditors with a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Office of Business and Fiscal Management, Elizabethton Board of Education, 804 South Watauga Avenue, Elizabethton, Tennessee 37643.

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

	Governmental Activities
<b>ASSETS</b>	
Cash	\$ 917,622
Receivables	
Accounts	10,336
Taxes	1,901,264
Due from Other Governments	502,407
Inventories	20,102
Plant and Equipment (Net of Accumulated Depreciation)	8,334,850
Total Assets	11,686,581
<b>LIABILITIES</b>	
Accounts Payable	441,685
Cash Overdraft	77,950
Accrued Expenses	76,516
Other Liabilities	142
Unearned Revenues	1,756,264
Long-term Liabilities:	
Due within one year	4,661
Due within more than one year	18,746
Total Liabilities	2,375,964
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	8,334,850
Unrestricted	975,767
TOTAL NET ASSETS	\$ 9,310,617

See accompanying notes to the basic financial statements.

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2007

<u>Functions/Programs</u>	<u>PROGRAM REVENUES</u>			NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS Governmental Activities	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
Governmental Activities					
Instruction					
Regular Instruction	\$ 7,671,031	294,330	788,493	13,503	(6,574,705)
Special Education	1,441,159	-	439,111	-	(1,002,048)
Vocational Education	624,174	-	71,810	-	(552,364)
Other	115,862	-	-	-	(115,862)
Total Instruction	<u>9,852,226</u>	<u>294,330</u>	<u>1,299,414</u>	<u>13,503</u>	<u>(8,244,979)</u>
Support Services					
Student Services	504,008	-	18,692	-	(485,316)
Instructional Staff	908,663	-	-	-	(908,663)
General Administrative	503,775	-	-	-	(503,775)
School Administrative	799,557	-	-	-	(799,557)
Business Administrative	210,435	-	-	-	(210,435)
Plant Operation and Maintenance	1,782,673	1,035	-	-	(1,781,638)
Student Transportation	247,780	-	-	-	(247,780)
Central Services	245,120	-	83,053	-	(162,067)
Total Support Services	<u>5,202,011</u>	<u>1,035</u>	<u>101,745</u>	<u>-</u>	<u>(5,099,231)</u>
Food Service	847,811	391,056	390,812	-	(65,943)
Community Services	131,134	-	-	-	(131,134)
Early Childhood Education	285,310	-	195,000	-	(90,310)
Total Governmental Activities	<u>16,318,492</u>	<u>686,421</u>	<u>1,986,971</u>	<u>13,503</u>	<u>(13,631,597)</u>
General Revenues:					
					Taxes
					Property Taxes
				\$	1,764,591
					Sales Taxes
					1,183,871
					In-Lieu of Taxes
					13,569
					Other Taxes
					23,989
					Other Local Governments
					14,190
					State Aid
					8,094,271
					Unrestricted Investment Earnings
					64,998
					Miscellaneous
					2,540
					Special Item: Loss on sale of assets
					(2,207)
					Contribution from Carter County, Tennessee
					633,515
					Transfers
					2,332,000
					<u>Total General Revenues, Special Items and Transfers</u>
					<u>14,125,327</u>
					Change in Net Assets
					<u>493,730</u>
					Net Assets - Beginning
					8,587,926
					Prior Period Adjustments
					228,961
					<u>Net Assets - Restated</u>
					<u>8,816,887</u>
					Net Assets - Ending
					<u>\$ 9,310,617</u>

See accompanying notes to the basic financial statements.

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2007

	General Purpose School Fund	School Federal Projects Fund	School Nutrition Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash in Bank	\$ 777,713	-	139,909	917,622
Accounts Receivable	10,336	-	-	10,336
Due from Other Governments	2,248,986	154,685	-	2,403,671
Inventory	-	-	20,102	20,102
<b>Total Assets</b>	<b>\$ 3,037,035</b>	<b>154,685</b>	<b>160,011</b>	<b>3,351,731</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Cash Overdraft	\$ -	77,950	-	77,950
Accounts Payable	374,406	66,685	594	441,685
Accrued Payroll	76,516	-	-	76,516
Other Liabilities	142	-	-	142
Deferred Revenue	1,891,264	-	-	1,891,264
<b>Total Liabilities</b>	<b>2,342,328</b>	<b>144,635</b>	<b>594</b>	<b>2,487,557</b>
<b>FUND BALANCE</b>				
Reserved				
Extended School Programs	47,553	-	-	47,553
Career Ladder (Extended Contract)	59,264	-	-	59,264
Career Ladder	9,378	-	-	9,378
BEP Classroom	2,918	-	-	2,918
Basic Education Program	54,251	-	-	54,251
Summer School	9,644	-	-	9,644
Technology	11,050	-	-	11,050
Early Learning Center	1,330	-	-	1,330
Tennis Courts	5,979	-	-	5,979
Special Education	1,122	-	-	1,122
Community Involvement	1,187	-	-	1,187
Federal Projects	-	10,050	-	10,050
Inventory	-	-	20,102	20,102
Unreserved	491,031	-	139,315	630,346
<b>Total Fund Balances</b>	<b>694,707</b>	<b>10,050</b>	<b>159,417</b>	<b>864,174</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,037,035</b>	<b>154,685</b>	<b>160,011</b>	<b>3,351,731</b>

See accompanying notes to the basic financial statements.

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
June 30, 2007

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Total Fund Balances - Governmental Funds	\$ 864,174
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds. The cost of the assets is \$16,157,999 and the accumulated depreciation is \$(7,823,149).	8,334,850
Revenue, for amounts not received during the period of availability, is not considered "available" and has been deferred in the funds.	135,000
Long-term liabilities are not due and payable in the current period and therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of notes payable and compensated absences.	<u>(23,407)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 9,310,617</u></u>

See accompanying notes to the basic financial statements.

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
For the Fiscal Year Ended June 30, 2007

	General Purpose School Fund	School Federal Projects Fund	School Nutrition Fund	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 2,979,905	-	-	2,979,905
Revenue from State of Tennessee	8,482,764	-	9,979	8,492,743
Revenue from Federal Government	10,043	1,199,355	380,833	1,590,231
Charges for Services	294,330	-	391,056	685,386
Investment Earnings	58,767	-	6,231	64,998
Other	14,914	-	2,234	17,148
<b>Total Revenues</b>	<b>11,840,723</b>	<b>1,199,355</b>	<b>790,333</b>	<b>13,830,411</b>
<b>EXPENDITURES</b>				
Instruction				
Regular Instruction	7,071,587	600,562	-	7,672,149
Special Instruction	1,025,696	415,463	-	1,441,159
Vocational Education	589,403	34,730	-	624,133
Other	115,862	-	-	115,862
Support Services				
Student Services	503,996	-	-	503,996
Instructional Staff	773,177	132,391	-	905,568
General Administrative	503,542	-	-	503,542
School Administrative	800,448	-	-	800,448
Business Administrative	209,649	-	-	209,649
Plant Operation and Maintenance	1,458,173	-	-	1,458,173
Student Transportation	178,311	28,823	-	207,134
Central Services	239,956	-	-	239,956
Food Services	36,162	-	807,954	844,116
Community Services	131,134	-	-	131,134
Early Childhood Education	285,315	-	-	285,315
Capital Outlay	778,911	-	-	778,911
Debt Service	4,000	-	-	4,000
<b>Total Expenditures</b>	<b>14,705,322</b>	<b>1,211,969</b>	<b>807,954</b>	<b>16,725,245</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,864,599)</u>	<u>(12,614)</u>	<u>(17,621)</u>	<u>(2,894,834)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer In	14,000	25,562	-	39,562
Transfer Out	-	(39,562)	-	(39,562)
Transfer from Primary Government	2,332,000	-	-	2,332,000
Bond Proceeds	633,515	-	-	633,515
<b>Total Other Financing Sources (Uses)</b>	<b>2,979,515</b>	<b>(14,000)</b>	<b>-</b>	<b>2,965,515</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>114,916</b>	<b>(26,614)</b>	<b>(17,621)</b>	<b>70,681</b>
<b>FUND BALANCE, JULY 1, 2006</b>	<b>480,830</b>	<b>36,664</b>	<b>177,038</b>	<b>694,532</b>
Prior Period Adjustments	98,961	-	-	98,961
<b>Adjusted Fund Balance, July 1, 2006</b>	<b>579,791</b>	<b>36,664</b>	<b>177,038</b>	<b>793,493</b>
<b>FUND BALANCE, JUNE 30, 2007</b>	<b>\$ 694,707</b>	<b>10,050</b>	<b>159,417</b>	<b>864,174</b>

See accompanying notes to the basic financial statements.

