

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

SINGLE AUDIT REPORT



FOR THE YEAR ENDED JUNE 30, 2006

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

ANNUAL FINANCIAL REPORT
LAKE COUNTY, TENNESSEE
FOR THE YEAR ENDED JUNE 30, 2006

DEPARTMENT OF AUDIT
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This financial report is available at www.comptroller.state.tn.us

LAKE COUNTY, TENNESSEE

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Audit Highlights

Annual Financial Report
Lake County, Tennessee
For the Year Ended June 30, 2006

Scope

We have audited the financial statements of each major fund and the aggregate remaining fund information of Lake County as of and for the year ended June 30, 2006.

Results

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

Our audit resulted in eight findings and recommendations, which we have reviewed with Lake County management. Detailed findings and recommendations are included in the Single Audit Report.

Findings

The following are summaries of the audit findings:

LAKE COUNTY

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

OFFICE OF COUNTY MAYOR

- ◆ The Solid Waste/Sanitation Fund had an undesignated fund deficit of \$11,656 at June 30, 2006.
- ◆ The office did not file reports on debt obligations with the state director of Local Finance for a capital outlay note and a capital lease issued during the year.

OFFICE OF CIRCUIT COURT CLERK

- ◆ The clerk did not obtain a letter of agreement or file suit in Circuit Court to authorize the number and salaries of her deputies.
-

OTHER FINDINGS

- ◆ County officials had not adopted a central system of accounting, budgeting, and purchasing.
- ◆ Duties were not segregated adequately among the officials and employees in the Offices of Trustee; County Clerk; Circuit, General Sessions, and Juvenile Courts Clerk; Clerk and Master; Register; and Sheriff.
- ◆ The Ambulance Service had deficiencies in accounting for patient accounts receivable.
- ◆ The county made purchases from a business owned by a county commissioner which violates the conflict of interest statute.

INTRODUCTORY SECTION

Lake County Officials

June 30, 2006

Officials

Macie Roberson, County Mayor
William Cantrell, Road Superintendent
Tammie Hopper, Trustee
Buddy Moore, Assessor of Property
Jo Ann Mills, County Clerk
Deborah Beasley, Circuit, General Sessions, and Juvenile Courts Clerk
Nanette Cook, Clerk and Master
Claudia Adcock, Register
Paul Jones, Sheriff

Board of County Commissioners

Macie Roberson, Chairman	
George Bargery	Richard Perkins
Mary Bargery	Robert Riley
Shelby Barker	Doug Robertson
Wayne Hatley	Jerry Rodriquez
Denny Johnson	Tony White
Michael Moore	Jimmy Yates

Budget Committee

George Bargery
Mary Bargery
Tammie Hopper
Macie Roberson
Doug Robertson

Highway Commission

William Forrest, Chairman	Coy Leake
Sammy Parker, Vice-Chairman	Alvin Parker
Joe Williams, Secretary-Treasurer	Ronald Snyder, Sr.

FINANCIAL SECTION



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

INDEPENDENT AUDITOR'S REPORT

October 24, 2006

Lake County Mayor and
Board of County Commissioners
Lake County, Tennessee

To the County Mayor and Board of County Commissioners:

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Lake County, Tennessee, as of and for the year ended June 30, 2006, as shown on pages 15 through 35 which collectively comprise a portion of the county's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Lake County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

for the county's governmental activities and discretely presented component units are not reasonably determinable.

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

In our opinion, because of the effects of the matters discussed in the two preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Lake County, Tennessee, as of June 30, 2006, or the changes in its financial position for the year then ended.

However, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Lake County, Tennessee, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting prescribed by the Comptroller of the Treasury of the State of Tennessee.

In prior years, Lake County reported the activity of the TennKen Railroad Authority in the Special Purpose Fund, a major special revenue fund of the county. It has been determined that the TennKen Railroad Authority is actually a joint venture for which Lake County only provides administrative services, and is not a part of the primary government. Therefore the activity of the TennKen Railroad Authority would be more accurately reflected as an Agency Fund. Therefore, the activity of the TennKen Railroad Authority is presented as the Joint Venture Fund, an agency fund, in the financial statements of this report.

In accordance with Government Auditing Standards, we have also issued our report dated October 24, 2006, on our consideration of Lake County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not 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.

The budgetary comparison information on pages 39 through 43 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the

methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lake County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the General Debt Service Fund, and miscellaneous schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the General Debt Service Fund, and the miscellaneous schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Very truly yours,

A handwritten signature in black ink that reads "John G. Morgan". The signature is written in a cursive style with a long horizontal flourish at the end.

John G. Morgan
Comptroller of the Treasury

JGM/rc

BASIC FINANCIAL STATEMENTS

Exhibit A

Lake County, Tennessee
Balance Sheet
Governmental Funds
June 30, 2006

	Major Funds			Nonmajor	Total
	General	Highway / Public Works	General Debt Service	Other Govern- mental Funds	
<u>ASSETS</u>					
Equity in Pooled Cash and Investments	\$ 719,514	\$ 715,421	\$ 1,992,157	\$ 19,369	\$ 3,446,461
Accounts Receivable	3,442	10	30	10	3,492
Due from Other Governments	76,297	218,529	53,724	0	348,550
Due from Other Funds	0	0	0	6,265	6,265
Property Taxes Receivable	714,093	23,936	69,813	23,936	831,778
Allowance for Uncollectible Property Taxes	(12,772)	(428)	(1,248)	(428)	(14,876)
Total Assets	\$ 1,500,574	\$ 957,468	\$ 2,114,476	\$ 49,152	\$ 4,621,670
<u>LIABILITIES AND FUND BALANCES</u>					
<u>Liabilities</u>					
Accounts Payable	\$ 0	\$ 19,867	\$ 0	\$ 0	\$ 19,867
Contracts Payable	0	213,867	0	0	213,867
Deferred Revenue - Current Property Taxes	669,910	22,455	65,494	22,455	780,314
Deferred Revenue - Delinquent Property Taxes	27,284	915	2,669	915	31,783
Other Deferred Revenues	55,245	109,721	25,886	0	190,852
Total Liabilities	\$ 752,439	\$ 366,825	\$ 94,049	\$ 23,370	\$ 1,236,683
<u>Fund Balances</u>					
Reserved for Purchase of Electronic Fingerprint Imaging	\$ 0	\$ 0	\$ 0	\$ 8,501	\$ 8,501
Reserved for Alcohol and Drug Treatment	5,424	0	0	0	5,424
Reserved for Computer System - Register	1,820	0	0	0	1,820
Reserved for Automation Purposes - Chancery Court	422	0	0	0	422
Reserved for Capital Outlay	0	0	0	21,751	21,751
Other Federal Reserves	310	0	0	0	310
Unreserved, Reported In:					
General Fund	740,159	0	0	0	740,159
Special Revenue Funds (Deficit)	0	590,643	0	(4,470)	586,173
Debt Service Funds	0	0	2,020,427	0	2,020,427
Total Fund Balances	\$ 748,135	\$ 590,643	\$ 2,020,427	\$ 25,782	\$ 3,384,987
Total Liabilities and Fund Balances	\$ 1,500,574	\$ 957,468	\$ 2,114,476	\$ 49,152	\$ 4,621,670

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

Exhibit B

Lake County, Tennessee
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	Major Funds			Nonmajor	Total
	General	Highway / Public Works	General Debt Service	Other Govern- mental Funds	
Revenues					
Local Taxes	\$ 947,927	\$ 22,982	\$ 423,954	\$ 30,856	\$ 1,425,719
Licenses and Permits	2,131	0	0	0	2,131
Fines, Forfeitures, and Penalties	28,940	0	0	4,428	33,368
Charges for Current Services	606,095	0	0	1,748	607,843
Other Local Revenues	208,597	4,726	56,353	556	270,232
Fees Received from County Officials	225,226	0	0	0	225,226
State of Tennessee	512,976	1,457,260	0	0	1,970,236
Federal Government	281,325	0	0	0	281,325
Other Governments and Citizens Groups	52,001	21,944	125,000	23,149	222,094
Total Revenues	\$ 2,865,218	\$ 1,506,912	\$ 605,307	\$ 60,737	\$ 5,038,174
Expenditures					
Current:					
General Government	\$ 313,487	\$ 0	\$ 0	\$ 0	\$ 313,487
Finance	260,528	0	0	479	261,007
Administration of Justice	312,617	0	0	2,752	315,369
Public Safety	885,149	0	0	3,143	888,292
Public Health and Welfare	558,814	0	0	84,048	642,862
Social, Cultural, and Recreational Services	93,484	0	0	0	93,484
Agricultural and Natural Resources	22,798	0	0	0	22,798
Other Operations	320,986	0	0	0	320,986
Highways	0	1,936,569	0	0	1,936,569
Debt Service:					
Principal on Debt	7,597	0	161,007	0	168,604
Interest on Debt	0	0	377,260	0	377,260
Other Debt Service	0	0	5,998	0	5,998
Total Expenditures	\$ 2,775,460	\$ 1,936,569	\$ 544,265	\$ 90,422	\$ 5,346,716
Excess (Deficiency) of Revenues Over Expenditures	\$ 89,758	\$ (429,657)	\$ 61,042	\$ (29,685)	\$ (308,542)
Other Financing Sources (Uses)					
Notes Issued	\$ 0	\$ 0	\$ 0	\$ 40,000	\$ 40,000
Capital Leases Issued	21,593	0	0	0	21,593
Transfers In	0	0	0	750	750
Transfers Out	(750)	0	0	0	(750)
Total Other Financing Sources (Uses)	\$ 20,843	\$ 0	\$ 0	\$ 40,750	\$ 61,593
Net Change in Fund Balances	\$ 110,601	\$ (429,657)	\$ 61,042	\$ 11,065	\$ (246,949)
Fund Balance, July 1, 2005	637,534	1,020,300	1,959,385	14,717	3,631,936
Fund Balance, June 30, 2006	\$ 748,135	\$ 590,643	\$ 2,020,427	\$ 25,782	\$ 3,384,987

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

Exhibit C

Lake County, Tennessee
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2006

	<u>Agency Funds</u>
<u>ASSETS</u>	
Equity in Pooled Cash and Investments	\$ 40,866
Cash	240,337
Investments	15,000
Due from Other Governments	<u>34,925</u>
Total Assets	<u>\$ 331,128</u>
<u>LIABILITIES</u>	
Due to Other Taxing Units	\$ 55,954
Due to Litigants, Heirs, and Others	<u>275,174</u>
Total Liabilities	<u>\$ 331,128</u>

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

LAKE COUNTY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

A. Reporting Entity

Lake County is a public municipal corporation governed by an elected 12-member board. As required by GAAP, these financial statements present Lake County (the primary government).

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

Excluded Component Units – The following entities meet the criteria for discretely presented component units of the county. Since Lake County is presenting fund financial statements only, the financial information of entities that meet the criteria for discretely presented component units is not included in the fund financial statements, as required by generally accepted accounting principles. These entities would have been presented as separate columns in those statements to emphasize that they are legally separate from the county.

The Lake County School Department operates the public school system in the county, and the voters of Lake County elect its board. The School Department is fiscally dependent on the county because it may not issue debt without county approval, and its budget and property tax levy are subject to the County Commission’s approval. The School Department’s taxes are levied under the taxing authority of the county and are included as part of the county’s total tax levy.

The Lake County Emergency Communications District provides a simplified means of securing emergency services through a uniform emergency number for the residents of Lake County, and the Lake County Commission appoints its governing body. The district is funded primarily through a service charge levied on telephone services. Before the issuance of most debt instruments, the district must obtain the County Commission’s approval.

The Lake County School Department and the Lake County Emergency Communications District issue separate financial statements from those of the county. The School Department’s financial statements are published as a separate report, but under the same cover as the county’s financial statements. Lake County Emergency Communications District’s financial statements are published as a separate report. Complete financial statements of the Lake County Emergency Communications District can be obtained from its administrative office at the following address:

Administrative Office:

Lake County Emergency Communications District
Lake County Courthouse
229 Church Street, Suite 1
Tiptonville, TN 38079

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

Fund financial statements of Lake County are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary,

and fiduciary. An emphasis is placed on major funds within the governmental category. Lake County has no proprietary funds to report.

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the county considers revenues other than grants to be available if they are collected within 30 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and the revenues are available. Lake County considers grants and similar revenues to be available if they are collected within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Principal and interest on long-term debt are recognized as fund liabilities when due or when amounts have been accumulated in the General Debt Service Fund for payments to be made early in the following year.

Property taxes for the period levied, in-lieu-of tax payments, sales taxes, interest, and miscellaneous taxes are all considered to be susceptible to accrual and have been recognized as revenues of the current period. Applicable business taxes, litigation taxes, state-shared excise taxes, fines, forfeitures, and penalties are not susceptible to accrual since they are not measurable (reasonably estimable). All other revenue items are considered to be measurable and available only when the county receives cash.

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds which have no measurement focus. Revenues are recognized when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Lake County reports the following major governmental funds:

General Fund – This is the county’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Highway/Public Works Fund – This fund accounts for transactions of the county’s Highway Department.

General Debt Service Fund – This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, Lake County reports the following fund type:

Agency Funds – These funds account for amounts collected in an agency capacity by the constitutional officers, local sales taxes received by the state to be forwarded to the various cities in Lake County, assets held in custody for a joint venture, and assets held in custody for a watershed district. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. They do, however, use the accrual basis of accounting to recognize receivables and payables.

C. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

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

The county trustee maintains a cash and internal investment pool that is used by all Lake County and Lake County School Department funds. Each fund's portion of this pool is displayed on the balance sheets as Equity in Pooled Cash and Investments. Most income from these pooled investments is assigned to the General and General Debt Service Funds. Lake County and the Lake County School Department have adopted a policy of reporting U.S. Treasury obligations, U.S. agency obligations, and repurchase agreements with maturities of one year or less when purchased on the balance sheet at amortized cost. Certificates of deposit and investments in the State Treasurer's Investment Pool are reported at cost. The State Treasurer's Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows SEC-registered mutual funds to use amortized cost rather than fair value to report net assets to compute share prices if certain conditions are met. State statutes require the state treasurer to administer the pool under the same terms and conditions, including collateral requirements, as prescribed for other funds invested by the state treasurer. All other investments are reported at fair value.

2. Receivables and Payables

Activity between funds for unremitted current collections outstanding at the end of the fiscal year is referred to as due to/from other funds.

Property taxes receivable are shown with an allowance for uncollectibles. The allowance for uncollectible property taxes is equal to .94 percent of total taxes levied.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Property taxes receivable are recognized as of the date an enforceable legal claim to the taxable property arises. This date is January 1 and is referred to as the lien date. However, revenues from property taxes are recognized in the period for which the taxes are levied, which is the ensuing fiscal year. Since the receivable is recognized before the period of revenue recognition, the entire amount of the receivable, less an estimated allowance for uncollectible taxes, is reported as deferred revenue as of June 30.

Property taxes receivable are also reported as of June 30 for the taxes that are levied, collected, and reported as revenue during the current fiscal year. These property taxes receivable are presented on the balance sheet with offsetting deferred revenue to reflect amounts not available as of June 30. Property taxes collected within 30 days of year-end are considered available and accrued. The allowance for uncollectible taxes represents the estimated amount of the receivable that will be filed in court for collection. Delinquent taxes filed in court for collection are not included in taxes receivable since they are neither measurable nor available.

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

3. Capital Assets

Governmental funds do not capitalize the cost of capital outlays; these funds report capital outlays as expenditures upon acquisition. Lake County does not maintain capital assets records, as required by generally accepted accounting principles. Capital assets should be reported in the government-wide statement of net assets; however, as

previously noted, Lake County does not present government-wide statements.

4. Compensated Absences

It is the general policy of Lake County (with the exception of vacation and sick leave for employees of the Highway Department) not to allow employees to accumulate vacation and sick leave beyond year-end. A liability for vacation pay is reported in governmental funds only if amounts have matured, for example, as a result of employee resignations and retirements.

It is the Highway Department's policy to permit employees to accumulate a limited amount of earned but unused vacation benefits that will be paid to employees upon separation from service. Full-time employees of the Highway Department are allowed to accumulate an unlimited amount of unused sick leave. The granting of sick leave has no guaranteed payment attached and therefore is not required to be accrued or recorded.

5. Long-term Obligations

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

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

6. Fund Equity

Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The following table reflects designations on June 30, 2006:

<u>Fund/Purpose</u>	<u>Amount</u>
General:	
Juvenile Court	\$ 739

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all governmental funds except the Constitutional Officers – Fees Fund (special revenue fund) which is not budgeted. All annual appropriations lapse at fiscal year end.

The county is required by state statute to adopt annual budgets. Annual budgets are prepared on the basis in which current available funds must be sufficient to meet current expenditures. Expenditures and encumbrances may not legally exceed appropriations authorized by the County Commission and any authorized revisions. Unencumbered appropriations lapse at the end of each fiscal year.

The budgetary level of control is at the major category level established by the State Uniform Chart of Accounts, as prescribed by the Comptroller of the Treasury of the State of Tennessee. Major categories are at the department level (examples of General Fund major categories: County Commission, Board of Equalization, County Mayor, County Attorney, etc.). Management may make revisions within major categories, but only the County Commission may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

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

B. Fund Deficit

The Solid Waste/Sanitation Fund had an undesignated fund deficit of \$11,656 at June 30, 2006. This fund deficit resulted from the county using capital outlay notes that were legally restricted for capital purposes to fund operating costs. We have properly reflected these use restrictions in the financial statements of this report.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Lake County and the Lake County School Department participate in an internal cash and investment pool through the Office of Trustee. The Lake County School Department meets the criteria for a discretely presented component unit of Lake County. Since Lake County is presenting fund financial statements only, the financial information for the Lake County School Department is not included in these fund financial statements. The

county trustee is the treasurer of the county and in this capacity is responsible for receiving, disbursing, depositing, and investing most county funds. Each fund's portion of this pool is displayed on the balance sheets or statement of fiduciary net assets as Equity in Pooled Cash and Investments. Cash and investments reflected in the fund financial statements represent nonpooled amounts held separately by individual funds.

