

Jeff



**STATE OF TENNESSEE**  
**COMPTROLLER OF THE TREASURY**  
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October 8, 2014

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

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 original budget and tax rate submitted to this Office was not approved. The County was directed in a letter from this Office dated September 15, 2014, to appropriately amend its budget and to adopt a tax rate adequate to meet its obligations.

This letter acknowledges receipt of a certified copy of the amended fiscal year 2015 budget and tax levy. The County Commission adopted a budget and tax rate adequate to meet its obligations and to begin building an adequate working capital cash amount for the General Fund.

We have reviewed the amended budget and have determined that projected revenues and other available funds are sufficient to meet anticipated expenditures. Our review of the budget is based solely on the information we have received and is for determining that the budget appears to be balanced. With regard to programs included in the budget such as education, roads, and corrections, we have not attempted to determine that the local government has complied with specific program statutes or guidelines, or with any financing requirements prescribed by any state or federal agency. A property tax rate may be included in this budget, and we would recommend that local government officials be certain that all program requirements have been met before initiating the tax collection process.

This letter constitutes approval, by this office, for the County's fiscal year budget as adopted by the Governing Body.

The County has made the first step by amending its budget and adopting a sufficient tax rate in addressing the issues needed to place the County in a firm financial position. Building adequate working capital for all its funds and the General Fund, and repaying the improperly transferred

restricted monies back to the General Debt Service Fund are further steps in the process of placing the County in good financial health.

### **Considerations Concerning the Budget**

The Office of State and Local Finance has determined that the County's budget meets basic statutory requirements, but we have detected deficiencies, outlined below, that could possibly lead to financial problems in the future.

### **Budget Adoption Date**

Pursuant to TCA § 5-9-404, the County Commission has a duty to adopt a budget and appropriate funds for all departments, commissions, institutions, boards, offices or agencies for the ensuing fiscal year no later than June 30. The County adopted its appropriation resolution on August 18, 2014. This date is 50 days after the last date to appropriate funds of June 30 that meets the statutory requirements.

### **Fiscal Year 2014 Unbalanced Budget**

The County overspent money in the General Fund during fiscal year 2014. The County Commission improperly transferred \$200,000 of restricted General Debt Service Fund monies to the General Fund. These restricted monies are from property taxes established solely for paying the County's debt service. These monies cannot be used for General Fund expenditures; therefore, this statutorily non-compliant transfer to the General Fund must be repaid to the General Debt Service Fund. Our Office will contact you about putting a corrective action plan in place to prevent future overspending and repay the improperly transferred restricted monies. Part of the corrective action plan will be building adequate cash working capital balance for each County fund.

State statutes require that monies first be appropriated before they can be spent and that cash be available to support those expenditures. Overspending does not comply with the cash-basis budget requirements of State statutes. The County will be required to monitor its financial condition beginning in November 2014. This monitoring will be part of the corrective action plan the County will adopt by resolution. The County Commission needs to review and monitor its budget reports from each department indicating their monthly and year to date budget-to-actual performance and a report on the County's fund cash positions with a monthly statement of cash flow analysis by fund (this statement of cash flow analysis will use the cash flow analysis spreadsheet from our Office's Annual Budget Memo). The County Commission shall perform this monthly monitoring and ensure that the budget is amended, if necessary, and that no spending occurs unless cash is available to pay the County's obligations.

### **Fund Balances for the General Purpose School Fund and Central Cafeteria Fund**

The County's fiscal year 2015 budget projects the General Purpose School Fund and Central Cafeteria to close the year with fund balances that cover less than one month's expenditures. See Table 1 enclosed with this letter for fund balance information.

At this level of spending, the County may not have the necessary operating cash or working capital to sustain the operations of these funds. This situation could lead to a practice of issuing nonconforming tax and revenue anticipation notes or transferring unappropriated monies from another fund. State statutes require the County to maintain a balanced budget on a continuing basis and to only make expenditures if the monies have first been appropriated and cash is available.

The County Commission and School Board (for school funds) should review the working capital requirements for these funds to determine the necessary level of cash needed to sustain their operations. We recommend that the County use the cash flow analysis statement required by our Office for enterprise funds to analyze the actual cash requirements for these funds during the fiscal year 2014 and to project those requirements for the fiscal year 2015. Please send a copy of the results of the analysis to our Office by December 31, 2014, with the County Commission's and School Board's working capital recommendation for the funds.

If you should have any questions regarding this, or if we may be of assistance, please contact us.

Sincerely,



Sandra Thompson  
Director of the Office of State and Local Finance

Cc: Mr. Jim Arnette, Director of Local Government Audit, COT

Enclosure: Table 1 Estimated Beginning and Projected Ending Fund Balances FY 2015 Budget

**Sequatchie County**  
**Estimated Beginning and Projected Ending Fund Balances FY 2015 Budget**

<b>Fund</b>	<b>Estimated Beginning Fund Balance July 1, 2014</b>	<b>Estimated Beginning Fund Balance As % of Total Expenditures</b>	<b>Projected Ending Fund Balance June 30, 2015</b>	<b>Projected Ending Fund Balance As % of Total Expenditures</b>	<b>Projected FY 2015 Expenditures</b>	
					<b>1-Month's Average Expenditures</b>	<b>1-Month's Average Expenditures As % of Total Expenditures</b>
Solid Waste Fund	\$ 11,172	2.4%	\$ 35,034	7.4%	\$ 39,373	8.3%
General Purpose School Fund	9,257,360	36.6%	913,213	3.6%	2,109,101	8.3%
Central Cafeteria Fund	375,894	21.8%	967	0.1%	143,597	8.3%