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2007

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Total Net Change in Fund Balances - Governmental Funds	\$ 70,681
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay of \$778,911 exceeds depreciation expense of \$370,619.	408,292
Because some property taxes and grants will not be collected for several months after the fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased by this amount for the current year.	5,000
In the statement of activities, certain operating expenses such as compensated absences, are measured by the amounts earned during the year. In the governmental funds however, expenditures for these items are measured by the amount of financial resources used. Compensated absences increased by this amount for the current year.	(5,539)
Repayment of bond and note principal and leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	4,000
The net effect of various transactions involving capital assets (i.e. sales, out of service) is to decrease net assets.	(2,207)
The school activity funds purchased capital assets during the year. Title to such assets is passed to the local board of education. Such a transaction is a contribution of a long-lived assets.	<u>13,503</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 493,730</u></u>

See accompanying notes to the basic financial statements.



ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
GENERAL PURPOSE SCHOOL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2007

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>				
<b>TAXES</b>				
Local Sales Tax	\$ 1,022,000	1,150,062	1,183,871	33,809
County Property Tax	1,778,000	1,747,000	1,759,591	12,591
Other Local Tax	65,150	46,350	36,443	(9,907)
Total Taxes	<u>2,865,150</u>	<u>2,943,412</u>	<u>2,979,905</u>	<u>36,493</u>
<b>INTERGOVERNMENTAL REVENUES</b>				
Federal Through State of Tennessee				
Special Education	6,000	11,261	10,043	(1,218)
State of Tennessee				
Basic Education Program	7,761,000	7,800,800	7,800,800	-
Driver Education	5,000	7,600	7,602	2
Career Ladder Program	126,712	144,247	143,450	(797)
Career Ladder - Extended Contract	152,753	152,753	150,021	(2,732)
Other State Funds	294,380	348,040	346,193	(1,847)
Mixed Drink Tax	1,500	1,650	1,732	82
Other State Revenues	-	32,966	32,966	-
Total Intergovernmental Revenues	<u>8,347,345</u>	<u>8,499,317</u>	<u>8,492,807</u>	<u>(6,510)</u>
<b>MISCELLANEOUS REVENUES</b>				
Tuition	294,943	296,243	294,330	(1,913)
Rental of School Property	1,500	900	835	(65)
Interest Income	48,000	58,000	58,767	767
Sale of Equipment	1,000	400	400	-
Donations	300	125	106	(19)
Other Local Revenues	3,500	13,900	13,573	(327)
Total Miscellaneous Revenues	<u>349,243</u>	<u>369,568</u>	<u>368,011</u>	<u>(1,557)</u>
<b>TOTAL REVENUES</b>	<u>\$ 11,561,738</u>	<u>11,812,297</u>	<u>11,840,723</u>	<u>28,426</u>

(Continued)

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
GENERAL PURPOSE SCHOOL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2007

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>EXPENDITURES</b>				
<b>Instructional</b>				
Instruction - Regular Instruction				
Teachers	4,840,567	4,837,251	4,772,562	64,689
Career Ladder Program	84,500	82,500	82,400	100
Career Ladder - Extended Contract	135,000	135,000	144,000	(9,000)
Homebound Teachers	15,000	15,000	9,655	5,345
Educational Assistants	163,123	163,123	158,298	4,825
Other Salaries and Wages	30,000	57,420	57,418	2
Certified Substitute Teachers	10,000	24,500	24,035	465
Non-Certified Substitute Teachers	70,000	73,200	73,008	192
Social Security	323,178	328,085	321,817	6,268
State Retirement	325,391	327,214	324,315	2,899
Life Insurance	11,160	11,160	10,967	193
Medical Insurance	770,320	733,320	721,746	11,574
Dental Insurance	44,131	44,131	41,334	2,797
Medicare	77,184	78,326	75,264	3,062
Other Contracted Services	1,800	2,800	1,976	824
Instructional Supplies	92,681	92,081	90,233	1,848
Textbooks	181,000	145,425	142,198	3,227
Other Supplies and Materials	10,150	10,150	9,309	841
Regular Instructional Equipment	-	11,052	11,052	-
Total Instruction - Regular Instruction	<u>7,185,185</u>	<u>7,171,738</u>	<u>7,071,587</u>	<u>100,151</u>
Instruction - Special Education				
Teachers	503,412	516,759	515,664	1,095
Career Ladder Program	12,500	12,000	12,000	-
Homebound Teachers	2,800	2,800	1,240	1,560
Educational Assistants	93,100	99,620	93,314	6,306
Speech Pathologist	93,904	79,661	79,416	245
Certified Substitute Teachers	2,000	2,000	725	1,275
Non-Certified Substitute Teachers	8,000	8,000	6,535	1,465
Social Security	43,838	44,961	41,955	3,006
State Retirement	45,436	46,262	44,987	1,275
Life Insurance	1,665	1,701	1,665	36
Medical Insurance	129,644	135,693	126,499	9,194
Dental Insurance	7,431	7,761	6,962	799
Medicare	10,370	10,517	9,812	705
Other Contracted Services	46,141	84,526	72,576	11,950

(Continued)

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
GENERAL PURPOSE SCHOOL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2007

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>EXPENDITURES (CONTINUED)</b>				
Instruction - Special Education (Continued)				
Instructional Supplies	10,000	10,000	4,704	5,296
Other Supplies and Materials	1,000	1,000	583	417
Other Charges	750	8,250	7,059	1,191
<b>Total Instruction - Special Education</b>	<b>1,011,991</b>	<b>1,071,511</b>	<b>1,025,696</b>	<b>45,815</b>
Instruction - Vocational Education Program				
Teachers	436,737	430,569	428,500	2,069
Career Ladder Program	7,000	6,000	6,000	-
Certified Substitute Teachers	500	500	475	25
Non-Certified Substitute Teachers	5,000	5,650	5,648	2
Social Security	27,351	28,027	26,561	1,466
State Retirement	27,201	27,375	26,125	1,250
Life Insurance	968	968	968	-
Medical Insurance	65,406	65,406	62,738	2,668
Dental Insurance	3,712	3,712	3,246	466
Medicare	6,515	6,556	6,212	344
Maintenance and Repair - Equipment	2,500	2,500	65	2,435
Instructional Supplies	20,000	20,000	18,424	1,576
Other Supplies and Charges	1,000	1,000	85	915
Vocational Equipment	-	5,000	4,356	644
<b>Total Instruction - Vocational Education Program</b>	<b>603,890</b>	<b>603,263</b>	<b>589,403</b>	<b>13,860</b>
Instruction - Student Body				
Other Salaries and Wages	95,718	95,718	92,149	3,569
Social Security	5,934	5,934	5,582	352
State Retirement	5,000	5,000	4,825	175
Employer Medicare	1,388	1,388	1,306	82
Other Supplies and Materials	4,500	4,500	4,500	-
Other Charges	8,000	8,000	7,500	500
<b>Total Instruction - Student Body</b>	<b>120,540</b>	<b>120,540</b>	<b>115,862</b>	<b>4,678</b>
<b>Total Instructional Expenditures</b>	<b>8,921,606</b>	<b>8,967,052</b>	<b>8,802,548</b>	<b>164,504</b>
Support Services				
Student Services - Attendance				
Supervisor/Director	1,200	1,225	1,220	5
Secretary(s)	30,950	30,950	30,950	-
Social Security	1,993	1,993	1,970	23
State Retirement	2,946	2,951	2,947	4
Life Insurance	45	45	45	-
Medical	4,677	4,677	4,643	34
Dental	290	290	282	8

(Continued)

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
GENERAL PURPOSE SCHOOL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2007