Deposits

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

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

Investments

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

below the market value of the securities on the day of purchase. The county had no pooled investments at June 30, 2006.

Investment Balances. As of June 30, 2006, Lake County had the following non-pooled investments carried at cost. This investment is in the Constitutional Officers – Agency Fund and does not expose the county to any risk; therefore, further disclosure is not required.

<u>Investment</u>	<u>Maturities</u>	<u>Cost</u>
U.S. Savings Bonds - Series I	on demand	<u>\$ 15,000</u>
Total		<u><u>\$ 15,000</u></u>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2006, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor governmental	General (in transit)	\$ 6,265

This balance resulted from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur and payments between funds are made.

Interfund Transfers:

Interfund transfers for the year ended June 30, 2006, consisted of the following amount:

<u>Transfers Out</u>	<u>Transfers In Nonmajor Governmental Funds</u>
General Fund	<u>\$ 750</u>
Total	<u><u>\$ 750</u></u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend

them and to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

C. Capital Leases

On November 5, 2004, Lake County entered into a two-year lease-purchase agreement for a Sheriff's Department vehicle. The terms of the agreement require total lease payments of \$23,123 plus interest of 4.5 percent. Title to the vehicle transfers to Lake County at the end of the lease period. The General Debt Service Fund is making the lease payments.

On January 23, 2006, Lake County entered into a two-year lease-purchase agreement for a Sheriff's Department vehicle. The terms of the agreement require total lease payments of \$21,593 plus interest of 5.65 percent. Title to the vehicle transfers to Lake County at the end of the lease period. Lease payments made during the year ended June 30, 2006, were made from the General Fund. All remaining lease payments will be made from the General Debt Service Fund.

Future minimum lease payments and the net present value of these minimum lease payments as of June 30, 2006, were as follows:

<u>Year Ending June 30</u>	<u>Governmental Funds</u>
2007	\$ 15,646
2008	<u>7,597</u>
Total Minimum Lease Payments	\$ 23,243
Amount Representing Interest	<u>(1,544)</u>
 Present Value of Minimum Lease Payments	 \$ <u>21,699</u>

D. Long-term Debt

Since Lake County is presenting fund financial statements only, long-term debt is not reported as a liability in the financial statements of the governmental funds. Long-term debt for governmental funds is required to be reported as a liability in government-wide financial statements, but Lake County is not presenting government-wide financial statements.

General Obligation Bonds and Notes

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

General obligation bonds and capital outlay notes are direct obligations and pledge the full faith and credit of the government. General obligation bonds and capital outlay notes outstanding were issued for original terms of up to 38 years for bonds and up to seven years for notes. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All bonds and notes included in long-term debt as of June 30, 2006, will be retired from the General Debt Service Fund.

General obligation bonds, capital outlay notes, and capital leases outstanding as of June 30, 2006, are as follows:

Type	Interest Rate	Original Amount of Issue	Balance 6-30-06
General Obligation Bonds	3.5 to 5 %	\$ 8,800,000	\$ 8,471,499
Capital Outlay Notes	3.73 to 4.88	105,000	70,558
Capital Leases	4.5 to 5.65	44,716	21,699

The annual requirements to amortize all general obligation bonds and notes outstanding as of June 30, 2006, including interest payments, are presented in the following table:

Year Ending June 30	Bonds		Notes	
	Principal	Interest	Principal	Interest
2007	\$ 150,321	\$ 369,309	\$ 22,543	\$ 3,025
2008	161,294	363,786	23,509	2,059
2009	172,313	357,867	24,506	1,056
2010	183,381	351,174	0	0
2011	194,500	344,055	0	0
2012-2016	1,151,256	1,598,207	0	0
2017-2021	1,543,461	1,341,039	0	0
2022-2026	2,070,472	959,695	0	0
2027-2031	2,224,871	423,054	0	0
2032-2036	359,926	115,499	0	0
2037-2039	259,704	25,552	0	0
Total	\$ 8,471,499	\$ 6,249,237	\$ 70,558	\$ 6,140

There is \$2,020,427 available in the General Debt Service Fund to service long-term debt. Bonded debt per capita amounted to \$1,065, based on the 2000 federal census. Total debt per capita, including bonds, notes, and capital leases amounted to \$1,077, based on the 2000 federal census.

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

Governmental Activities:	Bonds	Notes	Capital Leases
Balance, July 1, 2005	\$ 8,615,891	\$ 39,802	\$ 15,074
Additions	0	40,000	21,593
Deductions	(144,392)	(9,244)	(14,968)
Balance, June 30, 2006	\$ 8,471,499	\$ 70,558	\$ 21,699
Balance Due Within One Year	\$ 150,321	\$ 22,543	\$ 14,509

	Compensated Absences
Balance, July 1, 2005	\$ 56,805
Deductions	(8,146)
Balance, June 30, 2006	\$ 48,659
Balance Due Within One Year	\$ 9,732

Compensated absences will be paid by the employing funds.

IV. OTHER INFORMATION

A. Risk Management

The county participates in the Local Government Property and Casualty Fund (LGPCF) which is a public entity risk pool established by the Tennessee County Services Association, an association of member counties. The county pays an annual premium to the LGPCF for its general liability, property, and casualty insurance coverage. The creation of the LGPCF provides for it to be self-sustaining through member premiums. The LGPCF reinsures through commercial insurance companies for claims in excess of \$100,000 for each insured event.

Lake County participates in the Local Government Workers' Compensation Fund (LGWCF), a public entity risk pool, established under the provisions of Section 29-20-401, Tennessee Code Annotated, by the Tennessee County Services Association to provide a program of workers' compensation coverage to employees of local governments. The county pays an annual premium to the LGWCF for its workers' compensation insurance coverage. The LGWCF

is to be self-sustaining through member premiums. The LGWCF reinsures through commercial insurance companies for claims exceeding \$300,000.

B. Accounting Changes

In prior years, Lake County reported the activity of the TennKen Railroad Authority as a special revenue fund of the county. This year, it was determined that the TennKen Railroad Authority is a joint venture for which Lake County provides administrative services only, and the activity of the TennKen Railroad Authority would be more accurately reflected as an Agency Fund.

The provisions of Governmental Accounting Standards Board (GASB) Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries became effective for the year ended June 30, 2006. GASB Statement No. 42 requires governments to report the effects of capital asset impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital asset. In addition, GASB Statement No. 42 clarifies and establishes accounting requirements for insurance recoveries. GASB Statement No. 42 had no effect on the financial statements for the year ended June 30, 2006, since no capital asset impairment and insurance recoveries occurred. However, it is reasonably expected that capital asset impairment and insurance recoveries may occur in subsequent years that will be subject to the provisions of Statement No. 42.

The provisions of GASB Statement No. 44, Economic Condition Reporting: The Statistical Section (an amendment of NCGA Statement 1) became effective for the year ended June 30, 2006. GASB Statement No. 44 applies to the preparation of the statistical section. State and local governments may, but are not required to, prepare a statistical section to accompany basic financial statements. However, a statistical section is required to accompany a comprehensive annual financial report. Since Lake County is not presenting a comprehensive annual financial report, it has elected not to prepare a statistical section. A limited statistical section was presented in the prior year's report. GASB Statement No. 44 amends guidance related to the preparation of the statistical section. This statement improves the understandability and usefulness of statistical information by addressing the comparability problems that have developed in practice and by adding information from the new financial reporting model for state and local governments required by GASB Statement No. 34. GASB Statement No. 44 establishes the objectives of the statistical section and the five categories it contains: financial trends, revenue capacity, debt capacity, demographic and economic, and operating. It is reasonably expected that Lake County will prepare and present a statistical section in subsequent years that follows the requirements of GASB Statement No. 44.

The provisions of GASB Statement No. 46, Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34 became effective for the year ended June 30, 2006. GASB Statement No. 46 provides guidance to determine when net assets have been restricted to a particular use by the passage of enabling legislation and specifies how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation. The statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation as of the end of the reporting period. Lake County had no net assets restricted by enabling legislation to disclose as of June 30, 2006. But it is reasonably expected that Lake County will be required to disclose net assets restricted by enabling legislation in subsequent years.

The provisions of GASB Statement No. 47, Accounting for Termination Benefits became effective for the year ended June 30, 2006. GASB Statement No. 47 provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees who are involuntarily terminated. Statement No. 47 specifies when governments should recognize the cost of termination benefits they offer in accrual basis financial statements. Lake County was not offering any termination benefits to employees as of June 30, 2006. But it is reasonably expected that Lake County will offer termination benefits in subsequent years subject to the accounting and reporting requirements of GASB Statement No. 47.

C. Subsequent Events

On July 18, 2005, the Lake County Board of County Commissioners approved the issuance of general obligation bonds not to exceed \$2,750,000 to finance the acquisition of land and the development of port facilities, docks, and dock facilities, including any terminal storage and transportation facilities incident thereto and related infrastructure, and an industrial park and related infrastructure and all property real and personal appurtenant thereto, to pay engineering, legal, fiscal, and administrative costs incident to the foregoing. The funds are expected to be borrowed in the next few months.

On August 28, 2006, the Lake County Board of County Commissioners approved the guarantee of a \$410,000 rural development loan for the port authority. The funds are expected to be borrowed in the next few months with no interest or payments due for two years from the date of indebtedness. If the port is not operational in that period of time, Lake County has guaranteed to pay 50 percent of the debt payments with Obion and Dyer counties agreeing to pay 25 percent each.

On August 31, 2006, Paul David Jones left the Office of Sheriff and was succeeded by Danny Tippit.

D. Contingent Liabilities

The county attorney stated that he was not aware of any potential claims that were pending which would materially affect the county's financial statements.

E. Joint Ventures

Lake County is a participant with Obion and Dyer counties in a multi-county entity known as the Northwest Tennessee Regional Port Authority. This entity was created to operate and maintain a port to be located in Lake County on the Mississippi River. A board is appointed by the participating counties with the mayors of each county serving as ex-officio members. The board comprises eight members, four of whom are appointed by the Lake County Commission, two by the Obion County Commission, and two by the Dyer County Commission. Lake County has control over budgeting and financing the joint venture only to the extent of representation by the four board members appointed. In May 2004, the port authority approved borrowing \$2.2 million for the construction of the port. In August 2006, the port authority approved borrowing an additional \$410,000 for additional construction costs of the port. The Lake County Commission has approved paying the interest payments on half of these debt issuances until such time as the port authority has revenue to make the payments, estimated to be at least two years. This entity has yet to begin operations or issue this debt; therefore, there is no financial activity to report.

Lake County is a participant with Dyer County and the Cities of Tiptonville, Ridgely, and Dyersburg in an entity known as the TennKen Railroad Authority. The governing board for the authority consists of the mayors of both counties and all three cities. This entity was created to facilitate active involvement by all affected local governments in Tennessee regarding a section of railroad track commonly known as the TennKen Railroad. The TennKen Railroad is owned by the Hickman River City Development Corporation (HRCDC), a public entity chartered in Kentucky. The HRCDC had previously purchased the line from Illinois Central Railroad to ensure rail access to the river port in Hickman, Kentucky. All funding for the Lake County Railroad Authority comes from the State of Tennessee through the Tennessee Department of Transportation as grants which are used for the maintenance and rehabilitation of the TennKen Railroad track and the necessary engineering services for said maintenance and rehabilitation. The Lake County Mayor's Office handles the administration of these grant funds and passes them through to the HRCDC for disbursement.

F. Retirement Commitments

Plan Description

Employees of Lake County are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan

administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Lake County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

Funding Policy

Lake County requires employees to contribute five percent of earnable compensation. The county is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2006, was 2.12 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Lake County is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2006, Lake County's annual pension cost of \$48,323 to TCRS was equal to the county's required and actual contributions. The required contribution was determined as part of the July 1, 2003, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), and (c) projected 3.5 percent annual increase in the Social Security wage base. 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. Lake County's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 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
6-30-06	\$48,323	100%	\$0
6-30-05	46,646	100	0
6-30-04	11	100	0

Required Supplementary Information

Schedule of Funding Progress for Lake County

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/c)
6-30-05	\$4,422	\$4,422	\$0	100%	\$2,258	0%
6-30-03	4,187	4,187	0	100	1,767	0
6-30-01	4,032	4,032	0	100	1,354	0

G. Purchasing Laws

Office of County Mayor

Purchasing procedures for the County Mayor's Office are governed by the County Purchasing Law of 1983, Sections 5-14-201 through 5-14-206, Tennessee Code Annotated (TCA), which provides for purchases exceeding \$5,000 to be made after public advertisement and solicitation of competitive bids.

Highway Commission

Purchasing procedures for the Highway Department are governed by provisions of the Uniform Road Law, Section 54-7-113, TCA, which provides for purchases exceeding \$10,000 to be made after public advertisement and solicitation of competitive bids.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit D-1

Lake County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
General Fund
For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 947,927	\$ 976,225	\$ 976,225	\$ (28,298)
Licenses and Permits	2,131	2,600	2,600	(469)
Fines, Forfeitures, and Penalties	28,940	33,255	33,255	(4,315)
Charges for Current Services	606,095	447,750	592,750	13,345
Other Local Revenues	208,597	125,835	175,835	32,762
Fees Received from County Officials	225,226	206,200	206,200	19,026
State of Tennessee	512,976	499,259	529,259	(16,283)
Federal Government	281,325	200,800	278,800	2,525
Other Governments and Citizens Groups	52,001	50,867	50,867	1,134
Total Revenues	<u>\$ 2,865,218</u>	<u>\$ 2,542,791</u>	<u>\$ 2,845,791</u>	<u>\$ 19,427</u>
<u>Expenditures</u>				
<u>General Government</u>				
County Commission	\$ 27,421	\$ 27,024	\$ 27,421	\$ 0
County Mayor/Executive	100,946	99,875	100,946	0
County Attorney	10,729	9,326	10,768	39
Election Commission	54,950	57,896	57,897	2,947
Register of Deeds	61,379	63,738	63,737	2,358
Development	11,949	11,520	11,949	0
County Buildings	46,113	53,937	53,936	7,823
<u>Finance</u>				
Property Assessor's Office	84,587	84,853	84,852	265
Reappraisal Program	4,944	4,850	4,944	0
County Trustee's Office	84,294	84,372	84,372	78
County Clerk's Office	86,703	81,774	87,905	1,202
<u>Administration of Justice</u>				
Circuit Court	131,538	134,001	134,002	2,464
General Sessions Court	82,840	82,818	82,840	0
Chancery Court	62,652	63,229	63,228	576
Juvenile Court	35,587	33,562	35,587	0
<u>Public Safety</u>				
Sheriff's Department	431,398	399,232	434,192	2,794
Jail	414,061	372,086	416,599	2,538
Civil Defense	39,690	40,000	40,000	310
<u>Public Health and Welfare</u>				
Local Health Center	77,374	40,272	90,673	13,299
Ambulance/Emergency Medical Services	450,781	363,291	457,512	6,731
Maternal and Child Health Services	575	500	575	0
Sanitation Management	30,084	29,146	30,133	49
<u>Social, Cultural, and Recreational Services</u>				
Senior Citizens Assistance	67,335	65,622	67,974	639
Libraries	19,000	19,000	19,000	0
Other Social, Cultural, and Recreational	7,149	8,500	8,500	1,351

(Continued)

Exhibit D-1

Lake County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
General Fund (Cont.)

