



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
OFFICE OF STATE AND LOCAL FINANCE  
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September 15, 2014

The Honorable County Executive  
and Board of Commissioners of Sequatchie County  
P.O. Box 595  
Dunlap, TN 37327

Re: Budget Non-Compliance - Unbalanced General Fund Budget

Dear Mr. Cartwright and Commissioners:

This letter should be read into the minutes of the next meeting of the County Commission with a copy provided to each commissioner.

The budget submitted by the County's Board is not approved. The submitted budget does not meet the requirements of T.C.A. § 9-21-403 for a complete and proper budget.

Enclosed with this letter is the August 13, 2014, letter to Mr. Cartwright and Commissioners concerning the apparent unbalanced cash-basis budget for fiscal year 2014 and the improper transfer of \$200,000 of General Debt Service monies to the General Fund. Present a copy of the August 13, 2014, letter to each member of the current County Commission and read into the minutes of the meeting as well. After the County has adopted a balanced budget, this Office will assist the County in adopting and implementing a corrective action plan to repay and to prevent future improper uses of restricted monies. The fiscal year 2015 General Fund budget must appropriate \$50,000 for the first installment of the repayment of the improper transfer from the General Debt Service Fund.

### **BUDGET COMPLIANCE ISSUES**

The submitted budget was not balanced on a cash basis:

- The submitted budget for the County's General Fund beginning fund balance was overstated by \$800,000. A liability for an improper transfer of \$200,000 from the Debt Service Fund and a \$600,000 Tax and Revenue Anticipation Note were misclassified as Other Sources of Revenue. These items did not increase fund balance. In fact, the liability for the improper transfer of \$200,000 decreases fund balance. The actual fund balance at the end of fiscal year 2014 was \$419,921. Please see Table 1 on the next page.

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**Table 1**  
**General Fund**  
**FY 2014**

Revenues	\$ 5,707,882
Expenditures	5,796,062
Revenue Shortfall	\$ (88,180)
Other Sources/Uses of Revenue	
Insurance Recovery	\$ 65,156
Transfers In	122,371
Transfers Out	(178,950)
Total Other Sources/Uses of Revenue	\$ 8,577
Change in Fund Balance	\$ (79,603)
Beginning Fund Balance	\$ 499,524
Ending Fund Balance	\$ 419,921
Beginning Fund Balance as a Percent of Expenditures	8.60%
Ending Fund Balance as a Percent of Expenditures	7.20%

- For fiscal year 2015, the General Fund has \$6,058,550 in planned spending, including a transfer to the Solid Waste Fund of \$50,000, and \$5,311,129 in projected cash receipts. The County's obligations exceeded its beginning fund balance and projected cash receipts by \$327,500. See Table 2 below for the submitted fiscal year 2015 General Fund Budget. Table 2 uses the correct beginning fund balance amount of \$419,921. The adopted fiscal year 2015 General Fund budget did not include \$50,000 for the first installment of the repayment of the \$200,000 improperly transferred General Debt Service Fund monies.

**Table 2**  
**General Fund**  
**FY 2015**

Revenues	\$ 5,311,129
Expenditures	6,008,550
Revenue Shortfall	\$ (697,421)
Other Uses of Revenue	
Insurance Recovery	\$ -
Transfers In	-
Transfers Out	(50,000)
Total Other Uses of Revenue	\$ (50,000)
Change in Fund Balance	\$ (747,421)
Beginning Fund Balance	419,921
Ending Fund Balance	\$ (327,500)
Beginning Fund Balance as a Percent of Expenditures	7.00%
Ending Fund Balance as a Percent of Expenditures	-5.50%

If the County does not maintain a cash-basis balanced budget, it does not comply with the requirements of T.C.A. § 9-21-403. The County Commission must adopt and, if necessary, appropriately amend its budget ordinance. If the County Commission does not take the

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appropriate action to decrease appropriations or increase revenue to balance its budget on a cash-basis and to meet its debt obligation and the repayment of the improperly transferred Debt service monies, the Comptroller of the Treasury can direct the County to cut appropriations or raise property taxes. The County Commission should take the appropriate action to amend its budget to meet its obligations and to maintain a cash-basis balanced budget in the meeting on September 29, 2014.

## PROPOSED SOLUTION

The County Executive and the County's CPA proposed a \$0.40 tax increase for the General Fund with a reduction in spending of \$35,000 to balance the budget and include the \$50,000 first installment on the repayment to the General Debt Service Fund. See Table 3.

Table 3  
General Fund  
FY 2015 40 Cent Increase

Revenues	\$ 6,075,944
Expenditures	5,973,550
Revenue Shortfall	\$ 102,394
Other Uses of Revenue	
Insurance Recovery	
Transfers In	
Transfers Out	(100,000)
Total Other Uses of Revenue	\$ (100,000)
Change in Fund Balance	\$ 2,394
Beginning Fund Balance	\$ 419,921
Ending Fund Balance	\$ 422,315
Beginning Fund Balance as a Percent of Expenditures	7.00%
Ending Fund Balance as a Percent of Expenditures	7.10%

**This Office will approve an adopted General Fund budget that produces an ending fund balance of \$497,796. This amount represents one month's average expenditures. This requires an increase in revenues or decrease in appropriations of \$75,500.**

## CONCLUSION

If the County does not maintain a cash-basis balanced budget, it does not comply with the requirements of T.C.A. § 9-21-403. The County must adopt and, if necessary, appropriately amend its budget ordinance.

The following are the consequences of the County not having an approved cash-basis balanced budget:

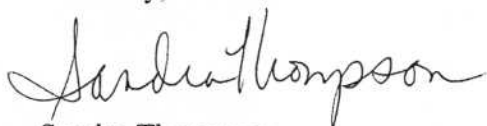
- This Office cannot approve requests from the County to issue debt until it submits a complete and proper budget for the 2015 fiscal year meeting all requirements for approval.

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- If the County does not submit a complete and proper 2015 fiscal year budget to this Office within the time frame established by statute, it will be required to publish a notice twice in a newspaper of general circulation stating it has not submitted a proper budget and is operating contrary to statutory requirements.
- If the County Commission does not adopt a cash-basis budget meeting all its obligations the Comptroller of the Treasury can direct the Commission to either cut appropriations or raise property taxes.

We ask that the County Commission demonstrate its commitment to good and financially responsible government by adopting a balanced budget and an adequate tax rate that meets all its obligations at its September 29, 2014, meeting.

Sincerely,



Sandra Thompson  
Director of the Office of State and Local Finance

Cc: The Honorable Justin P. Wilson Comptroller of the Treasury  
Mr. Jim Arnette, Director of Local Government Audit, COT

Enclosure: August 13, 2014, Letter - Unbalanced General Fund Budget and Improper Transfer of Debt Service Monies