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>EXPENDITURES (CONTINUED)</b>				
Student Services - Attendance				
Medicare	466	466	461	5
Travel	750	750	522	228
Total Support Services - Attendance	<u>43,317</u>	<u>43,347</u>	<u>43,040</u>	<u>307</u>
Student Services - Health Services				
Medical Personnel	21,532	43,321	43,106	215
Social Security	1,335	2,686	2,673	13
State Retirement	1,320	2,656	2,642	14
Life Insurance	45	90	90	-
Medical Insurance	2,513	4,978	4,978	-
Dental Insurance	146	283	282	1
Medicare	312	628	625	3
Travel	500	750	588	162
Other Supplies and Materials	500	1,250	1,117	133
Other Charges	375	600	293	307
Total Support Services - Health Services	<u>28,578</u>	<u>57,242</u>	<u>56,394</u>	<u>848</u>
Student Services - Other Student Support				
Career Ladder Program	5,000	5,000	5,000	-
Guidance Personnel	217,808	221,356	221,270	86
Secretaries	71,064	71,064	71,064	-
Social Security	17,971	18,301	17,714	587
State Retirement	20,254	20,458	20,446	12
Life Insurance	630	630	630	-
Medical Insurance	49,259	49,259	48,805	454
Dental Insurance	3,204	3,204	3,105	99
Medicare	4,262	4,281	4,143	138
Evaluation and Testing	5,500	8,000	6,445	1,555
Other Charges	6,000	6,000	5,940	60
Total Support Services - Other Student Support	<u>400,952</u>	<u>407,553</u>	<u>404,562</u>	<u>2,991</u>
Total Student Services Support Services	<u>472,847</u>	<u>508,142</u>	<u>503,996</u>	<u>4,146</u>

(Continued)

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
GENERAL PURPOSE SCHOOL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2007

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>EXPENDITURES (CONTINUED)</b>				
Instructional Staff Services - Regular Instruction				
Supervisor/Director	68,487	88,454	88,449	5
Career Ladder Program	9,000	9,000	9,000	-
Librarians	255,917	257,462	257,401	61
Secretaries	5,803	5,803	5,803	-
Social Security	20,281	21,993	21,043	950
State Retirement	21,035	22,295	22,291	4
Life Insurance	639	664	659	5
Medical Insurance	53,317	53,722	53,651	71
Dental Insurance	2,966	2,966	2,932	34
Medicare	4,920	5,146	4,921	225
Maintenance and Repair - Equipment	5,960	5,960	5,916	44
Travel	100	100	-	100
Library Books/Media	36,940	36,940	36,940	-
Other Supplies and Materials	500	500	106	394
In-Service/Staff Development	14,450	15,250	9,907	5,343
Other Charges	-	6,200	5,916	284
<b>Total Instructional Staff Services - Regular Instruction</b>	<b>500,315</b>	<b>532,455</b>	<b>524,935</b>	<b>7,520</b>
Instructional Staff Services - Special Education				
Supervisor/Director	63,716	69,273	69,196	77
Career Ladder Program	1,000	1,000	1,000	-
Secretaries	25,147	25,147	25,147	-
Social Security	5,571	5,757	5,753	4
State Retirement	6,301	6,637	6,637	-
Life Insurance	126	126	126	-
Medical Insurance	8,650	8,650	8,587	63
Dental Insurance	521	521	508	13
Medicare	1,304	1,348	1,346	2
Contracts with Other School Systems	45,000	26,280	26,280	-
Maintenance and Repair - Equipment	500	500	-	500
Travel	900	1,100	1,094	6
Other Supplies and Materials	-	500	-	500
In-Service/Staff Development	3,375	3,375	3,124	251
Other Charges	250	250	-	250
<b>Total Instructional Staff Services - Special Education</b>	<b>162,361</b>	<b>150,464</b>	<b>148,798</b>	<b>1,666</b>

(Continued)

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
GENERAL PURPOSE SCHOOL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2007

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>EXPENDITURES (CONTINUED)</b>				
Instructional Staff Services - Vocational Education				
Supervisor/Director	34,442	55,451	55,447	4
Career Ladder Program	3,000	3,225	3,225	-
Secretaries	18,094	18,094	18,094	-
Social Security	3,443	4,590	4,590	-
State Retirement	3,974	5,234	5,237	(3)
Life Insurance	90	117	117	-
Medical Insurance	7,578	11,728	10,728	1,000
Dental Insurance	437	683	635	48
Medicare	805	1,074	1,074	-
In-Service/Staff Development	4,200	4,200	297	3,903
Instructional Staff Services - Vocational Education	<u>76,063</u>	<u>104,396</u>	<u>99,444</u>	<u>4,952</u>
Total Instructional Staff Support Services	<u>738,739</u>	<u>787,315</u>	<u>773,177</u>	<u>14,138</u>
General Administrative Services - Board of Education				
Secretary to Board	1,200	1,200	1,200	-
Social Security	74	74	74	-
State Retirement	111	111	111	-
Unemployment Compensation	6,000	11,000	5,622	5,378
Medicare	17	17	17	-
Audit Services	19,750	19,750	18,800	950
Dues and Memberships	5,600	6,349	6,349	-
Legal Services	16,200	52,000	44,799	7,201
Other Contracted Services	1,250	1,500	1,500	-
Liability Insurance	26,560	27,092	27,092	-
Premium on Corporate Surety Bonds	2,500	1,328	1,328	-
Trustee Commissions	52,500	52,500	46,651	5,849
Workers' Compensation	105,390	94,011	94,011	-
In-Service/Staff Development	7,875	7,875	5,151	2,724
Other Charges	2,000	2,000	1,249	751
Total General Admin. Serv. Board of Education	<u>247,027</u>	<u>276,807</u>	<u>253,954</u>	<u>22,853</u>
General Administrative Services -				
Office of the Superintendent				
County Official/Administrative Officer	83,000	87,566	87,565	1
Career Ladder Program	1,000	1,000	700	300

(Continued)

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
GENERAL PURPOSE SCHOOL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2007

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
EXPENDITURES (CONTINUED)				
General Administrative Services -				
Office of the Superintendent (Continued)				
Secretaries	37,003	37,003	37,003	-
Clerical Personnel	23,171	23,171	23,171	-
Other Salaries and Wages	13,008	4,336	4,336	-
Social Security	9,745	9,745	9,400	345
State Retirement	11,530	11,530	11,261	269
Life Insurance	180	180	180	-
Medical Insurance	17,265	21,011	20,539	472
Dental Insurance	1,158	1,158	1,129	29
Medicare	2,280	2,280	2,198	82
Advertising	1,400	2,400	2,362	38
Communication	21,500	26,300	25,073	1,227
Dues and Memberships	1,500	1,500	1,194	306
Postal Charges	4,000	4,750	4,302	448
Printing, Stationery, and Forms	500	500	424	76
Travel	500	500	-	500
Other Contracted Services	6,000	7,000	6,474	526
Office Supplies	5,000	5,000	3,016	1,984
In-Service/Staff Development	3,475	3,475	2,780	695
Other Charges	6,475	6,975	6,481	494
Total General Admin. Serv. Office of the Superintendent	<u>249,690</u>	<u>257,380</u>	<u>249,588</u>	<u>7,792</u>
Total General Administrative Support Services	<u>496,717</u>	<u>534,187</u>	<u>503,542</u>	<u>30,645</u>
School Administrative Services - Office of the Principal				
Principals	309,873	320,160	319,998	162
Career Ladder Program	7,000	9,000	9,000	-
Assistant Principals	149,702	150,474	149,075	1,399
Secretaries	104,455	104,455	104,455	-
Other Salaries and Wages	10,171	10,171	8,931	1,240
Social Security	35,785	36,272	35,627	645
State Retirement	38,620	38,869	38,544	325
Life Insurance	1,002	1,002	1,001	1
Medical Insurance	76,467	76,542	76,498	44
Dental Insurance	4,442	4,442	4,281	161
Medicare	8,427	8,482	8,342	140
Communication	25,391	25,391	24,812	579
Travel	225	895	832	63
Office Supplies	17,225	17,225	17,205	20
In-Service/Staff Development	1,800	2,200	1,847	353
Total School Admin. Serv. Office of the Principal	<u>790,585</u>	<u>805,580</u>	<u>800,448</u>	<u>5,132</u>
Total School Administration Support Services	<u>790,585</u>	<u>805,580</u>	<u>800,448</u>	<u>5,132</u>