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Expenditures (Cont.)</u>				
<u>Agriculture & Natural Resources</u>				
Agriculture Extension Service	\$ 22,798	\$ 23,781	\$ 24,116	\$ 1,318
<u>Other Operations</u>				
Tourism	49,555	60,800	60,800	11,245
Other Economic and Community Development	242,525	0	242,525	0
Other Charges	25,258	15,440	25,258	0
Contributions to Other Agencies	3,648	2,148	3,648	0
<u>Principal on Debt</u>				
General Government	7,597	0	7,597	0
Total Expenditures	<u>\$ 2,775,460</u>	<u>\$ 2,332,593</u>	<u>\$ 2,833,486</u>	<u>\$ 58,026</u>
Excess (Deficiency) of Revenues				
Over Expenditures	\$ 89,758	\$ 210,198	\$ 12,305	\$ 77,453
<u>Other Financing Sources (Uses)</u>				
Capital Leases Issued	\$ 21,593	\$ 0	\$ 21,593	\$ 0
Transfers Out	(750)	0	(750)	0
Total Other Financing Sources (Uses)	<u>\$ 20,843</u>	<u>\$ 0</u>	<u>\$ 20,843</u>	<u>\$ 0</u>
Net Change in Fund Balance				
Fund Balance, July 1, 2005	\$ 110,601	\$ 210,198	\$ 33,148	\$ 77,453
	<u>637,534</u>	<u>633,545</u>	<u>633,545</u>	<u>3,989</u>
Fund Balance, June 30, 2006				
	<u>\$ 748,135</u>	<u>\$ 843,743</u>	<u>\$ 666,693</u>	<u>\$ 81,442</u>

Exhibit D-2

Lake County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Highway/Public Works Fund
For the Year Ended June 30, 2006

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Revenues</u>						
Local Taxes	\$ 22,982	\$ 0	\$ 22,982	\$ 23,050	\$ 23,050	\$ (68)
Other Local Revenues	4,726	0	4,726	20,000	20,000	(15,274)
State of Tennessee	1,457,260	0	1,457,260	1,602,153	1,602,153	(144,893)
Other Governments and Citizens Groups	21,944	0	21,944	30,000	30,000	(8,056)
Total Revenues	<u>\$ 1,506,912</u>	<u>\$ 0</u>	<u>\$ 1,506,912</u>	<u>\$ 1,675,203</u>	<u>\$ 1,675,203</u>	<u>\$ (168,291)</u>
<u>Expenditures</u>						
<u>Highways</u>						
Administration	\$ 150,940	\$ 0	\$ 150,940	\$ 176,352	\$ 176,352	\$ 25,412
Highway and Bridge Maintenance	874,972	(270,000)	604,972	947,000	947,000	342,028
Operation and Maintenance of Equipment	271,199	0	271,199	295,350	295,350	24,151
Other Charges	109,252	0	109,252	122,000	122,000	12,748
Employee Benefits	276,560	0	276,560	302,550	302,550	25,990
Capital Outlay	253,646	(172,636)	81,010	335,000	335,000	253,990
Total Expenditures	<u>\$ 1,936,569</u>	<u>\$ (442,636)</u>	<u>\$ 1,493,933</u>	<u>\$ 2,178,252</u>	<u>\$ 2,178,252</u>	<u>\$ 684,319</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (429,657)</u>	<u>\$ 442,636</u>	<u>\$ 12,979</u>	<u>\$ (503,049)</u>	<u>\$ (503,049)</u>	<u>\$ 516,028</u>
Net Change in Fund Balance	\$ (429,657)	\$ 442,636	\$ 12,979	\$ (503,049)	\$ (503,049)	\$ 516,028
Fund Balance, July 1, 2005	1,020,300	(442,636)	577,664	571,035	571,035	6,629
Fund Balance, June 30, 2006	<u>\$ 590,643</u>	<u>\$ 0</u>	<u>\$ 590,643</u>	<u>\$ 67,986</u>	<u>\$ 67,986</u>	<u>\$ 522,657</u>

LAKE COUNTY, TENNESSEE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2006

BUDGETARY INFORMATION

The county is required by state statute to adopt annual budgets. Annual budgets are prepared on the basis in which current available funds must be sufficient to meet current expenditures. Expenditures and encumbrances may not legally exceed appropriations authorized by the Lake County Commission and any authorized revisions. Unencumbered appropriations lapse at the end of each fiscal year.

The budgetary level of control is at the major category level established by the State Uniform Chart of Accounts, as prescribed by the Comptroller of the Treasury of the State of Tennessee. Major categories are at the department level (examples of General Fund major categories: County Commission, Board of Equalization, County Mayor, County Attorney, etc.). Management may make revisions within major categories, but only the Lake County Commission may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

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

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

Nonmajor Governmental Funds

Special Revenue Funds

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

Law Library Fund – The Law Library Fund is used to account for a special tax levied by a County Commission resolution on litigation. Proceeds of the tax must be expended for the benefit of the county's Law Library.

Solid Waste/Sanitation Fund – The Solid Waste/Sanitation Fund is used to account for Lake County's garbage collection operations.

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

Constitutional Officers - Fees Fund – The Constitutional Officers - Fees Fund is used to account for operating expenses paid directly from the fee and commission accounts of the trustee, clerks, register, and sheriff.

Exhibit E-1

Lake County, Tennessee
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	<u>Special Revenue Funds</u>			Total Nonmajor Governmental Funds
	Law Library	Solid Waste / Sanitation	Drug Control	
<u>ASSETS</u>				
Equity in Pooled Cash and Investments	\$ 382	\$ 9,947	\$ 9,040	\$ 19,369
Accounts Receivable	0	10	0	10
Due from Other Funds	0	0	6,265	6,265
Property Taxes Receivable	0	23,936	0	23,936
Allowance for Uncollectible Property Taxes	0	(428)	0	(428)
Total Assets	\$ 382	\$ 33,465	\$ 15,305	\$ 49,152
<u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities</u>				
Deferred Revenue - Current Property Taxes	\$ 0	\$ 22,455	\$ 0	\$ 22,455
Deferred Revenue - Delinquent Property Taxes	0	915	0	915
Total Liabilities	\$ 0	\$ 23,370	\$ 0	\$ 23,370
<u>Fund Balances</u>				
Reserved for Purchase of Electronic Fingerprint Imaging System	\$ 0	\$ 0	\$ 8,501	\$ 8,501
Reserved for Capital Outlay	0	21,751	0	21,751
Unreserved (Deficit)	382	(11,656)	6,804	(4,470)
Total Fund Balances	\$ 382	\$ 10,095	\$ 15,305	\$ 25,782
Total Liabilities and Fund Balances	\$ 382	\$ 33,465	\$ 15,305	\$ 49,152

Exhibit E-2

Lake County, Tennessee
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Law Library	Solid Waste / Sanitation	Drug Control	Constitu - tional Officers - Fees	
<u>Revenues</u>					
Local Taxes	\$ 1,401	\$ 29,455	\$ 0	\$ 0	\$ 30,856
Fines, Forfeitures, and Penalties	0	0	4,428	0	4,428
Charges for Current Services	0	0	0	1,748	1,748
Other Local Revenues	0	456	100	0	556
Other Governments and Citizens Groups	0	23,149	0	0	23,149
Total Revenues	<u>\$ 1,401</u>	<u>\$ 53,060</u>	<u>\$ 4,528</u>	<u>\$ 1,748</u>	<u>\$ 60,737</u>
<u>Expenditures</u>					
Current:					
Finance	\$ 0	\$ 0	\$ 0	\$ 479	\$ 479
Administration of Justice	2,409	0	0	343	2,752
Public Safety	0	0	2,217	926	3,143
Public Health and Welfare	0	84,048	0	0	84,048
Total Expenditures	<u>\$ 2,409</u>	<u>\$ 84,048</u>	<u>\$ 2,217</u>	<u>\$ 1,748</u>	<u>\$ 90,422</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (1,008)</u>	<u>\$ (30,988)</u>	<u>\$ 2,311</u>	<u>\$ 0</u>	<u>\$ (29,685)</u>
<u>Other Financing Sources (Uses)</u>					
Notes Issued	\$ 0	\$ 40,000	\$ 0	\$ 0	\$ 40,000
Transfers In	750	0	0	0	750
Total Other Financing Sources (Uses)	<u>\$ 750</u>	<u>\$ 40,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 40,750</u>
Net Change in Fund Balances	\$ (258)	\$ 9,012	\$ 2,311	\$ 0	\$ 11,065
Fund Balance, July 1, 2005	<u>640</u>	<u>1,083</u>	<u>12,994</u>	<u>0</u>	<u>14,717</u>
Fund Balance, June 30, 2006	<u>\$ 382</u>	<u>\$ 10,095</u>	<u>\$ 15,305</u>	<u>\$ 0</u>	<u>\$ 25,782</u>

Exhibit E-3

Lake County, Tennessee
 Schedule of Revenues, Expenditures, and Changes
 in Fund Balance - Actual and Budget
 Law Library Fund
 For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 1,401	\$ 1,275	\$ 1,275	\$ 126
Total Revenues	\$ 1,401	\$ 1,275	\$ 1,275	\$ 126
<u>Expenditures</u>				
<u>Administration of Justice</u>				
Other Administration of Justice	\$ 2,409	\$ 2,733	\$ 2,732	\$ 323
Total Expenditures	\$ 2,409	\$ 2,733	\$ 2,732	\$ 323
Excess (Deficiency) of Revenues Over Expenditures	\$ (1,008)	\$ (1,458)	\$ (1,457)	\$ 449
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 750	\$ 1,400	\$ 1,400	\$ (650)
Total Other Financing Sources (Uses)	\$ 750	\$ 1,400	\$ 1,400	\$ (650)
Net Change in Fund Balance	\$ (258)	\$ (58)	\$ (57)	\$ (201)
Fund Balance, July 1, 2005	640	639	639	1
Fund Balance, June 30, 2006	\$ 382	\$ 581	\$ 582	\$ (200)

Exhibit E-4

Lake County, Tennessee
 Schedule of Revenues, Expenditures, and Changes
 in Fund Balance - Actual and Budget
 Solid Waste/Sanitation Fund
 For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 29,455	\$ 30,962	\$ 30,962	\$ (1,507)
Other Local Revenues	456	400	400	56
State of Tennessee	0	300	300	(300)
Other Governments and Citizens Groups	23,149	26,298	26,298	(3,149)
Total Revenues	<u>\$ 53,060</u>	<u>\$ 57,960</u>	<u>\$ 57,960</u>	<u>\$ (4,900)</u>
<u>Expenditures</u>				
<u>Public Health and Welfare</u>				
Waste Incinerator	\$ 34,998	\$ 32,749	\$ 37,021	\$ 2,023
Other Waste Disposal	49,050	37,500	49,050	0
Total Expenditures	<u>\$ 84,048</u>	<u>\$ 70,249</u>	<u>\$ 86,071</u>	<u>\$ 2,023</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (30,988)</u>	<u>\$ (12,289)</u>	<u>\$ (28,111)</u>	<u>\$ (2,877)</u>
<u>Other Financing Sources (Uses)</u>				
Notes Issued	\$ 40,000	\$ 0	\$ 40,000	\$ 0
Transfers In	0	15,000	15,000	(15,000)
Total Other Financing Sources (Uses)	<u>\$ 40,000</u>	<u>\$ 15,000</u>	<u>\$ 55,000</u>	<u>\$ (15,000)</u>
Net Change in Fund Balance	\$ 9,012	\$ 2,711	\$ 26,889	\$ (17,877)
Fund Balance, July 1, 2005	<u>1,083</u>	<u>1,034</u>	<u>1,034</u>	<u>49</u>
Fund Balance, June 30, 2006	<u>\$ 10,095</u>	<u>\$ 3,745</u>	<u>\$ 27,923</u>	<u>\$ (17,828)</u>

Exhibit E-5

Lake County, Tennessee
 Schedule of Revenues, Expenditures, and Changes
 in Fund Balance - Actual and Budget
 Drug Control Fund
 For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Fines, Forfeitures, and Penalties	\$ 4,428	\$ 6,060	\$ 6,060	\$ (1,632)
Other Local Revenues	100	0	0	100
Total Revenues	<u>\$ 4,528</u>	<u>\$ 6,060</u>	<u>\$ 6,060</u>	<u>\$ (1,532)</u>
<u>Expenditures</u>				
<u>Public Safety</u>				
Drug Enforcement	\$ 2,217	\$ 8,300	\$ 8,300	\$ 6,083
Total Expenditures	<u>\$ 2,217</u>	<u>\$ 8,300</u>	<u>\$ 8,300</u>	<u>\$ 6,083</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 2,311</u>	<u>\$ (2,240)</u>	<u>\$ (2,240)</u>	<u>\$ 4,551</u>
Net Change in Fund Balance	\$ 2,311	\$ (2,240)	\$ (2,240)	\$ 4,551
Fund Balance, July 1, 2005	12,994	6,726	6,726	6,268
Fund Balance, June 30, 2006	<u>\$ 15,305</u>	<u>\$ 4,486</u>	<u>\$ 4,486</u>	<u>\$ 10,819</u>

Major Governmental Fund

General Debt Service Fund

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

Exhibit F

Lake County, Tennessee
 Schedule of Revenues, Expenditures, and Changes
 in Fund Balance - Actual and Budget
 General Debt Service Fund
 For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 423,954	\$ 457,739	\$ 457,739	\$ (33,785)
Other Local Revenues	56,353	175,000	50,000	6,353
Other Governments and Citizens Groups	125,000	0	125,000	0
Total Revenues	<u>\$ 605,307</u>	<u>\$ 632,739</u>	<u>\$ 632,739</u>	<u>\$ (27,432)</u>
<u>Expenditures</u>				
<u>Principal on Debt</u>				
General Government	\$ 36,007	\$ 34,761	\$ 36,007	\$ 0
Education	125,000	125,000	125,000	0
<u>Interest on Debt</u>				
General Government	78,340	79,586	78,340	0
Education	298,920	298,920	298,920	0
<u>Other Debt Service</u>				
General Government	5,516	5,000	5,516	0
Education	482	483	482	0
Total Expenditures	<u>\$ 544,265</u>	<u>\$ 543,750</u>	<u>\$ 544,265</u>	<u>\$ 0</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 61,042</u>	<u>\$ 88,989</u>	<u>\$ 88,474</u>	<u>\$ (27,432)</u>
Net Change in Fund Balance	\$ 61,042	\$ 88,989	\$ 88,474	\$ (27,432)
Fund Balance, July 1, 2005	1,959,385	1,918,042	1,918,042	41,343
Fund Balance, June 30, 2006	<u>\$ 2,020,427</u>	<u>\$ 2,007,031</u>	<u>\$ 2,006,516</u>	<u>\$ 13,911</u>

Fiduciary Funds

Agency Funds are used to account for assets held by the county in a trustee capacity as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

Watershed District Fund – The Watershed District Fund is used to account for acreage assessments collected on drainage district properties that are held in trust for the Watershed District.

Joint Venture Fund – The Joint Venture Fund is used to account for funds received from the Tennessee Department of Transportation for use by the Hickman River City Development Corporation for the maintenance of a railroad system that runs through portions of Kentucky and Tennessee.

Constitutional Officers - Agency Fund – The Constitutional Officers - Agency Fund is used to account for amounts collected in an agency capacity by the county clerk; circuit, general sessions, and juvenile courts clerk; clerk and master; register; and sheriff. Such collections include amounts due the state, cities, other county funds, litigants, heirs, and others.

Exhibit G-1

Lake County, Tennessee
Combining Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2006

	Agency Funds				Total
	Cities - Sales Tax	Watershed District	Joint Venture	Constitu- tional Officers - Agency	
<u>ASSETS</u>					
Equity in Pooled Cash and Investments	\$ 0	\$ 28,717	\$ 12,149	\$ 0	\$ 40,866
Cash	0	0	0	240,337	240,337
Investments	0	0	0	15,000	15,000
Due from Other Governments	27,237	0	7,688	0	34,925
Total Assets	<u>\$ 27,237</u>	<u>\$ 28,717</u>	<u>\$ 19,837</u>	<u>\$ 255,337</u>	<u>\$ 331,128</u>
<u>LIABILITIES</u>					
Due to Other Taxing Units	\$ 27,237	\$ 28,717	\$ 0	\$ 0	\$ 55,954
Due to Litigants, Heirs, and Others	0	0	19,837	255,337	275,174
Total Liabilities	<u>\$ 27,237</u>	<u>\$ 28,717</u>	<u>\$ 19,837</u>	<u>\$ 255,337</u>	<u>\$ 331,128</u>

Exhibit G-2

Lake County, Tennessee
Combining Statement of Changes in Assets
and Liabilities - All Agency Funds
For the Year Ended June 30, 2006

	Beginning Balance	Additions	Deductions	Ending Balance
<u>Cities - Sales Tax Fund</u>				
<u>Assets</u>				
Equity in Pooled Cash and Investments	\$ 0	\$ 113,124	\$ 113,124	\$ 0
Due From Other Governments	25,992	27,237	25,992	27,237
Total Assets	<u>\$ 25,992</u>	<u>\$ 140,361</u>	<u>\$ 139,116</u>	<u>\$ 27,237</u>
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 25,992	\$ 140,361	\$ 139,116	\$ 27,237
Total Liabilities	<u>\$ 25,992</u>	<u>\$ 140,361</u>	<u>\$ 139,116</u>	<u>\$ 27,237</u>
<u>Watershed District Fund</u>				
<u>Assets</u>				
Equity in Pooled Cash and Investments	\$ 28,415	\$ 5,585	\$ 5,283	\$ 28,717
Total Assets	<u>\$ 28,415</u>	<u>\$ 5,585</u>	<u>\$ 5,283</u>	<u>\$ 28,717</u>
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 28,415	\$ 5,585	\$ 5,283	\$ 28,717
Total Liabilities	<u>\$ 28,415</u>	<u>\$ 5,585</u>	<u>\$ 5,283</u>	<u>\$ 28,717</u>
<u>Joint Venture Fund</u>				
<u>Assets</u>				
Equity in Pooled Cash and Investments	\$ 14,548	\$ 43,041	\$ 45,440	\$ 12,149
Due From Other Governments	1,304	7,688	1,304	7,688
Total Assets	<u>\$ 15,852</u>	<u>\$ 50,729</u>	<u>\$ 46,744</u>	<u>\$ 19,837</u>
<u>Liabilities</u>				
Due to Litigants, Heirs, and Others	\$ 15,852	\$ 50,729	\$ 46,744	\$ 19,837
Total Liabilities	<u>\$ 15,852</u>	<u>\$ 50,729</u>	<u>\$ 46,744</u>	<u>\$ 19,837</u>

(Continued)

Exhibit G-2

Lake County, Tennessee
Combining Statement of Changes in Assets
and Liabilities - All Agency Funds (Cont.)