(Continued)

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
GENERAL PURPOSE SCHOOL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2007

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>EXPENDITURES (CONTINUED)</b>				
Business Administrative Services - Fiscal Services				
Supervisor/Director	58,150	58,150	58,150	-
Accountants/Bookkeepers	65,041	65,041	65,042	(1)
Secretaries	30,950	30,950	30,950	-
Social Security	9,307	9,557	9,380	177
State Retirement	12,473	12,473	12,473	-
Life Insurance	225	225	225	-
Medical Insurance	21,652	21,652	19,493	2,159
Dental Insurance	1,158	1,158	1,129	29
Medicare	2,235	2,235	2,194	41
Data Processing Services	4,300	4,976	4,975	1
Dues and Subscriptions	100	100	75	25
Travel	350	350	122	228
Data Processing Supplies	500	500	495	5
Office Supplies	2,750	2,750	1,796	954
In-Service/Staff Development	4,000	2,574	1,783	791
Other Charges	1,000	1,000	784	216
Furniture and Fixtures	-	750	583	167
Total Bus. Admin. Serv. - Fiscal Services	<u>214,191</u>	<u>214,441</u>	<u>209,649</u>	<u>4,792</u>
Operation and Maintenance - Operation of Plant				
Supervisor/Director	25,875	25,975	25,978	(3)
Custodial Personnel	230,813	232,113	223,763	8,350
Social Security	15,995	15,995	15,685	310
State Retirement	23,941	23,941	23,300	641
Life Insurance	799	809	808	1
Medical Insurance	82,742	82,742	81,080	1,662
Dental Insurance	5,173	5,173	4,892	281
Medicare	3,742	3,742	3,599	143
Other Contracted Services	43,000	43,000	42,302	698
Custodial Supplies	24,000	24,750	24,688	62
Electricity	365,000	365,000	344,246	20,754
Natural Gas	200,000	189,000	139,345	49,655
Water and Sewer	23,625	23,625	23,223	402
Boiler Insurance	4,063	4,150	4,150	-
Building and Contents Insurance	74,020	75,609	75,609	-
Other Charges	375,438	61,337	60,816	521
Total Oper. & Maint. - Operation of Plant	<u>1,498,226</u>	<u>1,176,961</u>	<u>1,093,484</u>	<u>83,477</u>

(Continued)



ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
GENERAL PURPOSE SCHOOL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2007

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>EXPENDITURES (CONTINUED)</b>				
Operation and Maintenance - Maintenance of Plant				
Supervisor/Director	33,533	33,533	33,405	128
Maintenance Personnel	128,579	128,579	127,883	696
Social Security	9,801	10,051	9,435	616
State Retirement	15,045	15,045	14,777	268
Life Insurance	225	225	203	22
Medical Insurance	32,011	32,011	31,779	232
Dental Insurance	1,737	1,737	1,693	44
Medicare	2,350	2,250	2,275	(25)
Laundry Service	1,950	2,450	2,344	106
Maintenance and Repair - Buildings	97,500	97,500	96,686	814
Maintenance and Repair - Equipment	1,800	1,800	953	847
Maintenance and Repair - Vehicles	750	2,750	1,767	983
Other Contracted Services	38,774	40,004	38,158	1,846
Inservice/Staff Development	-	500	413	87
Other Charges	1,000	1,286	286	1,000
Other Equipment	3,172	2,633	2,632	1
Total Oper. & Maint. - Maintenance of Plant	<u>368,227</u>	<u>372,354</u>	<u>364,689</u>	<u>7,665</u>
Total Operation and Maintenance Support Services	<u>1,866,453</u>	<u>1,549,315</u>	<u>1,458,173</u>	<u>91,142</u>
Student Transportation				
Supervisor/Director	2,500	2,500	2,500	-
Mechanics	7,500	7,500	6,572	928
Bus Drivers	47,860	51,510	49,997	1,513
Other Salaries and Wages	2,500	2,500	2,516	(16)
Social Security	3,679	3,929	3,307	622
State Retirement	5,411	5,431	4,797	634
Life Insurance	225	225	212	13
Medical Insurance	26,809	26,809	23,904	2,905
Dental Insurance	1,459	1,459	1,294	165
Medicare	920	920	763	157
Maintenance and Repair - Vehicles	1,000	15,000	10,938	4,062
Medical and Dental Services	1,200	1,500	1,456	44
Diesel Fuel	22,000	25,000	20,354	4,646
Gasoline	7,000	11,000	8,731	2,269
Tires and Tubes	4,000	4,000	2,055	1,945
Vehicle Parts	7,500	16,000	13,783	2,217
Vehicle Insurance	22,850	23,344	23,344	-
Inservice/Staff Development	-	500	225	275
Other Charges	200	1,700	1,563	137
Total Student Transportation Support Services	<u>164,613</u>	<u>200,827</u>	<u>178,311</u>	<u>22,516</u>

(Continued)

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
GENERAL PURPOSE SCHOOL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2007

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>EXPENDITURES (CONTINUED)</b>				
Central Services				
Supervisor/Director	46,030	46,030	46,030	-
Data Processing Personnel	63,398	63,398	59,999	3,399
Social Security	6,535	6,785	6,401	384
State Retirement	10,156	10,156	9,840	316
Life Insurance	135	135	131	4
Medical Insurance	18,365	18,365	16,941	1,424
Dental Insurance	1,158	1,158	1,105	53
Medicare	1,586	1,586	1,497	89
Maintenance and Repair - Equipment	26,000	20,000	15,248	4,752
Travel	750	750	748	2
Other Contracted Services	9,000	16,500	13,376	3,124
Data Processing Supplies	6,200	40,966	40,775	191
Other Supplies and Materials	3,000	3,000	2,956	44
In-Service/Staff Development	2,250	2,250	987	1,263
Data Processing Equipment	16,000	20,500	18,630	1,870
Furniture and Fixtures	-	5,400	5,292	108
Total Support Services Central Services	<u>210,563</u>	<u>256,979</u>	<u>239,956</u>	<u>17,023</u>
Total Support Services	<u>4,954,708</u>	<u>4,856,786</u>	<u>4,667,252</u>	<u>189,534</u>
Food Service				
Clerical Personnel	30,950	30,950	30,950	-
Social Security	1,919	1,919	1,896	23
State Retirement	2,872	2,872	2,872	-
Medicare	449	449	444	5
Total Food Service	<u>36,190</u>	<u>36,190</u>	<u>36,162</u>	<u>28</u>
Community Services				
Supervisor/Director	25,174	27,699	27,466	233
Other Salaries and Wages	58,757	71,457	71,352	105
Social Security	5,166	6,111	6,035	76
State Retirement	2,351	3,426	3,383	43
Life Insurance	45	45	45	-
Medical Insurance	4,677	4,677	4,643	34
Dental Insurance	290	290	282	8
Medicare	1,208	1,438	1,412	26
Travel	750	800	554	246
Food Supplies	5,500	5,500	4,693	807

(Continued)

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
GENERAL PURPOSE SCHOOL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2007

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>EXPENDITURES (CONTINUED)</b>				
Community Services (Continued)				
Other Supplies and Materials	8,500	6,075	5,818	257
Other Charges	4,525	5,525	5,451	74
Other Equipment	2,000	-	-	-
Total Community Services	<u>118,943</u>	<u>133,043</u>	<u>131,134</u>	<u>1,909</u>
Early Childhood Education				
Supervisor/Director	33,597	41,301	41,301	-
Teachers	78,042	77,838	77,837	1
Secretary(s)	10,760	10,653	10,653	-
Educational Assistance	52,040	44,647	45,057	(410)
Social Security	10,815	11,534	10,453	1,081
State Retirement	12,672	12,778	12,473	305
Life Insurance	450	442	448	(6)
Medical Insurance	36,842	35,957	36,307	(350)
Dental Insurance	2,187	2,088	2,087	1
Employer Medicare	2,529	2,696	2,445	251
Communication	1,200	1,200	1,154	46
Other Contracted Services	28,735	36,882	38,497	(1,615)
Instructional Supplies	10,000	6,500	6,603	(103)
Liability Insurance	800	800	-	800
In-Service	1,765	-	-	-
Total Early Childhood Education	<u>282,434</u>	<u>285,316</u>	<u>285,315</u>	<u>1</u>
Capital Outlay - Regular				
Architects	24,000	24,000	11,425	12,575
Building Construction	503,062	768,737	767,486	1,251
Total Capital Outlay	<u>527,062</u>	<u>792,737</u>	<u>778,911</u>	<u>13,826</u>
Debt Service - Education				
Principal on Bonds	4,000	4,000	4,000	-
Total Debt Service	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>	<u>-</u>
Total Expenditures	<u>14,844,943</u>	<u>15,075,124</u>	<u>14,705,322</u>	<u>369,802</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(3,283,205)</u>	<u>(3,262,827)</u>	<u>(2,864,599)</u>	<u>398,228</u>

(Continued)

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
GENERAL PURPOSE SCHOOL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2007

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>OTHER FINANCING SOURCES</b>				
Bond Proceeds	900,000	649,000	633,515	(15,485)
Transfer In	-	19,800	14,000	(5,800)
Transfer from Primary Government	2,332,000	2,332,000	2,332,000	-
Total Other Financing Sources	<u>3,232,000</u>	<u>3,000,800</u>	<u>2,979,515</u>	<u>(21,285)</u>
NET CHANGE IN FUND BALANCE	<u>(51,205)</u>	<u>(262,027)</u>	<u>114,916</u>	<u>376,943</u>
FUND BALANCE, JULY 1, 2006	<u>480,830</u>	<u>480,830</u>	<u>480,830</u>	<u>-</u>
Prior Period Adjustments	<u>-</u>	<u>-</u>	<u>98,961</u>	<u>98,961</u>
Adjusted Fund Balance, July 1, 2006	<u>480,830</u>	<u>480,830</u>	<u>579,791</u>	<u>98,961</u>
FUND BALANCE, JUNE 30, 2007	<u>\$ 429,625</u>	<u>218,803</u>	<u>694,707</u>	<u>475,904</u>

See accompanying notes to the financial statements.

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
SCHOOL FEDERAL PROJECTS FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental Revenues				
Title I	\$ 513,435	716,334	559,764	(156,570)
Title II	118,526	125,814	123,838	(1,976)
Title V	3,362	3,364	3,364	-
Special Education (IDEA)	416,964	416,964	416,964	-
Special Education (Preschool)	12,104	12,104	12,104	-
Vocational Education	48,130	48,130	48,100	(30)
Katrina and Rita Hurricane Victims	-	3,609	3,609	-
Vocational Rehabilitation	-	23,854	23,710	(144)
Drug Free	58,126	20,144	7,902	(12,242)
<b>TOTAL REVENUES</b>	<b>1,170,647</b>	<b>1,370,317</b>	<b>1,199,355</b>	<b>(170,962)</b>
<b>EXPENDITURES</b>				
Instruction				
Instruction - Regular Instruction				
Teachers	119,105	127,931	127,928	3
Educational Assistants	141,721	166,296	157,809	8,487
Other Salaries and Wages	14,065	8,789	4,943	3,846
Social Security	17,041	18,357	17,277	1,080
State Retirement	20,751	21,221	20,830	391
Life Insurance	900	923	877	46
Medical Insurance	78,293	80,056	75,852	4,204
Dental Insurance	3,793	4,493	4,211	282
Medicare	3,985	4,322	4,041	281
Other Contracted Services	10,424	13,742	1,500	12,242
Instructional Supplies and Materials	60,000	53,745	30,971	22,774
Other Charges	80,179	40,000	14,420	25,580
Other Supplies and Materials	-	3,692	3,692	-
Regular Instruction Equipment	74,585	135,001	136,211	(1,210)
<b>Total Instruction - Regular Instruction</b>	<b>624,842</b>	<b>678,568</b>	<b>600,562</b>	<b>78,006</b>
Instruction - Special Education				
Teachers	21,071	21,071	21,070	1
Educational Assistants	224,500	217,103	218,770	(1,667)
Social Security	15,288	14,172	13,884	288
State Retirement	22,219	21,026	21,089	(63)
Life Insurance	900	873	873	-
Medical Insurance	100,436	93,251	93,251	-
Dental Insurance	5,398	5,174	5,174	-
Medicare	3,575	3,314	3,247	67
Other Contracted Services	15,077	32,480	32,618	(138)

(Continued)

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
SCHOOL FEDERAL PROJECTS FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>EXPENDITURES (CONTINUED)</b>				
Instruction - Special Education (Continued)				
Instructional Supplies	5,000	5,000	5,000	-
Special Education Equipment	2,000	2,000	487	1,513
Total Instruction - Special Education	<u>415,464</u>	<u>415,464</u>	<u>415,463</u>	<u>1</u>
Instruction - Vocational Education				
Teachers	9,357	9,357	9,356	1
Social Security	580	560	562	(2)
State Retirement	574	574	573	1
Life Insurance	23	23	23	-
Medical Insurance	1,900	1,371	1,371	-
Dental Insurance	73	71	71	-
Medicare	136	130	131	(1)
Other Charges	-	1,995	1,995	-
Vocational Instruction Equipment	20,587	20,649	20,648	1
Total Instruction - Vocational Education	<u>33,230</u>	<u>34,730</u>	<u>34,730</u>	<u>-</u>
Total Instructional Expenditures	<u>1,073,536</u>	<u>1,128,762</u>	<u>1,050,755</u>	<u>78,007</u>
Instructional Staff Services - Regular Instruction				
Other Salaries and Wages	10,577	10,333	10,251	82
Social Security	656	641	636	5
Medical Insurance	153	150	149	1
Travel	6,000	14,200	9,266	4,934
Other Contracted Services	18,275	19,464	19,894	(430)
Other Supplies and Materials	21,000	34,700	13,105	21,595
In-Service/Staff Development	96,359	106,509	66,892	39,617
Other Charges	23,200	22,400	4,561	17,839
Other Equipment	34,484	16,304	7,637	8,667
Total Instructional Staff Services - Regular Instruction	<u>210,704</u>	<u>224,701</u>	<u>132,391</u>	<u>92,310</u>
Support Services - Student Transportation				
Bus Drivers	16,810	16,295	14,795	1,500
Other Salaries and Wages	1,800	-	-	-
Social Security	1,154	807	694	113
State Retirement	1,727	1,510	1,049	461
Life Insurance	90	90	68	22
Medical Insurance	12,644	13,509	10,035	3,474
Dental Insurance	584	574	447	127
Medicare	270	189	162	27
In-Service/Staff Development	-	1,500	1,573	(73)
Total Transportation	<u>35,079</u>	<u>34,474</u>	<u>28,823</u>	<u>5,651</u>

(Continued)

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
SCHOOL FEDERAL PROJECTS FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXPENDITURES (CONTINUED)				
Other Services				
Health Services	28,578	-	-	-
Other Student Support	16,200	-	-	-
Special Education Support	3,200	-	-	-
Vocational Support	1,500	-	-	-
Total Other Services	<u>49,478</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total Support Services	 <u>295,261</u>	 <u>259,175</u>	 <u>161,214</u>	 <u>97,961</u>
 TOTAL EXPENDITURES	 <u>1,368,797</u>	 <u>1,387,937</u>	 <u>1,211,969</u>	 <u>175,968</u>
 Excess (Deficiency) of Revenues Over (Under) Expenditures	 <u>(198,150)</u>	 <u>(17,620)</u>	 <u>(12,614)</u>	 <u>5,006</u>
 Other Financing Sources (Uses)				
Transfers In	-	25,562	25,562	-
Transfers Out	-	(45,362)	(39,562)	5,800
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(19,800)</u>	<u>(14,000)</u>	<u>5,800</u>
 NET CHANGE IN FUND BALANCE	 <u>(198,150)</u>	 <u>(37,420)</u>	 <u>(26,614)</u>	 <u>10,806</u>
 FUND BALANCE, JULY 1, 2006	 <u>36,664</u>	 <u>36,664</u>	 <u>36,664</u>	 <u>-</u>
 FUND BALANCE, JUNE 30, 2007	 <u>\$ (161,486)</u>	 <u>(756)</u>	 <u>10,050</u>	 <u>10,806</u>

See accompanying notes to the financial statements.