	Beginning Balance	Additions	Deductions	Ending Balance
<u>Constitutional Officers - Agency Fund</u>				
<u>Assets</u>				
Cash	\$ 324,718	\$ 1,168,837	\$ 1,253,218	\$ 240,337
Investments	15,000	0	0	15,000
Total Assets	<u>\$ 339,718</u>	<u>\$ 1,168,837</u>	<u>\$ 1,253,218</u>	<u>\$ 255,337</u>
<u>Liabilities</u>				
Due to Litigants, Heirs, and Others	\$ 339,718	\$ 1,168,837	\$ 1,253,218	\$ 255,337
Total Liabilities	<u>\$ 339,718</u>	<u>\$ 1,168,837</u>	<u>\$ 1,253,218</u>	<u>\$ 255,337</u>
<u>Totals - All Agency Funds</u>				
<u>Assets</u>				
Equity in Pooled Cash and Investments	\$ 42,963	\$ 161,750	\$ 163,847	\$ 40,866
Cash	324,718	1,168,837	1,253,218	240,337
Investments	15,000	0	0	15,000
Due from Other Governments	27,296	34,925	27,296	34,925
Total Assets	<u>\$ 409,977</u>	<u>\$ 1,365,512</u>	<u>\$ 1,444,361</u>	<u>\$ 331,128</u>
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 54,407	\$ 145,946	\$ 144,399	\$ 55,954
Due to Litigants, Heirs, and Others	355,570	1,219,566	1,299,962	275,174
Total Liabilities	<u>\$ 409,977</u>	<u>\$ 1,365,512</u>	<u>\$ 1,444,361</u>	<u>\$ 331,128</u>

MISCELLANEOUS SCHEDULES

Exhibit H-1

Lake County, Tennessee
Schedule of Changes in Long-term Notes, Capital Leases, and Bonds
For the Year Ended June 30, 2006

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-05	Issued During Period	Paid and/or Matured During Period	Outstanding 6-30-06
<u>NOTES PAYABLE</u>								
<u>Payable through General Debt Service Fund</u>								
Incinerator	\$ 65,000	4.88 %	12-14-01	12-14-08	\$ 39,802	\$ 0	\$ 9,244	\$ 30,558
Solid Waste Building and Equipment Repair	40,000	3.73	10-18-05	10-18-08	0	40,000	0	40,000
Total Notes Payable					<u>\$ 39,802</u>	<u>\$ 40,000</u>	<u>\$ 9,244</u>	<u>\$ 70,558</u>
<u>CAPITAL LEASES PAYABLE</u>								
<u>Payable through General Debt Service Fund</u>								
Sheriff Department Vehicle	23,123	4.5	11-5-04	11-5-06	\$ 15,074	\$ 0	\$ 7,371	\$ 7,703
Sheriff Department Vehicle	21,593	5.65	1-23-06	1-23-08	0	21,593	7,597	13,996
Total Capital Leases Payable					<u>\$ 15,074</u>	<u>\$ 21,593</u>	<u>\$ 14,968</u>	<u>\$ 21,699</u>
<u>BONDS PAYABLE</u>								
<u>Payable through General Debt Service Fund</u>								
Jail Construction/Renovation	1,650,000	4.75 to 5	3-14-01	3-14-39	\$ 1,580,891	\$ 0	\$ 19,392	\$ 1,561,499
School Bonds, Series 2003	7,150,000	3.5 to 4.65	12-4-03	6-1-30	7,035,000	0	125,000	6,910,000
Total Bonds Payable					<u>\$ 8,615,891</u>	<u>\$ 0</u>	<u>\$ 144,392</u>	<u>\$ 8,471,499</u>

Exhibit H-2

Lake County, Tennessee
Schedule of Bond and Interest Requirements By Year

Year Ending June 30	Bond Requirements	Interest Requirements	Total Requirements
2007	\$ 150,321	\$ 369,309	\$ 519,630
2008	161,294	363,786	525,080
2009	172,313	357,867	530,180
2010	183,381	351,174	534,555
2011	194,500	344,055	538,555
2012	205,673	336,507	542,180
2013	216,902	328,528	545,430
2014	228,189	320,116	548,305
2015	244,539	311,266	555,805
2016	255,953	301,790	557,743
2017	272,435	291,870	564,305
2018	288,987	281,078	570,065
2019	305,614	269,251	574,865
2020	327,319	256,476	583,795
2021	349,106	242,364	591,470
2022	365,978	227,007	592,985
2023	387,940	210,582	598,522
2024	414,996	193,174	608,170
2025	437,150	174,370	611,520
2026	464,408	154,562	618,970
2027	491,773	133,522	625,295
2028	524,252	110,583	634,835
2029	556,850	86,130	642,980
2030	589,572	60,158	649,730
2031	62,424	32,661	95,085
2032	65,413	29,672	95,085
2033	68,546	26,539	95,085
2034	71,828	23,257	95,085
2035	75,267	19,818	95,085
2036	78,872	16,213	95,085
2037	82,649	12,436	95,085
2038	86,606	8,479	95,085
2039	90,449	4,637	95,086
Total	\$ 8,471,499	\$ 6,249,237	\$ 14,720,736

Exhibit H-3

Lake County, Tennessee
Schedule of Investments
June 30, 2006

<u>Fund and Type</u>	<u>Amount</u>
<u>Constitutional Officers - Agency Fund</u>	
<u>Circuit Court Clerk</u>	
U.S. Savings Bonds - Series I	\$ 15,000
Total Investments	\$ 15,000

Exhibit H-5

Lake County, Tennessee
Schedule of Salaries and Official Bonds of Principal Officials
For the Year Ended June 30, 2006

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
County Mayor	Section 8-24-102, <u>TCA</u>	\$ 53,252 (1)	\$ 25,000	RLI Insurance Company
Road Superintendent	Section 8-24-102, <u>TCA</u>	49,352	100,000	St. Paul Fire and Marine Insurance Company
Trustee	Section 8-24-102, <u>TCA</u>	44,548	312,600	RLI Insurance Company
Assessor of Property	Section 8-24-102, <u>TCA</u>	44,548	10,000	St. Paul Fire and Marine Insurance Company
County Clerk	Section 8-24-102, <u>TCA</u>	44,548	25,000	RLI Insurance Company
Circuit Court Clerk	Section 8-24-102, <u>TCA</u>	44,548	25,000	"
Clerk and Master	Section 8-24-102, <u>TCA</u>	44,548	50,000	"
Register	Section 8-24-102, <u>TCA</u>	44,548	15,000	"
Sheriff	Section 8-24-102, <u>TCA</u>	49,521 (2)	25,000	"
Blanket Bond:				
County and Highway Employees			150,000	Local Government Property & Casualty Fund

(1) - Includes \$1,800 for serving as chairman of the County Commission.

(2) - Includes law enforcement salary supplement of \$519.

Exhibit H-4

Lake County, Tennessee
Schedule of Transfers
For the Year Ended June 30, 2006

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Law Library	To provide funds for operations	<u>\$ 750</u>
Total Transfers			<u><u>\$ 750</u></u>

Exhibit H-6

Lake County, Tennessee
 Schedule of Detailed Revenues -
 All Governmental Fund Types
 For the Year Ended June 30, 2006

	Special Revenue Funds						Debt Service Fund	Total
	General	Law Library	Solid Waste / Sanitation	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>Local Taxes</u>								
<u>County Property Taxes</u>								
Current Property Tax	\$ 641,930	\$ 0	\$ 21,371	\$ 0	\$ 0	\$ 21,509	\$ 62,497	\$ 747,307
Trustee's Collections - Prior Year	29,615	0	1,177	0	0	1,039	4,415	36,246
Circuit/Clerk & Master Collections - Prior Years	6,993	0	245	0	0	245	1,043	8,526
Interest and Penalty	4,941	0	170	0	0	170	686	5,967
Payments in-Lieu-of Taxes - Other	19,506	0	0	0	0	0	0	19,506
<u>County Local Option Taxes</u>								
Local Option Sales Tax	63,348	0	0	0	0	0	272,608	335,956
Hotel/Motel Tax	41,470	0	0	0	0	0	0	41,470
Wheel Tax	94,824	0	6,473	0	0	0	77,387	178,684
Litigation Tax - General	14,184	0	0	0	0	0	0	14,184
Litigation Tax - Special Purpose	712	1,401	0	0	0	0	0	2,113
Litigation Tax - Jail, Workhouse, or Courthouse	0	0	0	0	0	0	4,347	4,347
Business Tax	15,159	0	0	0	0	0	892	16,051
<u>Statutory Local Taxes</u>								
Bank Excise Tax	5,907	0	0	0	0	0	0	5,907
Wholesale Beer Tax	8,543	0	0	0	0	0	0	8,543
Interstate Telecommunications Tax	263	0	0	0	0	0	0	263
Other Statutory Local Taxes	532	0	19	0	0	19	79	649
Total Local Taxes	\$ 947,927	\$ 1,401	\$ 29,455	\$ 0	\$ 0	\$ 22,982	\$ 423,954	\$ 1,425,719
<u>Licenses and Permits</u>								
<u>Licenses</u>								
Animal Registration	\$ 293	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	293
<u>Permits</u>								
Building Permits	1,807	0	0	0	0	0	0	1,807
Other Permits	31	0	0	0	0	0	0	31
Total Licenses and Permits	\$ 2,131	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	2,131
<u>Fines, Forfeitures, and Penalties</u>								
<u>Circuit Court</u>								
Fines	\$ 118	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	118
Officers Costs	2,961	0	0	0	0	0	0	2,961

(Continued)

Exhibit H-6

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

	Special Revenue Funds						Debt Service Fund	Total
	General	Law Library	Solid Waste / Sanitation	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>Fines, Forfeitures, and Penalties (Cont.)</u>								
<u>Circuit Court (Cont.)</u>								
Drug Control Fines	\$ 667	\$ 0	\$ 0	\$ 2,020	\$ 0	\$ 0	\$ 0	2,687
Jail Fees	207	0	0	0	0	0	0	207
Data Entry Fee - Circuit Court	56	0	0	0	0	0	0	56
<u>General Sessions Court</u>								
Fines	9,196	0	0	0	0	0	0	9,196
Officers Costs	7,777	0	0	0	0	0	0	7,777
Drug Control Fines	407	0	0	1,852	0	0	0	2,259
Drug Court Fees	0	0	0	306	0	0	0	306
Jail Fees	3,113	0	0	0	0	0	0	3,113
DUI Treatment Fines	2,005	0	0	0	0	0	0	2,005
Data Entry Fee - General Sessions Court	866	0	0	0	0	0	0	866
<u>Juvenile Court</u>								
Fines	545	0	0	0	0	0	0	545
Data Entry Fee - Juvenile Court	2	0	0	0	0	0	0	2
<u>Chancery Court</u>								
Officers Costs	880	0	0	0	0	0	0	880
Data Entry Fee - Chancery Court	140	0	0	0	0	0	0	140
<u>Other Fines, Forfeitures, and Penalties</u>								
Proceeds from Confiscated Property	0	0	0	250	0	0	0	250
Total Fines, Forfeitures, and Penalties	\$ 28,940	\$ 0	\$ 0	\$ 4,428	\$ 0	\$ 0	\$ 0	33,368
<u>Charges for Current Services</u>								
<u>General Service Charges</u>								
Patient Charges	\$ 596,414	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	596,414
Work Release Charges for Board	2,385	0	0	0	0	0	0	2,385
<u>Fees</u>								
Copy Fees	209	0	0	0	0	0	0	209
Telephone Commissions	4,747	0	0	0	0	0	0	4,747
Constitutional Officers' Fees and Commissions	0	0	0	0	1,748	0	0	1,748
Data Processing Fee - Register	1,790	0	0	0	0	0	0	1,790
Data Processing Fee - Sheriff	350	0	0	0	0	0	0	350
Sexual Offender Registration Fees - Sheriff	200	0	0	0	0	0	0	200
Total Charges for Current Services	\$ 606,095	\$ 0	\$ 0	\$ 0	\$ 1,748	\$ 0	\$ 0	607,843

(Continued)

Exhibit H-6

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

	Special Revenue Funds						Debt Service Fund	Total
	General	Law Library	Solid Waste / Sanitation	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>Other Local Revenues</u>								
<u>Recurring Items</u>								
Investment Income	\$ 133,697	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 56,353	\$ 190,050
Lease/Rentals	28,600	0	0	0	0	0	0	28,600
Sale of Materials and Supplies	90	0	456	0	0	0	0	546
Commissary Sales	7,905	0	0	0	0	0	0	7,905
Miscellaneous Refunds	27,721	0	0	100	0	4,726	0	32,547
<u>Nonrecurring Items</u>								
Sale of Equipment	20	0	0	0	0	0	0	20
Sale of Property	1,503	0	0	0	0	0	0	1,503
<u>Other Local Revenues</u>								
Other Local Revenues	9,061	0	0	0	0	0	0	9,061
Total Other Local Revenues	\$ 208,597	\$ 0	\$ 456	\$ 100	\$ 0	\$ 4,726	\$ 56,353	\$ 270,232
<u>Fees Received from County Officials</u>								
<u>Excess Fees</u>								
Juvenile Court Clerk	\$ 250	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 250
<u>Fees-In-Lieu of Salary</u>								
County Clerk	50,299	0	0	0	0	0	0	50,299
Circuit Court Clerk	31,818	0	0	0	0	0	0	31,818
General Sessions Court Clerk	23,541	0	0	0	0	0	0	23,541
Clerk and Master	14,533	0	0	0	0	0	0	14,533
Register	21,527	0	0	0	0	0	0	21,527
Sheriff	4,244	0	0	0	0	0	0	4,244
Trustee	79,014	0	0	0	0	0	0	79,014
Total Fees Received from County Officials	\$ 225,226	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 225,226
<u>State of Tennessee</u>								
<u>General Government Grants</u>								
Juvenile Services Program	\$ 9,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 9,000
Aging Programs	45,260	0	0	0	0	0	0	45,260
State Reappraisal Grant	2,346	0	0	0	0	0	0	2,346

(Continued)

Exhibit H-6

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

	Special Revenue Funds						Debt Service Fund	Total
	General	Law Library	Solid Waste / Sanitation	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>State of Tennessee (Cont.)</u>								
<u>Public Safety Grants</u>								
Law Enforcement Training Programs	\$ 3,112	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,112
<u>Health and Welfare Grants</u>								
Health Department Programs	46,621	0	0	0	0	0	0	46,621
<u>Public Works Grants</u>								
State Aid Program	0	0	0	0	0	181,129	0	181,129
Litter Program	26,135	0	0	0	0	0	0	26,135
Other Public Works Grants	0	0	0	0	0	50,000	0	50,000
<u>Other State Revenues</u>								
Income Tax	1,610	0	0	0	0	0	0	1,610
Beer Tax	17,212	0	0	0	0	0	0	17,212
Alcoholic Beverage Tax	12,447	0	0	0	0	0	0	12,447
Board of Jurors	251	0	0	0	0	0	0	251
Contracted Prisoner Boarding	324,940	0	0	0	0	0	0	324,940
Gasoline and Motor Fuel Tax	0	0	0	0	0	1,219,733	0	1,219,733
Petroleum Special Tax	0	0	0	0	0	6,398	0	6,398
Registrar's Salary Supplement	16,380	0	0	0	0	0	0	16,380
Other State Grants	7,662	0	0	0	0	0	0	7,662
Total State of Tennessee	\$ 512,976	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,457,260	\$ 0	\$ 1,970,236
<u>Federal Government</u>								
<u>Federal Through State</u>								
Community Development	\$ 238,525	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 238,525
Civil Defense Reimbursement	40,000	0	0	0	0	0	0	40,000
<u>Direct Federal Revenue</u>								
Other Direct Federal Revenue	2,800	0	0	0	0	0	0	2,800
Total Federal Government	\$ 281,325	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 281,325
<u>Other Governments and Citizens Groups</u>								
<u>Other Governments</u>								
Paving and Maintenance	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 21,944	\$ 0	\$ 21,944
Contributions	3,000	0	23,149	0	0	0	125,000	151,149
Contracted Services	49,001	0	0	0	0	0	0	49,001
Total Other Governments and Citizens Groups	\$ 52,001	\$ 0	\$ 23,149	\$ 0	\$ 0	\$ 21,944	\$ 125,000	\$ 222,094
Total	\$ 2,865,218	\$ 1,401	\$ 53,060	\$ 4,528	\$ 1,748	\$ 1,506,912	\$ 605,307	\$ 5,038,174

Exhibit H-7

Lake County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
For the Year Ended June 30, 2006

General Fund

General Government

County Commission

County Official/Administrative Officer	\$	1,800	
Other Per Diem & Fees		21,600	
Social Security		1,790	
State Retirement		305	
Audit Services		1,926	
Total County Commission			\$ 27,421

County Mayor/Executive

County Official/Administrative Officer	\$	51,452	
Secretary(ies)		17,503	
Longevity Pay		288	
Other Salaries & Wages		8,750	
Social Security		5,921	
State Retirement		1,653	
Unemployment Compensation		231	
Communication		1,216	
Data Processing Services		6,659	
Postal Charges		2,228	
Printing, Stationery, and Forms		2,309	
Electricity		614	
Natural Gas		334	
Office Supplies		1,672	
Water and Sewer		48	
Workers' Compensation Insurance		68	
Total County Mayor/Executive			100,946

County Attorney

County Official/Administrative Officer	\$	5,203	
Social Security		398	
State Retirement		110	
Unemployment Compensation		114	
Legal Services		4,904	
Total County Attorney			10,729

Election Commission

County Official/Administrative Officer	\$	37,866	
Other Salaries & Wages		269	
Election Commission		945	
Social Security		2,907	
State Retirement		803	

(Continued)

Exhibit H-7

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

General Fund (Cont.)

General Government (Cont.)

Election Commission (Cont.)

Unemployment Compensation	\$	3	
Communication		780	
Data Processing Services		1,380	
Postal Charges		1,058	
Printing, Stationery, and Forms		4,751	
Travel		665	
Electricity		638	
Natural Gas		497	
Office Supplies		1,229	
Water and Sewer		227	
Building and Contents Insurance		834	
Workers' Compensation Insurance		98	
Total Election Commission			\$ 54,950

Register of Deeds

County Official/Administrative Officer	\$	44,548	
Deputy(ies)		6,411	
Longevity Pay		96	
Social Security		3,906	
State Retirement		944	
Unemployment Compensation		143	
Communication		880	
Data Processing Services		1,832	
Postal Charges		379	
Printing, Stationery, and Forms		485	
Electricity		429	
Natural Gas		175	
Office Supplies		361	
Water and Sewer		73	
Building and Contents Insurance		699	
Workers' Compensation Insurance		18	
Total Register of Deeds			61,379

Development

County Official/Administrative Officer	\$	20	
Other Contracted Services		11,929	
Total Development			11,949

County Buildings

Maintenance & Repair Services - Buildings	\$	3,346	
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(Continued)

Exhibit H-7

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

General Fund (Cont.)