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
 (COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
 SCHOOL NUTRITION FUND  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL  
 For the Fiscal Year Ended June 30, 2007

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>				
Intergovernmental Revenues				
USDA Lunch Claims	\$ 288,300	288,900	285,091	(3,809)
USDA Breakfast Claims	83,000	88,425	88,127	(298)
Snack Reimbursement	7,200	7,700	7,615	(85)
State Matching	10,500	10,500	9,979	(521)
Total Intergovernmental Revenues	<u>389,000</u>	<u>395,525</u>	<u>390,812</u>	<u>(4,713)</u>
Charges for Services				
Meal Payment - Children	308,500	287,150	283,596	(3,554)
Meal Payment - Adults	17,800	22,100	21,920	(180)
Income from Breakfast	3,450	3,125	2,924	(201)
A La Carte Sales	81,000	84,025	74,037	(9,988)
Other Charges for Services	6,500	8,750	8,579	(171)
Total Charges for Services	<u>417,250</u>	<u>405,150</u>	<u>391,056</u>	<u>(14,094)</u>
Insurance Recovery	-	2,235	2,234	(1)
Investment Earnings	4,450	6,250	6,231	(19)
<b>TOTAL REVENUES</b>	<u>810,700</u>	<u>809,160</u>	<u>790,333</u>	<u>(18,827)</u>
<b>EXPENDITURES</b>				
Food Services				
Cafeteria Personnel	295,177	284,959	284,960	(1)
Other Salaries and Wages	3,500	3,954	3,953	1
Social Security	18,518	17,420	17,419	1
State Retirement	26,101	24,893	24,889	4
Life Insurance	990	950	950	-
Medical Insurance	117,787	109,463	109,460	3
Dental Insurance	6,725	6,282	6,280	2
Medicare	4,331	4,077	4,074	3
Communication	650	600	547	53
Maintenance/Repair - Equipment	9,250	14,851	14,834	17
Transportation	5,900	2,639	2,638	1
Food Supplies	291,000	302,985	302,694	291
Office Supplies	1,250	966	970	(4)
Other Supplies and Materials	22,000	26,195	25,337	858
In-Service/Staff Development	1,050	1,493	1,502	(9)
Other Charges	4,750	5,131	5,145	(14)
Equipment	1,721	2,302	2,302	-
<b>TOTAL EXPENDITURES</b>	<u>810,700</u>	<u>809,160</u>	<u>807,954</u>	<u>1,206</u>

(Continued)



ELIZABETHTON, TENNESSEE CITY SCHOOLS  
 (COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
 SCHOOL NUTRITION FUND  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL  
 For the Fiscal Year Ended June 30, 2007

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	(17,621)	(17,621)
FUND BALANCE, JULY 1, 2006	177,038	177,038	177,038	-
FUND BALANCE, JUNE 30, 2007	\$ 177,038	177,038	159,417	(17,621)

See accompanying notes to the financial statements.

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2007

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Elizabethton, Tennessee City Schools (the Schools) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The governmental accounting standards board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

Reporting Entity

The General Purpose School Fund, School Federal Projects Fund, and School Nutrition Fund are three funds of the Elizabethton, Tennessee City Schools. The Schools are included as a discretely presented component unit in the financial report of the City of Elizabethton, Tennessee (the City). The Board receives funding from local, county, state and federal government sources and must comply with the requirements of these funding source entities. The members of the Board of Education are elected by the voters of the City.

Related Organizations

School Activity Funds of the School's are the internal school funds used for student body activities within each school. Administration of the school activity funds is the responsibility of the Schools, the Director of Schools and the principals. The internal school funds are restricted for use by the individual schools; therefore, these funds are not included in the reporting entity of the Board of Education.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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 are 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 Schools considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Grant revenue has a period of availability of one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and debt service are recorded only when payment is due.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Board of Education.

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2007

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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

The School System reports the following governmental funds:

General Purpose School Fund -The General Purpose School Fund is the operations fund and accounts for all revenues and expenditures not encompassed within other funds. All general revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Purpose School Fund.

School Federal Projects Fund and School Nutrition Fund – Proceeds of specific revenue sources that are restricted to expenditures for specified purposes are in separate funds.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

The Finance Director is the treasurer for the Schools and in this capacity is responsible for receiving, disbursing, depositing and investing most of the School's funds. Certain disclosures regarding deposits and investments are required by accounting principles generally accepted in the United States of America for those amounts included on the balance sheet as cash and cash equivalents. The Board of Education does not have any deposits or investments other than cash on deposit with banks.

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2007

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Assets or Equity (Continued)

Receivables and Payables

Property taxes receivable are recognized as of the date when an enforceable legal claim to the taxable property arises. This is January 1 in Tennessee and is referred to as the “lien date.” Revenues from property taxes are recognized in the period for which the taxes are levied which becomes payable October 1, even though the receivable is recognized in the prior period when the enforceable legal claim arises. Property taxes recognized as receivable before the period of revenue recognition have been reported as deferred revenues.

Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. Governmental funds record inventories as expenditures at the time of purchase. All such inventories on hand at year end are reported as assets and are fully reserved in the equity section of the funds’ balance sheet at the fund level.

Capital Assets

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 for vehicles and equipment and \$50,000 for buildings and improvements. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Property, plant, and equipment are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	40
Vehicles and Equipment	3-20

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
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NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2007

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Employees are granted vacation leave and sick leave based upon the system's policy. These benefit costs are accrued when earned in the government-wide financial statements. A liability is reported in the governmental funds only if the benefit had been earned at June 30 as a result of a retirement, resignation, or termination, and the benefit is expected to be paid immediately after the start of the new fiscal year. Any remaining vacation days in excess of ten will be converted into sick leave days at the rate of one-half sick leave day for one vacation leave day. The policy was amended in 2005 to allow at termination of employment, the payment of earned vacation days at the rate of pay applicable when the days were granted. A liability is not recorded for sick leave because the Board policy is silent on payment to employees upon termination.

Fund Equity

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 Board plans that are subject to change.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The School's financial operations are subject to the comprehensive appropriated budget. Budget amendments are authorized during the year. The statements of budget to actual include the original and final amended budget amounts. The budgets were legally adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Encumbrance accounting is employed in all of the School's funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
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NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2007

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NOTE 3 - DETAILED NOTES ON ALL FUNDS

Deposits and Investments

Cash and cash equivalents on the balance sheet include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes impose various restrictions on deposits and investments, including repurchase agreements. These restrictions are summarized as follows:

DEPOSITS - All deposits with financial institutions must be collateralized in an amount equal to 105% of the market value of uninsured deposits.

INVESTMENTS - State statutes authorize the system to invest in treasury bonds, notes or bills of the United States of America; nonconvertible debt securities of the Federal Home Loan Bank, The Federal National Mortgage Association, The Federal Farm Credit Bank and the State Loan Marketing Association; other obligations not listed above which are guaranteed as to principal and interest by the United States of America or any of its agencies; Certificates of Deposit and other evidences of deposit at State and Federal chartered banks and Savings and Loan Associations; obligations of the United States of America or its agencies under a repurchase agreement and money market funds whose portfolios consist of any of the foregoing investments if approved by the State Director of Local Finance and made in accordance with procedures established by the State Funding Board; The State of Tennessee Local Government Investment Pool (LGIP); obligations of the Public Housing Authority and bonds of the Tennessee Valley Authority.

The Schools do not have a policy for interest rate risk or for other credit risk other than pledging securities for amounts in excess of FDIC coverage.

Deposits

All deposits of the Schools are held by a bank which is an approved member of the Bank Collateral Pool of the Treasury Department of the State of Tennessee. The Collateral Pool is a multiple financial institution collateral pool and state statutes require collateral pledged by each financial institution must equal a certain percentage of the uninsured public deposits it holds. Members of the pool can be assessed if the collateral is inadequate to cover a loss. This is similar to depository insurance. At year end, the School's carrying amount of deposits was \$917,622 and the bank balance was \$1,174,756.

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
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NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2007

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NOTE 3 - DETAILED NOTES ON ALL FUNDS (CONTINUED)

Receivables

Receivables as of year end for the School's individual funds are as follows:

	<u>General Purpose School Fund</u>	<u>School Federal Projects Fund</u>	<u>Total</u>
Other Receivables	\$ 10,336	-	10,336
Due from Other Governments			
Federal and State	93,364	154,685	248,049
Carter County, Tax Allocation	2,110,799	-	2,110,799
Carter County, Bond Proceeds	44,823	-	44,823
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Receivables	<u>\$ 2,259,322</u>	<u>154,685</u>	<u>2,414,007</u>

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.

At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Receivables not received within period of availability:		
Property Tax Levied for Ensuing Fiscal Year	\$ -	1,756,264
Taxes from Carter County	<u>135,000</u>	<u>-</u>
Total Deferred Revenue/Unearned Revenue for Governmental Funds	<u>\$ 135,000</u>	<u>1,756,264</u>

On the fund financial statement level, deferred revenue is \$1,891,264 for the current year.

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
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NOTE 3 - DETAILED NOTES ON ALL FUNDS (CONTINUED)

Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 216,170	-	-	216,170
Construction in Progress	184,596	781,214	(956,150)	9,660
Total Capital Assets, Not Being Depreciated	<u>400,766</u>	<u>781,214</u>	<u>(956,150)</u>	<u>225,830</u>
Capital Assets, Being Depreciated				
Buildings	14,255,724	953,847	-	15,209,571
Equipment	753,221	13,503	(44,126)	722,598
Total Capital Assets, Being Depreciated	<u>15,008,945</u>	<u>967,350</u>	<u>(44,126)</u>	<u>15,932,169</u>
Less Accumulated Depreciation For:				
Buildings	(6,980,902)	(322,905)	-	(7,303,807)
Equipment	(513,547)	(47,714)	41,919	(519,342)
Total Accumulated Depreciation	<u>(7,494,449)</u>	<u>(370,619)</u>	<u>41,919</u>	<u>(7,823,149)</u>
Total Capital Assets, Being Depreciated, Net	<u>7,514,496</u>	<u>596,731</u>	<u>(2,207)</u>	<u>8,109,020</u>
Total Capital Assets, Net	<u>\$ 7,915,262</u>	<u>1,377,945</u>	<u>(958,357)</u>	<u>8,334,850</u>

Interfund Transfers

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Purpose School Fund	School Federal Projects Fund	<u>\$14,000</u>

In addition, the school system received an annual appropriation from the primary government, the City of Elizabethton, Tennessee in the amount of \$2,332,000.



ELIZABETHTON, TENNESSEE CITY SCHOOLS  
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 NOTES TO THE FINANCIAL STATEMENTS  
 For the Fiscal Year Ended June 30, 2007

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NOTE 3 - DETAILED NOTES ON ALL FUNDS (CONTINUED)

Long-term Debt

The government received no-interest loans from the Environmental Protection Agency for asbestos removal. The loans are to be repaid in semiannual installments of \$2,000 over a period of 20 years. The balance for the fiscal year ending June 30, 2007 on the non interest loan is \$2,394.

The following is a summary of debt transactions of the school system for the year ended June 30, 2007:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental Activities:					
Non Interest Loan	\$ 6,394	-	4,000	2,394	2,394
Compensated Absences	15,474	7,806	2,267	21,013	2,267
Governmental Activities					
Long Term Liabilities	<u>\$ 21,868</u>	<u>7,806</u>	<u>6,267</u>	<u>23,407</u>	<u>4,661</u>

NOTE 4 - OTHER INFORMATION

Risk Management

The School system purchases commercial insurance for the risks of losses for general liability, employee, administration, and board member dishonesty. Settled claims have not exceeded this commercial coverage in the past three fiscal years.

Also, the School system is a member of the Tennessee Municipal League Risk Management Pool (TML Pool). Coverage for the system includes workers' compensation, general liability, and property and casualty. The TML Pool is a non-profit, risk sharing organization of Tennessee municipalities and local public agencies. Tennessee Statute governing the formation of the pooling and risk sharing arrangement dictates that the pool has the ability to assess members. Contributions (premiums) from members are used in part to purchase reinsurance to cover losses that exceed the Pool's loss fund.

Contingent Liabilities

The Board of Education is a defendant in litigation. The outcome is not presently determinable. It is the opinion of the attorneys that the resolution of this matter will not have a material adverse effect on the financial condition of the Board of Education.

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
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NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2007

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NOTE 4 - OTHER INFORMATION (CONTINUED)

Defined Benefit Plan

Plan Description

The employees of Elizabethton, Tennessee City Schools 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 the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Elizabethton, Tennessee City Schools 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 in writing to Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at [www.treasury.state.tn.us/tcrs/PS/](http://www.treasury.state.tn.us/tcrs/PS/).

Funding Policy

Elizabethton, Tennessee City Schools requires employees to contribute 5.0% of earnable compensation.

Elizabethton, Tennessee City Schools is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2007 was 9.39% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Elizabethton, Tennessee City Schools is established and may be amended by the TCRS Board of Trustees.

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2007

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NOTE 4 - OTHER INFORMATION (CONTINUED)

Defined Benefit Plan (continued)

Annual Pension Cost

For the year ending June 30, 2007, Elizabethton, Tennessee City School's annual pension cost of \$11,148 to TCRS was equal to Elizabethton, Tennessee City School's required and actual contributions. The required contribution was determined as part of the July 1, 2005 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 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. Elizabethton, Tennessee City School's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2005 was 10 years. An actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 2006.

**Trend Information**

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
June 30, 2007	\$189,875	100.00%	\$0.00
June 30, 2006	\$141,446	100.00%	\$0.00
June 30, 2005	\$140,174	100.00%	\$0.00

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
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NOTES TO THE FINANCIAL STATEMENTS  
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NOTE 4 - OTHER INFORMATION (CONTINUED)

Defined Benefit Plan (continued)

Plan Description

The Elizabethton City Schools contribute 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 the 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 the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

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

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2007

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NOTE 4 - OTHER INFORMATION (CONTINUED)

Defined Benefit Plan (continued)

Funding Policy

Most teachers are required by state statute to contribute 5.0% of salary of the plan. The employer contribution rate for Elizabethton City Schools is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2007 was 6.13% of annual covered payroll. The employer contribution requirement for Elizabethton City Schools is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2007, 2006, and 2005 were \$469,320, \$424,870, \$410,381, respectively, equal to the required contributions for each year.

NOTE 5 - PRIOR PERIOD ADJUSTMENT

A prior period adjustment for accrued payroll was made in the amount of (\$7,539). In addition, a prior period adjustment for local tax revenues was made in the amount of \$106,500, for a total net prior period adjustment of \$98,961 as presented on the Statement of Revenues, Expenditures, and Changes in Fund Balances.

In addition, a prior period adjustment of \$130,000 was made on the government wide Statement of Activities for deferred property taxes. Thus, the total prior period adjustment as reflected on the Statement of Activities is \$228,961.

**SUPPLEMENTARY INFORMATION**

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
SCHEDULE OF FUNDING PROGRESS (UNAUDITED)  
For the Fiscal Year Ended June 30, 2007

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets  (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAA) (b) – (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2005	4,758	4,758	0	100.00%	1,963	0.00%
July 1, 2003	4,303	4,303	0	100.00%	1,634	0.00%
July 1, 2001	4,017	4,100	83	97.98%	1,495	5.55%

See Independent Auditors' Report.