General Government (Cont.)

County Buildings (Cont.)

Maintenance & Repair Services - Equipment	\$	2,283	
Pest Control		2,895	
Custodial Supplies		3,535	
Electricity		8,097	
Natural Gas		3,589	
Water and Sewer		827	
Building and Contents Insurance		19,213	
Workers' Compensation Insurance		2,000	
Heating and Air Conditioning Equipment		328	
Total County Buildings			\$ 46,113

Finance

Property Assessor's Office

County Official/Administrative Officer	\$	44,548	
Secretary(ies)		17,503	
Longevity Pay		120	
Other Salaries & Wages		4,218	
Board and Committee Members Fees		850	
Social Security		4,883	
State Retirement		374	
Unemployment Compensation		154	
Communication		576	
Postal Charges		1,215	
Printing, Stationery, and Forms		218	
Rentals		769	
Travel		347	
Other Contracted Services		6,920	
Electricity		309	
Natural Gas		168	
Office Supplies		834	
Water and Sewer		24	
Building and Contents Insurance		499	
Workers' Compensation Insurance		58	
Total Property Assessor's Office			84,587

Reappraisal Program

Other Salaries & Wages	\$	4,532	
Social Security		335	
Unemployment Compensation		77	
Total Reappraisal Program			4,944

(Continued)

Exhibit H-7

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

General Fund (Cont.)

Finance (Cont.)

County Trustee's Office

County Official/Administrative Officer	\$	44,548	
Deputy(ies)		17,503	
Longevity Pay		168	
Social Security		4,686	
State Retirement		1,319	
Unemployment Compensation		154	
Communication		753	
Data Processing Services		8,208	
Legal Notices, Recording, and Court Costs		50	
Postal Charges		2,581	
Printing, Stationery, and Forms		155	
Electricity		328	
Natural Gas		179	
Office Supplies		3,050	
Water and Sewer		26	
Building and Contents Insurance		539	
Workers' Compensation Insurance		47	
Total County Trustee's Office			\$ 84,294

County Clerk's Office

County Official/Administrative Officer	\$	44,548	
Deputy(ies)		17,502	
Part-time Personnel		5,244	
Longevity Pay		504	
Other Salaries & Wages		4,088	
Social Security		5,499	
State Retirement		1,413	
Unemployment Compensation		278	
Communication		1,009	
Postal Charges		1,242	
Printing, Stationery, and Forms		550	
Electricity		1,854	
Natural Gas		702	
Office Supplies		1,144	
Water and Sewer		573	
Building and Contents Insurance		500	
Workers' Compensation Insurance		53	
Total County Clerk's Office			86,703

(Continued)

Exhibit H-7

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

General Fund (Cont.)

Administration of Justice

Circuit Court

County Official/Administrative Officer	\$	44,548	
Deputy(ies)		35,006	
Part-time Personnel		6,928	
Longevity Pay		600	
Other Salaries & Wages		160	
Jury and Witness Fees		3,762	
Social Security		6,642	
State Retirement		1,701	
Unemployment Compensation		460	
Communication		1,201	
Data Processing Services		8,302	
Postal Charges		1,748	
Printing, Stationery, and Forms		2,422	
Rentals		2,054	
Electricity		3,486	
Natural Gas		1,900	
Office Supplies		4,412	
Water and Sewer		273	
Building and Contents Insurance		5,748	
Workers' Compensation Insurance		185	
Total Circuit Court			\$ 131,538

General Sessions Court

Judge(s)	\$	64,232	
Other Salaries & Wages		1,200	
Social Security		4,914	
State Retirement		1,362	
Communication		645	
Data Processing Services		2,767	
Postal Charges		19	
Travel		1,160	
Other Contracted Services		5,400	
Electricity		215	
Natural Gas		117	
Office Supplies		317	
Water and Sewer		17	
Building and Contents Insurance		340	
Workers' Compensation Insurance		135	
Total General Sessions Court			82,840

(Continued)

Exhibit H-7

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

General Fund (Cont.)

Administration of Justice (Cont.)

Chancery Court

County Official/Administrative Officer	\$	44,548	
Deputy(ies)		8,751	
Longevity Pay		192	
Social Security		4,092	
State Retirement		944	
Unemployment Compensation		154	
Communication		502	
Postal Charges		257	
Printing, Stationery, and Forms		1,072	
Electricity		391	
Natural Gas		213	
Office Supplies		668	
Water and Sewer		31	
Building and Contents Insurance		639	
Workers' Compensation Insurance		198	
Total Chancery Court			\$ 62,652

Juvenile Court

County Official/Administrative Officer	\$	21,006	
Social Security		1,607	
State Retirement		445	
Unemployment Compensation		270	
Communication		846	
Postal Charges		101	
Travel		1,143	
Other Contracted Services		7,734	
Electricity		272	
Natural Gas		148	
Office Supplies		1,262	
Water and Sewer		21	
Other Supplies and Materials		630	
Building and Contents Insurance		48	
Workers' Compensation Insurance		54	
Total Juvenile Court			35,587

Public Safety

Sheriff's Department

County Official/Administrative Officer	\$	49,521	
Deputy(ies)		198,006	
Salary Supplements		2,593	

(Continued)

Exhibit H-7

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

General Fund (Cont.)

Public Safety (Cont.)

Sheriff's Department (Cont.)

Guards	\$	820	
Secretary(ies)		21,621	
In-Service Training		275	
Social Security		20,659	
State Retirement		4,933	
Unemployment Compensation		1,275	
Communication		10,646	
Data Processing Services		175	
Maintenance & Repair Services - Vehicles		6,236	
Postal Charges		2,252	
Printing, Stationery, and Forms		864	
Rentals		1,926	
Travel		102	
Electricity		7,288	
Gasoline		22,293	
Natural Gas		1,384	
Office Supplies		5,788	
Uniforms		1,445	
Water and Sewer		1,807	
Other Supplies and Materials		7,999	
Building and Contents Insurance		21,137	
Workers' Compensation Insurance		6,520	
Motor Vehicles		33,833	
Total Sheriff's Department			\$ 431,398

Jail

Dispatchers/Radio Operators	\$	114,068
Guards		102,142
In-Service Training		2,833
Social Security		16,313
State Retirement		4,104
Unemployment Compensation		1,919
Maintenance & Repair Services - Buildings		5,331
Maintenance & Repair Services - Equipment		4,540
Medical and Dental Services		46,129
Custodial Supplies		9,510
Electricity		10,932
Food Supplies		52,385
Natural Gas		12,552
Uniforms		654

(Continued)

Exhibit H-7

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

General Fund (Cont.)

Public Safety (Cont.)

Jail (Cont.)

Water and Sewer	\$	3,569	
Other Supplies and Materials		8,806	
Building and Contents Insurance		8,618	
Workers' Compensation Insurance		4,806	
Heating and Air Conditioning Equipment		4,850	
Total Jail			\$ 414,061

Civil Defense

Other Charges	\$	39,690	
Total Civil Defense			39,690

Public Health and Welfare

Local Health Center

Other Salaries & Wages	\$	45,572	
Social Security		3,486	
State Retirement		497	
Unemployment Compensation		322	
Communication		1,431	
Contracts with Government Agencies		3,327	
Maintenance & Repair Services - Buildings		3,156	
Postal Charges		2,549	
Travel		1,701	
Other Contracted Services		6,540	
Custodial Supplies		682	
Drugs and Medical Supplies		626	
Electricity		3,193	
Natural Gas		1,946	
Office Supplies		1,464	
Water and Sewer		657	
Workers' Compensation Insurance		225	
Total Local Health Center			77,374

Ambulance/Emergency Medical Services

Supervisor/Director	\$	21,818	
Medical Personnel		276,659	
Secretary(ies)		16,875	
Social Security		24,143	
State Retirement		3,198	
Unemployment Compensation		3,536	
Ambulance Services		1,200	

(Continued)

Exhibit H-7

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

General Fund (Cont.)

Public Health and Welfare (Cont.)

Ambulance/Emergency Medical Services (Cont.)

Communication	\$	3,559	
Licenses		700	
Maintenance & Repair Services - Vehicles		11,442	
Postal Charges		1,253	
Travel		546	
Other Contracted Services		2,955	
Drugs and Medical Supplies		24,291	
Electricity		4,528	
Gasoline		17,368	
Natural Gas		1,574	
Office Supplies		5,183	
Water and Sewer		899	
Other Supplies and Materials		2,877	
Building and Contents Insurance		9,910	
Workers' Compensation Insurance		16,267	
Total Ambulance/Emergency Medical Services			\$ 450,781

Maternal and Child Health Services

Contributions	\$	575	
Total Maternal and Child Health Services			575

Sanitation Management

Deputy(ies)	\$	18,490	
Education Media Personnel		4,621	
Social Security		1,414	
Unemployment Compensation		306	
Maintenance & Repair Services - Vehicles		191	
Gasoline		5,062	
Total Sanitation Management			30,084

Social, Cultural, and Recreational Services

Senior Citizens Assistance

County Official/Administrative Officer	\$	19,984	
Supervisor/Director		12,000	
Social Security		3,001	
State Retirement		424	
Unemployment Compensation		494	
Communication		1,913	
Contributions		4,745	
Maintenance & Repair Services - Buildings		1,462	

(Continued)

Exhibit H-7

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

General Fund (Cont.)

Social, Cultural, and Recreational Services (Cont.)

Senior Citizens Assistance (Cont.)

Maintenance & Repair Services - Vehicles	\$	274	
Travel		2,636	
Other Contracted Services		11,983	
Electricity		2,860	
Gasoline		1,503	
Natural Gas		1,460	
Office Supplies		2,052	
Water and Sewer		414	
Workers' Compensation Insurance		130	
Total Senior Citizens Assistance			\$ 67,335

Libraries

Contributions	\$	19,000	
Total Libraries			19,000

Other Social, Cultural, and Recreational

Other Charges	\$	7,149	
Total Other Social, Cultural, and Recreational			7,149

Agriculture & Natural Resources

Agriculture Extension Service

Salary Supplements	\$	14,742	
Secretary(ies)		6,425	
Communication		806	
Office Supplies		286	
Building and Contents Insurance		539	
Total Agriculture Extension Service			22,798

Other Operations

Tourism

Contributions	\$	49,555	
Total Tourism			49,555

Other Economic and Community Development

Consultants	\$	23,416	
Other Construction		219,109	
Total Other Economic and Community Development			242,525

Other Charges

Trustee's Commission	\$	25,258	
Total Other Charges			25,258

(Continued)

Exhibit H-7

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

General Fund (Cont.)

Other Operations (Cont.)

Contributions to Other Agencies

Contributions	\$ 3,648	
Total Contributions to Other Agencies		\$ 3,648

Principal on Debt

General Government

Principal on Capital Leases	\$ 7,597	
Total General Government		<u>7,597</u>

Total General Fund \$ 2,775,460

Law Library Fund

Administration of Justice

Other Administration of Justice

Electricity	\$ 220	
Library Books/Media	2,038	
Natural Gas	120	
Water and Sewer	17	
Trustee's Commission	14	
Total Other Administration of Justice		<u>\$ 2,409</u>

Total Law Library Fund 2,409

Solid Waste/Sanitation Fund

Public Health and Welfare

Waste Incinerator

Foremen	\$ 17,024	
Social Security	1,302	
Unemployment Compensation	190	
Communication	441	
Maintenance & Repair Services - Buildings	3,257	
Maintenance & Repair Services - Equipment	5,858	
Diesel Fuel	2,228	
Electricity	4,147	
Trustee's Commission	528	
Workers' Compensation Insurance	23	
Total Waste Incinerator		<u>\$ 34,998</u>

Other Waste Disposal

Contracts with Government Agencies	\$ 28,800
Contracts with Private Agencies	11,116

(Continued)

Exhibit H-7

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

Solid Waste/Sanitation Fund (Cont.)

Public Health and Welfare (Cont.)

Other Waste Disposal (Cont.)

Maintenance & Repair Services - Equipment	\$ 9,134	
Total Other Waste Disposal		\$ 49,050

Total Solid Waste/Sanitation Fund		\$ 84,048
-----------------------------------	--	-----------

Drug Control Fund

Public Safety

Drug Enforcement

Law Enforcement Supplies	\$ 165	
Other Supplies and Materials	1,370	
Trustee's Commission	46	
Other Charges	636	
Total Drug Enforcement		\$ 2,217

Total Drug Control Fund		2,217
-------------------------	--	-------

Constitutional Officers - Fees Fund

Finance

County Trustee's Office

Bank Charges	\$ 51	
Dues and Memberships	428	
Total County Trustee's Office		\$ 479

Administration of Justice

Chancery Court

Dues and Memberships	\$ 343	
Total Chancery Court		343

Public Safety

Sheriff's Department

Bank Charges	\$ 26	
Dues and Memberships	900	
Total Sheriff's Department		926

Total Constitutional Officers - Fees Fund		1,748
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Highway/Public Works Fund

Highways

Administration

County Official/Administrative Officer	\$ 49,352	
--	-----------	--

(Continued)

Exhibit H-7

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

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Administration (Cont.)

Accountants/Bookkeepers	\$	29,600	
Secretary(ies)		25,351	
Board and Committee Members Fees		13,800	
Advertising		375	
Communication		4,707	
Data Processing Services		4,340	
Dues and Memberships		2,579	
Legal Services		4,531	
Maintenance & Repair Services - Buildings		1,155	
Postal Charges		585	
Printing, Stationery, and Forms		788	
Travel		1,282	
Drugs and Medical Supplies		454	
Electricity		5,551	
Natural Gas		4,450	
Office Supplies		702	
Water and Sewer		1,338	
Total Administration			\$ 150,940

Highway and Bridge Maintenance

Equipment Operators	\$	222,616	
Asphalt - Cold Mix		42	
Asphalt - Hot Mix		470,296	
Asphalt - Liquid		52,024	
Crushed Stone		86,501	
Pipe - Metal		16,751	
Road Signs		2,169	
Wood Products		32	
Chemicals		24,541	
Total Highway and Bridge Maintenance			874,972

Operation and Maintenance of Equipment

Foremen	\$	29,699
Mechanic(s)		57,729
Laundry Service		7,958
Custodial Supplies		934
Diesel Fuel		55,415
Equipment and Machinery Parts		88,336
Garage Supplies		8,219
Gasoline		14,105

(Continued)

Exhibit H-7

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

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Operation and Maintenance of Equipment (Cont.)

Lubricants	\$	2,009	
Tires and Tubes		6,391	
Chemicals		404	
Total Operation and Maintenance of Equipment			\$ 271,199

Other Charges

Building and Contents Insurance	\$	3,465	
Liability Insurance		20,050	
Premiums on Corporate Surety Bonds		1,200	
Trustee's Commission		12,774	
Vehicle and Equipment Insurance		26,460	
Workers' Compensation Insurance		36,399	
Other Charges		8,904	
Total Other Charges			109,252

Employee Benefits

Social Security	\$	32,548	
State Retirement		8,331	
Employee and Dependent Insurance		235,366	
Unemployment Compensation		315	
Total Employee Benefits			276,560

Capital Outlay

Building Improvements	\$	12,276	
Communication Equipment		822	
Furniture and Fixtures		380	
Highway Equipment		11,250	
Motor Vehicles		211,604	
Other Capital Outlay		17,314	
Total Capital Outlay			253,646

Total Highway/Public Works Fund \$ 1,936,569

General Debt Service Fund

Principal on Debt

General Government

Principal on Bonds	\$	19,392	
Principal on Notes		9,244	
Principal on Capital Leases		7,371	
Total General Government			\$ 36,007

(Continued)

Exhibit H-7

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

General Debt Service Fund (Cont.)

Principal on Debt (Cont.)

Education

Principal on Bonds	\$ 125,000	
Total Education		\$ 125,000

Interest on Debt

General Government

Interest on Bonds	\$ 75,693	
Interest on Notes	1,969	
Interest on Capital Leases	<u>678</u>	
Total General Government		78,340

Education

Interest on Bonds	\$ 298,920	
Total Education		298,920

Other Debt Service

General Government

Trustee's Commission	\$ 5,516	
Total General Government		5,516

Education

Other Charges	\$ 482	
Total Education		<u>482</u>

Total General Debt Service Fund		<u>\$ 544,265</u>
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Total Governmental Funds - Primary Government		<u><u>\$ 5,346,716</u></u>
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Exhibit H-8

Lake County, Tennessee
Schedule of Detailed Receipts, Disbursements,
and Changes in Cash Balance - City Agency Fund
For the Year Ended June 30, 2006

	<u>Cities- Sales Tax Fund</u>
<u>Cash Receipts</u>	
Local Option Sales Tax	\$ 140,361
Total Cash Receipts	<u>\$ 140,361</u>
<u>Cash Disbursements</u>	
Remittance of Revenues Collected	\$ 138,957
Trustee's Commission	1,404
Total Cash Disbursements	<u>\$ 140,361</u>
Excess of Cash Receipts Over (Under) Cash Disbursements	\$ 0
Cash Balance, July 1, 2005	<u>0</u>
Cash Balance, June 30, 2006	<u><u>\$ 0</u></u>

ANNUAL FINANCIAL REPORT
LAKE COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF LAKE COUNTY, TENNESSEE
FOR THE YEAR ENDED JUNE 30, 2006

DEPARTMENT OF AUDIT
JOHN G. MORGAN
Comptroller of the Treasury

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

ARTHUR L. ALEXANDER
Director

NORMAN R. NORMENT, CGFM
Audit Manager

NOLAN R. BRADFORD, CPA, CGFM
Auditor 4

SHAREE BREWER, CPA, CGFM, CFE
ELISHA CROWELL, CFE
State Auditors

This financial report is available at www.comptroller.state.tn.us

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

Annual Financial Report
Lake County School Department
For the Year Ended June 30, 2006

Scope

We have audited the financial statements of each major fund and the aggregate remaining fund information of the Lake County School Department as of and for the year ended June 30, 2006.

Results

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

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

Findings

The following are summaries of the audit findings:

LAKE COUNTY SCHOOL DEPARTMENT

- ◆ Government-wide financial statements were not presented in accordance with generally accepted accounting principles, resulting in an adverse opinion.
- ◆ County officials had not adopted a central system of accounting, budgeting, and purchasing.

INTRODUCTORY SECTION

Lake County School Officials
June 30, 2006

Official

Joel Hassell, Director of Schools

Board of Education

Tony Hutcheson, Chairman
Regina Moore, Vice Chairman
Carolyn Hayes
Cora Hughes
Nicky Leland
Scott Price
Owen Schuff
Georgianne Whitby

FINANCIAL SECTION



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

INDEPENDENT AUDITOR'S REPORT

October 24, 2006

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

To the Director of Schools and the Board of Education:

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Lake County School Department, a component unit of Lake County, Tennessee, as of and for the year ended June 30, 2006, as shown on pages 15 through 30, which collectively comprise a portion of the Lake County School Department's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Lake County School Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

in government-wide financial statements for the School Department's governmental activities are not reasonably determinable.

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

In our opinion, because of the effects of the matters discussed in the two preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Lake County School Department as of June 30, 2006, or the changes in its financial position for the year then ended.

However, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the Lake County School Department as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting prescribed by the Comptroller of the Treasury of the State of Tennessee.

In accordance with Government Auditing Standards, we have also issued our report dated October 24, 2006, on our consideration of the Lake County School Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not 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.

The budgetary comparison information on pages 33 through 35 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lake County School Department's basic financial statements. The introductory section, individual nonmajor fund financial statement, budgetary comparison schedule of the nonmajor governmental fund, and miscellaneous schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual nonmajor fund financial statement, the budgetary

comparison schedule of the nonmajor governmental fund, and miscellaneous schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Very truly yours,

A handwritten signature in black ink that reads "John G. Morgan" with a long horizontal flourish extending to the right.

John G. Morgan
Comptroller of the Treasury

JGM/rc

BASIC FINANCIAL STATEMENTS

Exhibit A

Lake County, Tennessee
Balance Sheet - Governmental Funds
Lake County School Department
June 30, 2006

	Major Fund	Nonmajor Fund	Total Govern- mental Funds
	General Purpose School	School Federal Projects	
<u>ASSETS</u>			
Equity in Pooled Cash and Investments	\$ 1,615,116	\$ 89,592	\$ 1,704,708
Accounts Receivable	338	0	338
Due from Other Governments	406,671	50,000	456,671
Property Taxes Receivable	783,906	0	783,906
Allowance for Uncollectible Property Taxes	(14,022)	0	(14,022)
Total Assets	<u>\$ 2,792,009</u>	<u>\$ 139,592</u>	<u>\$ 2,931,601</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 36,280	\$ 0	\$ 36,280
Payroll Deductions Payable	2,600	0	2,600
Contracts Payable	27,950	0	27,950
Deferred Revenue - Current Property Taxes	735,404	0	735,404
Deferred Revenue - Delinquent Property Taxes	29,953	0	29,953
Other Deferred Revenues	25,997	0	25,997
Total Liabilities	<u>\$ 858,184</u>	<u>\$ 0</u>	<u>\$ 858,184</u>
<u>Fund Balances</u>			
Other Local Education Reserves	\$ 52,349	\$ 0	\$ 52,349
Reserved for Career Ladder - Extended Contract	24,728	0	24,728
Reserved for Title I Grants to Local Education Agencies	0	79,031	79,031
Reserved for Innovative Education Program Strategies	0	5,867	5,867
Reserved for Special Education - Grants to States	0	17,915	17,915
Other Federal Reserves	0	36,779	36,779
Unreserved, Reported In:			
General Fund	1,856,748	0	1,856,748
Total Fund Balances	<u>\$ 1,933,825</u>	<u>\$ 139,592</u>	<u>\$ 2,073,417</u>
Total Liabilities and Fund Balances	<u>\$ 2,792,009</u>	<u>\$ 139,592</u>	<u>\$ 2,931,601</u>

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

Exhibit B

Lake County, Tennessee
Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Governmental Funds
Lake County School Department
For the Year Ended June 30, 2006

	Major Funds		Nonmajor	Total
	General Purpose School	Education Capital Projects	Fund School Federal Projects	
<u>Revenues</u>				
Local Taxes	\$ 1,070,187	\$ 0	\$ 0	\$ 1,070,187
Licenses and Permits	686	0	0	686
Charges for Current Services	76,485	0	0	76,485
Other Local Revenues	67,646	22,057	0	89,703
State of Tennessee	4,605,511	0	0	4,605,511
Federal Government	890,441	0	712,317	1,602,758
Total Revenues	\$ 6,710,956	\$ 22,057	\$ 712,317	\$ 7,445,330
<u>Expenditures</u>				
Current:				
Instruction	\$ 3,871,205	\$ 0	\$ 500,394	\$ 4,371,599
Support Services	2,070,508	0	108,747	2,179,255
Operation of Non-Instructional Services	397,932	0	0	397,932
Capital Outlay	68,625	0	0	68,625
Debt Service:				
Other Debt Service	125,000	0	0	125,000
Capital Projects	546,361	1,846,654	0	2,393,015
Total Expenditures	\$ 7,079,631	\$ 1,846,654	\$ 609,141	\$ 9,535,426
Excess (Deficiency) of Revenues				
Over Expenditures	\$ (368,675)	\$ (1,824,597)	\$ 103,176	\$ (2,090,096)
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 15,058	\$ 0	\$ 0	\$ 15,058
Transfers Out	0	0	(15,058)	(15,058)
Total Other Financing Sources (Uses)	\$ 15,058	\$ 0	\$ (15,058)	\$ 0
Net Change in Fund Balances				
Fund Balance, July 1, 2005	\$ 2,287,442	\$ 1,824,597	\$ 51,474	\$ 4,163,513
Fund Balance, June 30, 2006	\$ 1,933,825	\$ 0	\$ 139,592	\$ 2,073,417

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

Exhibit C-1

Lake County, Tennessee
Statement of Fiduciary Net Assets
Lake County School Department
Fiduciary Fund
June 30, 2006

	<u>Other Trust Fund</u> <u>Private Purpose Trust</u>
<u>ASSETS</u>	
Equity in Pooled Cash and Investments	\$ 350,562
<u>NET ASSETS</u>	
Held in Trust for College Scholarships for Lake County Students	\$ 350,562

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

Exhibit C-2

Lake County, Tennessee
Statement of Changes in Fiduciary Net Assets
Lake County School Department
Fiduciary Fund
For the Year Ended June 30, 2006

	Other Trust
	<u>Private Purpose Trust</u>
<u>ADDITIONS</u>	
<u>Other Local Revenues</u>	
Investment Income	\$ 13,009
Total Additions	<u>\$ 13,009</u>
<u>DEDUCTIONS</u>	
<u>Other</u>	
Scholarships	\$ 3,300
Total Deductions	<u>\$ 3,300</u>
Change in Net Assets	\$ 9,709
Net Assets, July 1, 2005	<u>340,853</u>
Net Assets, June 30, 2006	<u><u>\$ 350,562</u></u>

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

**LAKE COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF LAKE COUNTY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

A. Reporting Entity

The School Department operates the public school system in the county, and the voters of Lake County elect its eight-member board. The School Department is a component unit of Lake County, the primary government. The School Department is fiscally dependent on the county because it may not issue debt without county approval, and its budget and property tax levy are subject to the Lake County Commission's approval. The School

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School Department considers revenues other than grants to be available if they are collected within 30 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and the revenues are available. The School Department considers grants and similar revenues to be available if they are collected within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

Property taxes for the period levied, in-lieu-of tax payments, sales taxes, interest, and miscellaneous taxes are all considered to be susceptible to accrual and have been recognized as revenues of the current period. Applicable business taxes, litigation taxes, state-shared excise taxes, fines, forfeitures, and penalties are not susceptible to accrual since they are not measurable (reasonably estimable). All other revenue items are considered to be measurable and available only when the county receives cash.

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The School Department reports the following major governmental funds:

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

Education Capital Projects Fund – This fund is used to account for building construction and renovations of the School Department.

Additionally, the School Department reports the following fund types:

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

Private Purpose Trust Fund – The Private Purpose Trust Fund is used to account for an endowment received by the School Department. Income generated from the corpus of the endowment is to be used to provide annual scholarships to one or more Lake County students chosen by the county Board of Education.

C. Assets, Liabilities, and Equity

1. Deposits and Investments

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

The county trustee maintains a cash and internal investment pool that is used by all Lake County primary government funds and the School Department's funds. Each fund's portion of this pool is displayed on the balance sheet and statement of fiduciary net assets as Equity in Pooled Cash and Investments. Most income from these pooled investments is assigned to the primary government's General and General Debt Service Funds. Lake County and the School Department have adopted a policy of reporting U.S. Treasury obligations, U.S. agency obligations, and repurchase agreements with maturities of one year or less when purchased on the balance sheet at amortized cost. Certificates of deposit and investments in the State Treasurer's Investment Pool are reported at cost. The State Treasurer's Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner

consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows SEC-registered mutual funds to use amortized cost rather than fair value to report net assets to compute share prices if certain conditions are met. State statutes require the state treasurer to administer the pool under the same terms and conditions, including collateral requirements, as prescribed for other funds invested by the state treasurer. All other investments are reported at fair value. No investments required to be reported at fair value were held by the School Department at the balance sheet date.

2. Receivables and Payables

Activity between funds for unremitted current collections outstanding at the end of the fiscal year is referred to as due to/from other funds.

Property taxes receivable are shown with an allowance for uncollectibles. The allowance for uncollectible property taxes is equal to .94 percent of total taxes levied.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Property taxes receivable are recognized as of the date an enforceable legal claim to the taxable property arises. This date is January 1 and is referred to as the lien date. However, revenues from property taxes are recognized in the period for which the taxes are levied, which is the ensuing fiscal year. Since the receivable is recognized before the period of revenue recognition, the entire amount of the receivable, less an estimated allowance for uncollectible taxes, is reported as deferred revenue as of June 30.

Property taxes receivable are also reported as of June 30 for the taxes that are levied, collected, and reported as revenue during the current fiscal year. These property taxes receivable are presented on the balance sheet with offsetting deferred revenue to reflect amounts not available as of June 30. Property taxes collected within 30 days of year-end are considered available and accrued. The allowance for uncollectible taxes represents the estimated amount of the receivable that will be filed in court for collection. Delinquent taxes filed in court for collection are not included in taxes receivable since they are neither measurable nor available.

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

Additional costs attach to delinquent taxes after a court suit has been filed.

3. Capital Assets

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

4. Compensated Absences

It is the policy of the School Department to permit employees to accumulate a limited amount of earned but unused vacation benefits, which will be paid to employees upon separation from service. A liability for vacation pay is reported in the governmental funds only if amounts have matured, for example, as a result of employee resignations and retirements. All vacation pay should be accrued when incurred in the government-wide financial statements for the School Department. However, since the School Department did not prepare government-wide financial statements, the liability of \$23,206 for accrued benefits at June 30, 2006, has not been reflected in this report. The policy of the School Department permits the unlimited accumulation of unused sick leave for professional personnel (teachers). The salaried para-professional employees are allowed to accumulate a limited amount of unused sick leave. The granting of sick leave has no guaranteed payment attached and therefore is not required to be accrued or recorded.

5. Fund Equity

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all governmental funds except the capital projects fund, which adopts project length budgets. All annual appropriations lapse at fiscal year end.

The School Department is required by state statute to adopt annual budgets. Annual budgets are prepared on the basis in which current available funds must be

sufficient to meet current expenditures. Expenditures and encumbrances may not legally exceed appropriations authorized by the Lake County Commission and any authorized revisions. Unencumbered appropriations lapse at the end of each fiscal year.

The budgetary level of control is at the major category level established by the State Uniform Chart of Accounts, as prescribed by the Comptroller of the Treasury of the State of Tennessee. Major categories are at the department level (examples of General Purpose School Fund major categories: Regular Instruction, Special Education Program, Vocational Education Program, etc.). Management may make revisions within major categories, but only the Lake County Commission may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

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

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Lake County and the School Department participate in an internal cash and investment pool through the Office of Trustee. The county trustee is the treasurer of the county and in this capacity is responsible for receiving, disbursing, depositing, and investing most county funds. Each fund's portion of this pool is displayed on the balance sheets or statement of fiduciary net assets as Equity in Pooled Cash and Investments.

Deposits

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

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

Investments

Legal Provisions. Lake County, the School Department’s primary government, is authorized to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; and the county’s own legally issued bonds or notes. These investments may not have a maturity greater than two years. The county may make investments with longer maturities if various restrictions set out in state law are followed. Counties are also authorized to make investments in the State Treasurer’s Investment Pool and in repurchase agreements. Repurchase agreements must be approved by the state director of Local Finance and executed in accordance with procedures established by the State Funding Board. Securities purchased under a repurchase agreement must be obligations of the U.S. government or obligations guaranteed by the U.S. government or any of its agencies. When repurchase agreements are executed, the purchase of the securities must be priced at least two percent below the market value of the securities on the day of purchase. The county had no pooled investments as of June 30, 2006. The county had one nonpooled investment carried at cost in an Agency Fund at June 30, 2006; however, this investment did not expose the county to any risks so no further disclosure is required.

B. Interfund Transfers

Interfund transfers for the year ended June 30, 2006, consisted of the following amount:

Transfers Out	Transfers In General Purpose School Fund
Nonmajor governmental fund	\$ 15,058
Total	\$ 15,058

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

C. Long-term Debt

Since the School Department is presenting fund financial statements only, long-term debt is not reported as a liability in the financial statements of the governmental funds. Long-term debt for governmental funds is required to be reported as a liability in government-wide financial statements, but the School Department is not presenting government-wide financial statements.

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	<u>Compensated Absences</u>
Balance, July 1, 2005	\$ 20,259
Additions	<u>2,947</u>
Balance, June 30, 2006	<u>\$ 23,206</u>
Balance Due Within One Year	<u>\$ 4,641</u>

Compensated absences will be paid by the employing funds.

IV. OTHER INFORMATION

A. Risk Management

The School Department participates in the Local Education Group Insurance Fund (LEGIF), a public entity risk pool established to provide a program of health insurance coverage for employees of local education agencies. In accordance with Section 8-27-302, Tennessee Code Annotated (TCA), all local education agencies are eligible to participate. The LEGIF is included in the Comprehensive Annual Financial Report of the State of Tennessee, but the state does not retain any risk for losses by this fund. Section 8-27-303, TCA, provides for the LEGIF to be self-sustaining through member premiums.

The School Department participates in the Tennessee School Boards Risk Management Trust (TSB-RMT), which is a public entity risk pool established by the Tennessee School Boards Association, an association of member school systems. The School Department pays annual premiums to the TSB-RMT for its general liability, property, casualty, and workers' compensation insurance

coverage. The creation of the TSB-RMT provides for it to be self-sustaining through member premiums.

B. Accounting Changes

The provisions of Governmental Accounting Standards Board (GASB) Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries became effective for the year ended June 30, 2006. GASB Statement No. 42 requires governments to report the effects of capital asset impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital asset. In addition, GASB Statement No. 42 clarifies and establishes accounting requirements for insurance recoveries. GASB Statement No. 42 had no effect on the financial statements for the year ended June 30, 2006, since no capital asset impairment and insurance recoveries occurred. However, it is reasonably expected that capital asset impairment and insurance recoveries may occur in subsequent years that will be subject to the provisions of Statement No. 42.

The provisions of GASB Statement No. 44, Economic Condition Reporting: The Statistical Section (an amendment of NCGA Statement 1) became effective for the year ended June 30, 2006. GASB Statement No. 44 applies to the preparation of the statistical section. State and local governments may, but are not required to, prepare a statistical section to accompany basic financial statements. However, a statistical section is required to accompany a comprehensive annual financial report. Since Lake County is not presenting a comprehensive annual financial report, it has elected not to prepare a statistical section. A limited statistical section was presented in the prior year's report. GASB Statement No. 44 amends guidance related to the preparation of the statistical section. This statement improves the understandability and usefulness of statistical information by addressing the comparability problems that have developed in practice and by adding information from the new financial reporting model for state and local governments required by GASB Statement No. 34. GASB Statement No. 44 establishes the objectives of the statistical section and the five categories it contains: financial trends, revenue capacity, debt capacity, demographic and economic, and operating. It is reasonably expected that Lake County will prepare and present a statistical section in subsequent years that follows the requirements of GASB Statement No. 44.

The provisions of GASB Statement No. 46, Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34 became effective for the year ended June 30, 2006. GASB Statement No. 46 provides guidance to determine when net assets have been restricted to a particular use by the passage of enabling legislation and specifies how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation. The statement also requires governments to disclose in the notes to the financial statements the amount of net assets

restricted by enabling legislation as of the end of the reporting period. The School Department had no net assets restricted by enabling legislation to disclose as of June 30, 2006. But it is reasonably expected that the School Department will be required to disclose net assets restricted by enabling legislation in subsequent years.

The provisions of GASB Statement No. 47, Accounting for Termination Benefits became effective for the year ended June 30, 2006. GASB Statement No. 47 provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees who are involuntarily terminated. Statement No. 47 specifies when governments should recognize the cost of termination benefits they offer in accrual basis financial statements. The School Department was not offering any termination benefits to employees as of June 30, 2006. But it is reasonably expected that the School Department will offer termination benefits in subsequent years subject to the accounting and reporting requirements of GASB Statement No. 47.