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2007

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance July 1, 2006	Cash Receipts	Expenditures	Balance June 30, 2007
<u>General Purpose School Fund:</u>						
Pass Through Other Entities:						
84.000	Education Edge	U.S. Department of Education	\$ 69	-	-	69
Pass Through State of Tennessee:						
84.027	High Excess Cost Student	U.S. Department of Education	51,862	-	51,862	-
Total General Purpose School Fund			51,931	0	51,862	69
<u>School Federal Projects Fund:</u>						
Pass Through State of Tennessee:						
84.938	Hurricane Education Recovery Act	U.S. Department of Education	(9,756)	13,365	3,609	-
84.048	Carl Perkins (Vocational Program Improvements)	U.S. Department of Education	(10,557)	44,630	48,100	(14,027) *
84.186	Drug Free Schools	U.S. Department of Education	-	6,402	7,902	(1,500)
84.027	IDEA, Project	U.S. Department of Education	-	412,405	429,112	(16,707)

\* Receivable

\*\* Unused Revenue

(Continued)



ELIZABETHTON, TENNESSEE CITY SCHOOLS  
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2007

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance July 1, 2006	Cash Receipts	Expenditures	Balance June 30, 2007
<u>School Federal Projects Fund (Continued):</u>						
Pass Through State of Tennessee (Continued):						
84.196	Title X Education for Homeless	U.S. Department of Education	(8,801)	8,801	-	-
84.010	Title I, Project	U.S. Department of Education	35,663	468,445	595,427	(91,319) *
84.048	Title II, Part A	U.S. Department of Education	(27,758)	124,138	114,606	(18,226) *
84.048	Title II, Part D	U.S. Department of Education	1,001	-	10,233	(9,232) *
	Total Title II		(26,757)	124,138	124,839	(27,458)
84.126	Vocational Rehabilitation	U.S. Department of Education	(10,713)	35,749	28,710	(3,674) *
84.298A	Title V, Part A - Innovative Programs	U.S. Department of Education	-	3,364	3,364	-
Total School Federal Projects Fund			(30,921)	1,117,299	1,241,063	(154,685)
<u>School Nutrition Fund:</u>						
Pass Through State of Tennessee:						
10.533	National School Breakfast Program	U.S. Department of Agriculture	-	88,127	88,127	-
10.555	National School Lunch Program	U.S. Department of Agriculture	-	285,091	285,091	-
10.555	National Snack Reimbursement	U.S. Department of Agriculture	-	7,615	7,615	-

\* Receivable

\*\* Unused Revenue

(Continued)

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2007

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance July 1, 2006	Cash Receipts	Expenditures	Balance June 30, 2007
<u>School Nutrition Fund (Continued):</u>						
	Pass Through TN Department of Agriculture					
10.550	USDA: Commodity Supplemental Feeding- Commodities Distributed	Tennessee Department of Agriculture	-	29,835	29,835	-
Total School Nutrition Fund			0	410,668	410,668	0
TOTAL FEDERAL GRANTS			\$ 21,010	1,527,967	1,703,593	(154,616)

NOTE A: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Elizabethton, Tennessee City Schools and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B: FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule of expenditures of federal awards at the fair market value of commodities received and used.

\* Receivable                      \*\* Unused Revenue

See Independent Auditors' Report.

ELIZABETHTONL, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
SCHEDULE OF EXPENDITURES OF STATE AWARDS  
For the Fiscal Year Ended June 30, 2007

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance July 1, 2006	Cash Receipts	Expenditures	Balance June 30, 2007
<u>General Purpose School Fund:</u>						
N/A	Early Childhood Grant - Pilot	Tennessee Department of Education	\$ (75,442)	220,723	195,000	(49,719) *
N/A	Early Childhood Grant - Lottery	Tennessee Department of Education	(44,067)	110,641	90,316	(23,742) *
N/A	Safe Schools Act	Tennessee Department of Education	(1,467)	10,205	10,790	(2,052) *
Total General Purpose School Fund			<u>(120,976)</u>	<u>341,569</u>	<u>296,106</u>	<u>(75,513)</u>
<u>School Nutrition Fund:</u>						
N/A	State Matching Funds	Tennessee Department of Agriculture	-	9,979	9,979	-
Total Child Nutrition Fund			<u>0</u>	<u>9,979</u>	<u>9,979</u>	<u>0</u>
TOTAL STATE GRANTS			<u>\$ (120,976)</u>	<u>351,548</u>	<u>306,085</u>	<u>(75,513)</u>

See Independent Auditors' Report.

## SECTION II

### INTERNAL CONTROL AND COMPLIANCE SECTION

INDEPENDENT AUDITORS' 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*

Interim Director of Schools and  
School Board Members  
Elizabethton, Tennessee City Schools  
Elizabethton, Tennessee 37643

We have audited the financial statements of the general purpose school fund, school federal projects fund, and the school nutrition fund, which are a component unit of the City of Elizabethton, Tennessee, as of and for the year ended June 30, 2007, and have issued our report thereon dated December 4, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Elizabethton, Tennessee City Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Elizabethton, Tennessee City Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Elizabethton, Tennessee City Schools' internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Elizabethton, Tennessee City Schools' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Elizabethton, Tennessee City Schools' financial statements that is more than inconsequential will not be prevented or detected by the Elizabethton, Tennessee City Schools' internal control. We consider the deficiencies in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. 2007-01 is considered to be a significant deficiency.

Elizabethton, Tennessee City Schools  
Independent Auditors' Report on  
Internal Control and Compliance

Page 2

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Elizabethton, Tennessee City Schools' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2007-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Elizabethton, Tennessee City Schools' 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Elizabethton, Tennessee City Schools in a separate letter dated November 28, 2007.

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

BLACKBURN, CHILDERS & STEAGALL, PLC

December 4, 2007

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

Interim Director of Schools and  
School Board Members  
Elizabethton, Tennessee City Schools  
Elizabethton, Tennessee 37643

Compliance

We have audited the compliance of the general purpose school fund, school federal projects fund, and the school nutrition fund, which are a component unit of the City of Elizabethton, Tennessee, 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 its major federal programs for the year ended June 30, 2007. Elizabethton, Tennessee City Schools' major federal programs are identified in the summary of auditors' 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 its major federal programs is the responsibility of the Elizabethton, Tennessee City Schools' management. Our responsibility is to express an opinion on the Elizabethton, Tennessee City Schools' compliance based on our audit.

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

In our opinion, the Elizabethton, Tennessee City Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Elizabethton, Tennessee City Schools  
Independent Auditors' Report on  
Compliance with Requirements

Page 2

Internal Control Over Compliance

The management of the Elizabethton, Tennessee City Schools 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 the Elizabethton, Tennessee City Schools' 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.

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

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

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

Elizabethton, Tennessee City Schools' response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Elizabethton, Tennessee City Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Elizabethton, Tennessee city Schools', management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

BLACKBURN, CHILDERS & STEAGALL, PLC

December 4, 2007



ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2007

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Section I - Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the general purpose school fund, school federal projects fund, and the school nutrition fund, which are a component unit of the City of Elizabethton, Tennessee.
2. There was one material weakness identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Elizabethton, Tennessee City Schools were disclosed during the audit.
4. There were no significant deficiencies identified that are considered material weaknesses relating to the audit of major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the Elizabethton, Tennessee City Schools expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs that are required to be reported in accordance with section 510 (a) of Circular A-133.
7. The programs tested as major programs were Title I, CFDA #84.010 and USDA School Lunch Program, CFDA #10.555.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The Elizabethton, Tennessee City Schools was not determined to be a low risk auditee.

Section II - Financial Statement Finding

**2007-01: Adjustments - (Material Weakness)**

**Condition:** There were certain items noted in the audit that were required to be identified for the government-wide financial statements. This included accrued payroll and the deferral for property taxes. In addition, a prior period adjustment was required to record accrued payroll for the general purpose school fund.

**Criteria:** Proper identification of the reconciling items for the government-wide financials and for financial information in addition to the fund financials should be made.

**Effect:** The effect of this weakness causes certain accounts to not accurately reflect year end balances in accordance with accounting principles generally accepted in the United States of America.

ELIZABETHTON, TENNESSEE CITY SCHOOLS  
(A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2007

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Section II - Financial Statement Finding (Continued)

**Recommendation:** Information should be maintained for all aspects of the audited financial statements. Information to record the accrual for payroll can be obtained at year end. In addition, information from the Trustee's office can be obtained to estimate an amount of deferred taxes.

**Management Response:** Future financial statements for the Elizabethton Board of Education will include accrued payroll and the deferral for property taxes.

Section III - Federal Award Findings and Questioned Costs

None