C. Contingent Liabilities

The School Department's attorney has advised there are no pending lawsuits or any unasserted claims or assessments involving the School Department that would materially affect the department's financial statements.

D. Retirement Commitments

Plan Description

Employees of Lake County, including the School Department, are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Lake County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

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

SCHOOL TEACHERS

Plan Description

The Lake County School Department contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979, are vested after five years of service. Members joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. A cost of living adjustment (COLA) is provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at

www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at <http://www.treasury.state.tn.us/tcrs/Schools/>.

Funding Policy

Most teachers are required by state statute to contribute five percent of their salaries to the plan. The employer contribution rate for the Lake County School Department is established at an actuarially determined rate. The employer rate for the fiscal year ended June 30, 2006, was 5.5 percent of annual covered payroll. The employer contribution requirement for the Lake County School Department is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ended June 30, 2006, 2005, and 2004, were \$201,160, \$200,383, and \$112,186, respectively, equal to the required contributions for each year.

E. Other Post-employment Benefits

In addition to the retirement commitments described above, the Lake County School Department makes a contribution toward the health insurance premium of the school department group medical plan for employees who retire with 30 years of service. This contribution continues until the employee reaches age 65 and is Medicare eligible. During the year, this contribution was \$187.50 per month for seven former employees and expenditures totaling \$15,750 were recognized for post-employment health care. Effective October 1, 2006, the contribution increased to \$200 per month.

F. Purchasing Laws

Office of Director of Schools

Purchasing procedures for the School Department are governed by purchasing laws applicable to schools as set forth in Section 49-2-203, Tennessee Code Annotated, which provides for the county Board of Education, through its executive committee (director of schools and chairman of the Board of Education), to make all purchases. This statute also requires competitive bids to be solicited through newspaper advertisement on all purchases exceeding \$10,000.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit D

Lake County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Lake County School Department
General Purpose School Fund
For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 1,070,187	\$ 1,057,645	\$ 1,065,141	\$ 5,046
Licenses and Permits	686	1,000	1,000	(314)
Charges for Current Services	76,485	72,019	72,019	4,466
Other Local Revenues	67,646	38,000	38,000	29,646
State of Tennessee	4,605,511	4,184,218	4,315,749	289,762
Federal Government	890,441	482,726	877,476	12,965
Total Revenues	<u>\$ 6,710,956</u>	<u>\$ 5,835,608</u>	<u>\$ 6,369,385</u>	<u>\$ 341,571</u>
<u>Expenditures</u>				
<u>Instruction</u>				
Regular Instruction Program	\$ 3,268,587	\$ 2,900,813	\$ 3,296,813	\$ 28,226
Special Education Program	406,417	423,229	423,229	16,812
Vocational Education Program	196,201	208,718	208,718	12,517
<u>Support Services</u>				
Attendance	52,568	51,908	52,708	140
Health Services	47,098	47,847	47,848	750
Other Student Support	124,582	126,895	127,324	2,742
Regular Instruction Program	207,000	219,199	219,549	12,549
Special Education Program	21,755	22,795	22,870	1,115
Board of Education	115,797	100,828	120,828	5,031
Director of Schools	131,979	142,840	143,840	11,861
Office of the Principal	442,170	455,096	458,546	16,376
Fiscal Services	55,250	55,704	56,296	1,046
Operation of Plant	565,879	474,808	572,983	7,104
Maintenance of Plant	118,116	133,333	133,333	15,217
Transportation	188,314	251,157	254,457	66,143
<u>Operation of Non-Instructional Services</u>				
Food Service	397,932	372,028	400,588	2,656
<u>Capital Outlay</u>				
Regular Capital Outlay	68,625	984,948	255,888	187,263
<u>Other Debt Service</u>				
Education	125,000	0	125,000	0
<u>Capital Projects</u>				
Education Capital Projects	546,361	0	577,608	31,247
Total Expenditures	<u>\$ 7,079,631</u>	<u>\$ 6,972,146</u>	<u>\$ 7,498,426</u>	<u>\$ 418,795</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (368,675)</u>	<u>\$ (1,136,538)</u>	<u>\$ (1,129,041)</u>	<u>\$ 760,366</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 15,058	\$ 15,000	\$ 15,000	\$ 58
Total Other Financing Sources (Uses)	<u>\$ 15,058</u>	<u>\$ 15,000</u>	<u>\$ 15,000</u>	<u>\$ 58</u>

(Continued)

Exhibit D

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

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
Net Change in Fund Balance	\$ (353,617)	\$ (1,121,538)	\$ (1,114,041)	\$ 760,424
Fund Balance, July 1, 2005	2,287,442	2,331,891	2,331,891	(44,449)
Fund Balance, June 30, 2006	<u>\$ 1,933,825</u>	<u>\$ 1,210,353</u>	<u>\$ 1,217,850</u>	<u>\$ 715,975</u>

**LAKE COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF LAKE COUNTY, TENNESSEE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2006**

BUDGETARY INFORMATION

The School Department is required by state statute to adopt annual budgets. Annual budgets are prepared on the basis in which current available funds must be sufficient to meet current expenditures. Expenditures and encumbrances may not legally exceed appropriations authorized by the Lake County Commission and any authorized revisions. Unencumbered appropriations lapse at the end of each fiscal year.

The budgetary level of control is at the major category level established by the State Uniform Chart of Accounts, as prescribed by the Comptroller of the Treasury of the State of Tennessee. Major categories are at the department level (examples of General Purpose School Fund major categories: Regular Instruction, Special Education Program, Vocational Education Program, etc.). Management may make revisions within major categories, but only the Lake County Commission may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

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

**INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

Nonmajor Governmental Fund

Special Revenue Fund

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

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

Exhibit E

Lake County, Tennessee
 Schedule of Revenues, Expenditures, and Changes
 in Fund Balance - Actual and Budget
 Lake County School Department
 School Federal Projects Fund
 For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Federal Government	\$ 712,317	\$ 739,301	\$ 739,301	\$ (26,984)
Total Revenues	\$ 712,317	\$ 739,301	\$ 739,301	\$ (26,984)
<u>Expenditures</u>				
<u>Instruction</u>				
Regular Instruction Program	\$ 257,952	\$ 353,635	\$ 363,141	\$ 105,189
Special Education Program	210,482	215,175	214,145	3,663
Vocational Education Program	31,960	31,870	31,960	0
<u>Support Services</u>				
Regular Instruction Program	93,795	147,382	141,082	47,287
Special Education Program	4,781	3,751	4,782	1
Vocational Education Program	692	900	849	157
Operation of Plant	3,479	12,469	9,617	6,138
Transportation	6,000	6,000	6,000	0
Total Expenditures	\$ 609,141	\$ 771,182	\$ 771,576	\$ 162,435
Excess (Deficiency) of Revenues Over Expenditures	\$ 103,176	\$ (31,881)	\$ (32,275)	\$ 135,451
<u>Other Financing Sources (Uses)</u>				
Transfers Out	\$ (15,058)	\$ (19,593)	\$ (19,200)	\$ 4,142
Total Other Financing Sources (Uses)	\$ (15,058)	\$ (19,593)	\$ (19,200)	\$ 4,142
Net Change in Fund Balance	\$ 88,118	\$ (51,474)	\$ (51,475)	\$ 139,593
Fund Balance, July 1, 2005	51,474	51,474	51,475	(1)
Fund Balance, June 30, 2006	\$ 139,592	\$ 0	\$ 0	\$ 139,592

MISCELLANEOUS SCHEDULES

Exhibit F-1

Lake County, Tennessee
Schedule of Transfers
Lake County School Department
For the Year Ended June 30, 2006

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
School Federal Projects	General Purpose School	Indirect costs	<u>\$ 15,058</u>
Total Transfers			<u><u>\$ 15,058</u></u>

Exhibit F-2

Lake County, Tennessee
Schedule of Salaries and Official Bonds of Principal Officials
Lake County School Department
For the Year Ended June 30, 2006

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
Director of Schools	State Board of Education and Lake County Board of Education	\$ 80,760 (1) \$	50,000	St. Paul Fire and Marine Insurance Company
Employee Bonds:				
Director of School's Office			150,000	Tennessee School Boards Risk Management Trust

(1) - Includes chief executive officer training supplement of \$1,000 and \$3,600 vehicle allowance.

Exhibit F-3

Lake County, Tennessee
Schedule of Detailed Revenues -
All Governmental Fund Types
Lake County School Department
For the Year Ended June 30, 2006

	General Purpose School	School Federal Projects	Education Capital Projects	Total
<u>Local Taxes</u>				
<u>County Property Taxes</u>				
Current Property Tax	\$ 699,897	\$ 0	\$ 0	\$ 699,897
Trustee's Collections - Prior Year	38,558	0	0	38,558
Circuit/Clerk & Master Collections - Prior Years	8,035	0	0	8,035
Interest and Penalty	5,622	0	0	5,622
<u>County Local Option Taxes</u>				
Local Option Sales Tax	272,608	0	0	272,608
Wheel Tax	41,699	0	0	41,699
Business Tax	1,784	0	0	1,784
<u>Statutory Local Taxes</u>				
Interstate Telecommunications Tax	1,373	0	0	1,373
Other Statutory Local Taxes	611	0	0	611
Total Local Taxes	\$ 1,070,187	\$ 0	\$ 0	\$ 1,070,187
<u>Licenses and Permits</u>				
<u>Licenses</u>				
Marriage Licenses	\$ 531	\$ 0	\$ 0	\$ 531
<u>Permits</u>				
Other Permits	155	0	0	155
Total Licenses and Permits	\$ 686	\$ 0	\$ 0	\$ 686
<u>Charges for Current Services</u>				
<u>Education Charges</u>				
Receipts from Individual Schools	\$ 62,508	\$ 0	\$ 0	\$ 62,508
<u>Other Charges for Services</u>				
Other Charges for Services	13,977	0	0	13,977
Total Charges for Current Services	\$ 76,485	\$ 0	\$ 0	\$ 76,485
<u>Other Local Revenues</u>				
<u>Recurring Items</u>				
Investment Income	\$ 0	\$ 0	\$ 22,057	\$ 22,057
Miscellaneous Refunds	35,152	0	0	35,152
<u>Nonrecurring Items</u>				
Sale of Equipment	900	0	0	900
Damages Recovered from Individuals	792	0	0	792
<u>Other Local Revenues</u>				
Other Local Revenues	30,802	0	0	30,802
Total Other Local Revenues	\$ 67,646	\$ 0	\$ 22,057	\$ 89,703
<u>State of Tennessee</u>				
<u>State Education Funds</u>				
Basic Education Program	\$ 4,144,570	\$ 0	\$ 0	\$ 4,144,570
School Food Service	6,106	0	0	6,106
Career Ladder Program	70,014	0	0	70,014
Career Ladder - Extended Contract	49,547	0	0	49,547
<u>Other State Revenues</u>				
State Revenue Sharing - T.V.A.	131,641	0	0	131,641
Other State Grants	203,633	0	0	203,633
Total State of Tennessee	\$ 4,605,511	\$ 0	\$ 0	\$ 4,605,511

(Continued)

Exhibit F-3

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

	General Purpose School	School Federal Projects	Education Capital Projects	Total
<u>Federal Government</u>				
<u>Federal Through State</u>				
USDA School Lunch Program	\$ 240,694	\$ 0	\$ 0	\$ 240,694
Breakfast	89,058	0	0	89,058
Vocational Education - Basic Grants to States	0	33,457	0	33,457
Title I Grants to Local Education Agencies	0	295,002	0	295,002
Innovative Education Program Strategies	0	34,963	0	34,963
Special Education - Grants to States	60,904	234,965	0	295,869
Eisenhower Professional Development State Grants	274,221	104,066	0	378,287
Other Federal through State	225,564	9,864	0	235,428
Total Federal Government	\$ 890,441	\$ 712,317	\$ 0	\$ 1,602,758
Total	\$ 6,710,956	\$ 712,317	\$ 22,057	\$ 7,445,330

Exhibit F-4

Lake County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Lake County School Department
For the Year Ended June 30, 2006

General Purpose School Fund

Instruction

Regular Instruction Program

Teachers	\$ 2,118,008	
Career Ladder Program	45,795	
Career Ladder Extended Contracts	36,280	
Homebound Teachers	1,223	
Educational Assistants	86,135	
Certified Substitute Teachers	16,724	
Non-certified Substitute Teachers	40,120	
Social Security	141,272	
State Retirement	124,192	
Life Insurance	2,687	
Medical Insurance	282,770	
Unemployment Compensation	2,701	
Employer Medicare	32,898	
Maintenance & Repair Services - Equipment	3,154	
Other Contracted Services	21,838	
Instructional Supplies and Materials	176,702	
Textbooks	44,305	
Regular Instruction Equipment	91,783	
Total Regular Instruction Program		\$ 3,268,587

Special Education Program

Teachers	\$ 292,408	
Career Ladder Program	3,900	
Homebound Teachers	1,683	
Certified Substitute Teachers	166	
Non-certified Substitute Teachers	4,479	
Social Security	17,649	
State Retirement	16,390	
Medical Insurance	45,798	
Unemployment Compensation	238	
Employer Medicare	4,128	
Contracts with Private Agencies	13,500	
Maintenance & Repair Services - Equipment	121	
Instructional Supplies and Materials	5,957	
Total Special Education Program		406,417

Vocational Education Program

Teachers	\$ 154,873
Career Ladder Program	4,000

(Continued)

Exhibit F-4

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

General Purpose School Fund (Cont.)

Instruction (Cont.)

Vocational Education Program (Cont.)

Career Ladder Extended Contracts	\$	1,200	
Non-certified Substitute Teachers		55	
Social Security		7,448	
State Retirement		6,918	
Medical Insurance		16,621	
Unemployment Compensation		123	
Employer Medicare		1,742	
Instructional Supplies and Materials		3,221	
Total Vocational Education Program			\$ 196,201

Support Services

Attendance

Supervisor/Director	\$	41,236	
Career Ladder Program		1,000	
Social Security		2,576	
State Retirement		2,323	
Medical Insurance		3,578	
Unemployment Compensation		17	
Employer Medicare		602	
Travel		1,236	
Total Attendance			52,568

Health Services

Medical Personnel	\$	33,661	
Social Security		1,845	
State Retirement		1,834	
Medical Insurance		7,282	
Unemployment Compensation		20	
Employer Medicare		438	
Travel		414	
Drugs and Medical Supplies		1,604	
Total Health Services			47,098

Other Student Support

Career Ladder Program	\$	1,000	
Guidance Personnel		76,993	
School Resource Officer		22,483	
Social Security		5,978	
State Retirement		5,320	

(Continued)

Exhibit F-4

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Other Student Support (Cont.)

Medical Insurance	\$	4,652	
Unemployment Compensation		53	
Employer Medicare		1,398	
Evaluation and Testing		5,310	
Travel		526	
Other Supplies and Materials		869	
Total Other Student Support			\$ 124,582

Regular Instruction Program

Supervisor/Director	\$	24,912	
Career Ladder Program		4,985	
Career Ladder Extended Contracts		2,400	
Librarians		108,024	
Social Security		7,740	
State Retirement		7,393	
Medical Insurance		18,657	
Unemployment Compensation		100	
Employer Medicare		1,810	
Travel		14,716	
Other Contracted Services		2,312	
Library Books/Media		12,701	
In Service/Staff Development		1,250	
Total Regular Instruction Program			207,000

Special Education Program

Supervisor/Director	\$	10,309	
Clerical Personnel		8,102	
Social Security		1,131	
State Retirement		739	
Medical Insurance		871	
Unemployment Compensation		17	
Employer Medicare		264	
Travel		322	
Total Special Education Program			21,755

Board of Education

Board and Committee Members Fees	\$	2,700	
Social Security		167	
State Retirement		48	

(Continued)

Exhibit F-4

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Board of Education (Cont.)

Employer Medicare	\$	39	
Audit Services		2,498	
Dues and Memberships		4,274	
Legal Services		27,387	
Travel		2,765	
Liability Insurance		6,325	
Premiums on Corporate Surety Bonds		2,125	
Trustee's Commission		33,838	
Workers' Compensation Insurance		30,219	
Criminal Investigation of Applicants - TBI		424	
Other Charges		2,988	
Total Board of Education			\$ 115,797

Director of Schools

County Official/Administrative Officer	\$	76,160	
Career Ladder Program		1,000	
Secretary(ies)		16,358	
Social Security		5,880	
State Retirement		4,591	
Medical Insurance		9,532	
Unemployment Compensation		39	
Employer Medicare		1,375	
Other Fringe Benefits		3,600	
Communication		1,805	
Dues and Memberships		175	
Postal Charges		3,182	
Travel		3,448	
Office Supplies		2,681	
Administration Equipment		2,153	
Total Director of Schools			131,979

Office of the Principal

Principals	\$	175,083	
Career Ladder Program		4,000	
Accountants/Bookkeepers		33,162	
Career Ladder Extended Contracts		4,200	
Assistant Principals		91,981	
Secretary(ies)		27,052	
Social Security		19,609	

(Continued)

Exhibit F-4

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Office of the Principal (Cont.)

State Retirement	\$	16,442	
Medical Insurance		39,207	
Unemployment Compensation		235	
Employer Medicare		4,586	
Communication		11,651	
Dues and Memberships		600	
Maintenance & Repair Services - Equipment		5,636	
Travel		4,793	
Office Supplies		981	
Administration Equipment		2,952	
Total Office of the Principal			\$ 442,170

Fiscal Services

Accountants/Bookkeepers	\$	35,263	
Clerical Personnel		7,788	
Social Security		2,498	
State Retirement		913	
Medical Insurance		2,251	
Unemployment Compensation		38	
Employer Medicare		584	
Data Processing Services		4,809	
Travel		50	
Data Processing Supplies		1,056	
Total Fiscal Services			55,250

Operation of Plant

Supervisor/Director	\$	29,920	
Custodial Personnel		102,387	
Social Security		7,925	
State Retirement		3,814	
Medical Insurance		10,447	
Unemployment Compensation		179	
Employer Medicare		1,853	
Travel		1,067	
Other Contracted Services		1,472	
Custodial Supplies		21,505	
Electricity		177,741	
Natural Gas		147,134	
Water and Sewer		15,444	

(Continued)

Exhibit F-4

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Operation of Plant (Cont.)

Boiler Insurance	\$	1,840	
Building and Contents Insurance		35,207	
Plant Operation Equipment		7,944	
Total Operation of Plant			\$ 565,879

Maintenance of Plant

Supervisor/Director	\$	29,605	
Other Salaries & Wages		29,605	
Social Security		3,745	
State Retirement		1,255	
Medical Insurance		225	
Unemployment Compensation		46	
Employer Medicare		876	
Maintenance & Repair Services - Buildings		4,700	
Maintenance & Repair Services - Equipment		24,126	
Other Supplies and Materials		10,178	
Maintenance Equipment		13,755	
Total Maintenance of Plant			118,116

Transportation

Supervisor/Director	\$	29,920	
Bus Drivers		68,496	
Social Security		5,689	
State Retirement		3,718	
Life Insurance		21	
Medical Insurance		4,564	
Unemployment Compensation		145	
Employer Medicare		1,398	
Maintenance & Repair Services - Vehicles		21,637	
Travel		1,500	
Diesel Fuel		33,483	
Gasoline		4,467	
Other Supplies and Materials		2,925	
Vehicle and Equipment Insurance		10,351	
Total Transportation			188,314

Operation of Non-Instructional Services

Food Service

Supervisor/Director	\$	44,561	
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(Continued)

Exhibit F-4

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

General Purpose School Fund (Cont.)

Operation of Non-Instructional Services (Cont.)

Food Service (Cont.)

In-Service Training	\$	220	
Social Security		2,427	
State Retirement		2,451	
Medical Insurance		7,741	
Unemployment Compensation		22	
Employer Medicare		568	
Payments to Schools - Breakfast		89,058	
Payments to Schools - Lunch		240,694	
Payments to Schools - Other		6,106	
Travel		1,150	
Other Contracted Services		2,666	
Other Supplies and Materials		268	
Total Food Service			\$ 397,932

Capital Outlay

Regular Capital Outlay

Building Construction	\$	82	
Building Improvements		39,807	
Other Capital Outlay		28,736	
Total Regular Capital Outlay			68,625

Other Debt Service

Education

Contributions	\$	125,000	
Total Education			125,000

Capital Projects

Education Capital Projects

Other Salaries & Wages	\$	47,145	
Social Security		15,006	
Unemployment Compensation		574	
Communication		134	
Engineering Services		51,770	
Building Construction		393,473	
Maintenance Equipment		32,322	
Plant Operation Equipment		5,937	
Total Education Capital Projects			546,361

Total General Purpose School Fund \$ 7,079,631

(Continued)

Exhibit F-4

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

School Federal Projects Fund

Instruction

Regular Instruction Program

Teachers	\$	160,467	
Educational Assistants		33,516	
Non-certified Substitute Teachers		1,300	
Social Security		11,909	
State Retirement		9,544	
Medical Insurance		15,900	
Unemployment Compensation		211	
Employer Medicare		2,786	
Consultants		2,125	
Maintenance & Repair Services - Equipment		3,361	
Instructional Supplies and Materials		16,833	
Total Regular Instruction Program			\$ 257,952

Special Education Program

Teachers	\$	34,318	
Educational Assistants		100,922	
Certified Substitute Teachers		995	
Social Security		8,425	
State Retirement		3,991	
Medical Insurance		2,254	
Unemployment Compensation		269	
Employer Medicare		1,970	
Contracts with Private Agencies		42,526	
Maintenance & Repair Services - Equipment		110	
Instructional Supplies and Materials		9,663	
Other Supplies and Materials		904	
Special Education Equipment		4,135	
Total Special Education Program			210,482

Vocational Education Program

Teachers	\$	8,000	
Social Security		600	
State Retirement		500	
Medical Insurance		175	
Unemployment Compensation		25	
Employer Medicare		145	
Travel		833	
Instructional Supplies and Materials		16,809	
Vocational Instruction Equipment		4,873	
Total Vocational Education Program			31,960

(Continued)

Exhibit F-4

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

School Federal Projects Fund (Cont.)

Support Services

Regular Instruction Program

Supervisor/Director	\$	24,922	
Secretary(ies)		11,800	
Social Security		1,992	
State Retirement		1,621	
Medical Insurance		7,738	
Unemployment Compensation		60	
Employer Medicare		466	
Travel		24,552	
Other Supplies and Materials		1,998	
In Service/Staff Development		16,992	
Other Charges		1,654	
Total Regular Instruction Program			\$ 93,795

Special Education Program

Travel	\$	4,249	
Other Charges		532	
Total Special Education Program			4,781

Vocational Education Program

Travel	\$	692	
Total Vocational Education Program			692

Operation of Plant

Electricity	\$	860	
Natural Gas		2,619	
Total Operation of Plant			3,479

Transportation

Other Charges	\$	6,000	
Total Transportation			6,000

Total School Federal Projects Fund \$ 609,141

Education Capital Projects Fund

Capital Projects

Education Capital Projects

Other Salaries & Wages	\$	147,146	
Social Security		42,126	
Architects		27,143	

(Continued)

Exhibit F-4

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

<u>Education Capital Projects Fund (Cont.)</u>		
<u>Capital Projects (Cont.)</u>		
<u>Education Capital Projects (Cont.)</u>		
Engineering Services	\$ 109,812	
Building Construction	1,348,508	
Maintenance Equipment	28,205	
Plant Operation Equipment	89,910	
Site Development	28,319	
Other Equipment	<u>25,485</u>	
Total Education Capital Projects		<u>\$ 1,846,654</u>
Total Education Capital Projects Fund		<u>\$ 1,846,654</u>
Total Governmental Funds - Lake County School Department		<u><u>\$ 9,535,426</u></u>

SINGLE AUDIT REPORT
LAKE COUNTY, TENNESSEE
AND
LAKE COUNTY SCHOOL DEPARTMENT
FOR THE YEAR ENDED JUNE 30, 2006

DEPARTMENT OF AUDIT
JOHN G. MORGAN
Comptroller of the Treasury

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

ARTHUR L. ALEXANDER
Director

NORM NORMENT, CGFM
Audit Manager

NOLAN R. BRADFORD, CPA, CGFM
Auditor 4

SHAREE BREWER, CPA, CGFM, CFE
ELISHA CROWELL, CFE
State Auditors

This report is available at www.comptroller.state.tn.us

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT

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JAMES K. POLK STATE OFFICE BUILDING
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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

October 24, 2006

Lake County Mayor, Board of County Commissioners,
Director of Schools, and Board of Education
Lake County, Tennessee

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

We have audited the financial statements of each major fund and the aggregate remaining fund information of Lake County, Tennessee, and the Lake County School Department as of and for the year ended June 30, 2006, which collectively comprise a portion of Lake County's and the Lake County School Department's basic financial statements and have issued our reports thereon dated October 24, 2006. Our reports on the financial statements of Lake County and the Lake County School Department express adverse opinions because the government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Lake County's and the Lake County School Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06.02, 06.05, 06.06, and 06.07.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

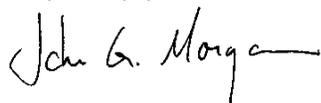
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake County's and the Lake County School Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and are described in the accompanying Schedule of Findings and Questioned Costs as items 06.01, 06.03, 06.04, and 06.08.

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

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

Very truly yours,



John G. Morgan
Comptroller of the Treasury

JGM/rc



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT

SUITE 1500
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 24, 2006

Lake County Mayor, Board of County Commissioners,
Director of Schools, and Board of Education
Lake County, Tennessee

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

Compliance

We have audited the compliance of Lake County and the Lake County School Department with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of their major federal programs for the year ended June 30, 2006. Lake County's and the Lake County School Department's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of their major federal programs is the responsibility of Lake County's and the Lake County School Department's management. Our responsibility is to express an opinion on Lake County's and the Lake County School Department's compliance based on our audit.

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

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

In our opinion, Lake County and the Lake County School Department complied, in all material respects, with the requirements referred to above that are applicable to each of their major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

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

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

Schedule of Federal Awards

We have audited the financial statements of each major fund and the aggregate remaining fund information of Lake County, Tennessee, and the Lake County School Department as of and for the year ended June 30, 2006, and have issued our reports thereon dated October 24, 2006. Our reports on the financial statements of Lake County and the Lake County School Department express adverse opinions because the government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34. Our audit was performed for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and State Grants is presented for purposes of additional analysis, as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Very truly yours,

A handwritten signature in black ink that reads "John G. Morgan" with a long horizontal flourish extending to the right.

John G. Morgan
Comptroller of the Treasury

JGM/rc

Lake County, Tennessee, and the Lake County School Department
Schedule of Expenditures of Federal Awards and State Grants (1)
For the Year Ended June 30, 2006

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Agriculture:			
Passed-through State Department of Agriculture:			
Food Donation (Noncash Assistance)	10.550	N/A	\$ 36,346
Passed-through State Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	89,058
National School Lunch Program	10.555	N/A	240,694
Total U.S. Department of Agriculture			<u>\$ 366,098</u>
U.S. Department of Housing and Urban Development:			
Passed-through State Housing Development Agency:			
HOME Investment Partnerships Program	14.239	DG-99-01322-00	\$ 238,525
Total U.S. Department of Housing and Urban Development			<u>\$ 238,525</u>
U.S. Department of Justice:			
Passed-through State Commission on Children and Youth:			
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	Z-06-002614-00	\$ 9,000
Total U.S. Department of Justice			<u>\$ 9,000</u>
U.S. Department of Education:			
Passed-through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	N/A	\$ 248,285
Special Education - Grants to States	84.027	N/A	287,780
Vocational Education - Basic Grants to States	84.048	N/A	33,301
Safe and Drug-Free Schools and Communities - State Grants	84.186	(2)	8,644
Even Start - State Educational Agencies	84.213	Z-05-020467-00	107,747
State Grants for Innovative Programs	84.298	N/A	36,912
Improving Teacher Quality State Grants	84.367	N/A	344,402
Total U.S. Department of Education			<u>\$ 1,067,071</u>
U.S. Department of Health and Human Services:			
Passed-through Northwest Tennessee Development District:			
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	(2)	\$ 45,260
Total U.S. Department of Health and Human Services			<u>\$ 45,260</u>
U.S. Department of Homeland Security:			
Passed-through State Department of Military:			
State Domestic Preparedness Equipment Support Program	97.004	GG-05-11679-01	\$ 39,690
Pre-Disaster Mitigation	97.047	GG-05-11287-00	117,817
Total U.S. Department of Homeland Security			<u>\$ 157,507</u>
Total Expenditures of Federal Awards			<u>\$ 1,883,461</u>

(Continued)

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

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Contract Number	Expenditures
State Grants:			
Early Childhood Education - State Department of Education	N/A	(2)	\$ 196,653
Reappraisal Program - Comptroller of the Treasury	N/A	(2)	2,346
Litter Program - State Department of Transportation	N/A	(2)	26,135
Striping Grant - State Department of Transportation	N/A	(2)	50,000
Touching Lives of Children - State Department of Education	N/A	(2)	6,980
Tornado Relief - State Department of Military	N/A	Z-03-017908-00	<u>7,662</u>
Total State Grants			<u>\$ 289,776</u>

CFDA = Catalog of Federal Domestic Assistance
N/A = Not Applicable

- (1) Presented in conformity with generally accepted accounting principles using the modified accrual basis of accounting.
(2) Information not available.

Lake County, Tennessee, and the Lake County School Department
Schedule of Audit Findings Not Corrected
June 30, 2006

Government Auditing Standards require auditors to report the status of uncorrected findings from prior audits. Presented below are findings from the Annual Financial Report for Lake County, Tennessee, and the Lake County School Department for the year ended June 30, 2005, which have not been corrected.

LAKE COUNTY AND LAKE COUNTY SCHOOL DEPARTMENT

Finding Number	Page Number	Subject
05.01	12	Government-wide financial statements were not presented in accordance with generally accepted accounting principles

OTHER FINDINGS

Finding Number	Page Number	Subject
05.03	14	A central system of accounting, budgeting, and purchasing had not been adopted
05.04	14	Duties were not segregated adequately in the Offices of Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff
05.05	14	Accounting deficiencies occurred in patient accounts receivable of the Ambulance Service
05.06	15	The county violated the conflict of interest statute and made purchases from a business owned by a county commissioner

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2006

PART I, SUMMARY OF AUDITOR'S RESULTS

1. Adverse opinions were issued on the financial statements of Lake County and the Lake County School Department.
2. The audit of the financial statements of Lake County and the Lake County School Department disclosed reportable conditions in internal control. None of these conditions were considered to be a material weakness.
3. The audit disclosed one instance of noncompliance that was material to the financial statements of both Lake County and the Lake County School Department.
4. The audit disclosed no reportable conditions in internal control over major programs.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit revealed no findings that are required to be reported under Section 510(a) of OMB Circular A-133.
7. The Child Nutrition Cluster: School Breakfast Program and National School Lunch Program (CFDA Nos. 10.553 and 10.555), the Title I Grants to Local Educational Agencies (CFDA No. 84.010), the Special Education – Grants to States (CFDA No. 84.027), and the Improving Teacher Quality State Grants (CFDA No. 84.367) were determined to be major programs.
8. A \$300,000 threshold was used to distinguish between Type A and Type B federal programs.
9. Lake County and the Lake County School Department did not qualify as low-risk auditees.

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

Findings and recommendations, as a result of our examination, are presented below. We reviewed these findings and recommendations with management to provide an opportunity for their response. Officials offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

LAKE COUNTY AND LAKE COUNTY SCHOOL DEPARTMENT

FINDING 06.01 **GOVERNMENT-WIDE FINANCIAL STATEMENTS WERE NOT PRESENTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**
(Material Noncompliance Under Government Auditing Standards)

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

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

RECOMMENDATION

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

OFFICE OF COUNTY MAYOR

FINDING 06.02 THE SOLID WASTE/SANITATION FUND HAD A FUND DEFICIT
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Solid Waste/Sanitation Fund had an undesignated fund deficit of \$11,656 at June 30, 2006. This fund deficit resulted from the county using capital outlay notes, that were legally restricted for capital purposes, to fund operating expenditures. We have properly reflected these use restrictions in the financial statements of this report.

RECOMMENDATION

County officials should monitor the financial activity of their funds to ensure that adequate funding is timely provided to prevent the recurrence of a fund deficit. Capital outlay notes should not be used for operating expenditures.

FINDING 06.03 THE OFFICE DID NOT FILE REPORTS ON DEBT OBLIGATIONS WITH THE STATE DIRECTOR OF LOCAL FINANCE
(Noncompliance Under Government Auditing Standards)

The office did not file a Report of Debt Obligation with the state director of Local Finance for a \$40,000 capital outlay note and a \$21,593 capital lease that were issued during the year. Section 9-21-151, Tennessee Code Annotated, requires that within 45 days following the issuance of debt, a county must provide to the state director of Local Finance certain information, such as a description of the purchase for which the debt is issued, a description of the debt obligation, and an itemized description of the cost of issuance.

RECOMMENDATION

The office should file a Report on Debt Obligations with the state director of Local Finance for each debt issuance.

OFFICE OF CIRCUIT COURT CLERK

FINDING 06.04 THE CIRCUIT COURT CLERK DID NOT HAVE AUTHORIZATION FOR DEPUTY HIRE
(Noncompliance Under Government Auditing Standards)

The circuit court clerk did not obtain a letter of agreement or file suit in Circuit Court to authorize the number and salaries of her deputies. Section 8-20-101, Tennessee Code Annotated, permits the circuit court clerk to enter into a letter of agreement with the

county mayor concerning the number and the salaries of her deputies or to file suit in Circuit Court.

RECOMMENDATION

The circuit court clerk should obtain a letter of agreement with the county mayor or petition Circuit Court for the number and salaries of her deputies as required by state statute.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 06.05 **A CENTRAL SYSTEM OF ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

RECOMMENDATION

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

FINDING 06.06 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF TRUSTEE; COUNTY CLERK; CIRCUIT, GENERAL SESSIONS, AND JUVENILE COURTS CLERK; CLERK AND MASTER; REGISTER; AND SHERIFF**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among the officials and employees in the Offices of Trustee; County Clerk; Circuit, General Sessions, and Juvenile Courts Clerk; Clerk and Master; Register; and Sheriff. Employees responsible for maintaining the accounting records in each of these offices were also involved in issuing receipts, preparing bank deposits, taking deposits to the bank, posting receipts to the cash journal, and/or reconciling bank statements. We realize that due to limited resources and personnel, management may not be able to properly segregate duties among employees. However, our professional standards require that we bring this matter to the reader’s attention in this report.

FINDING 06.07 ACCOUNTING DEFICIENCIES OCCURRED IN PATIENT ACCOUNTS RECEIVABLE OF THE AMBULANCE SERVICE
(Internal Control – Reportable Condition Under Government Auditing Standards)

A control account for patient accounts receivable of the Ambulance Service was not properly maintained and did not accurately reflect patient accounts receivable at any time during the period under examination. Also, the subsidiary patient accounts receivable ledger had not been maintained properly and did not reflect correct individual patient accounts receivable balances. The Ambulance Service has a policy that provides for the write-off of uncollectible accounts receivable that are 18 months old. However, because the control account for patient accounts receivable and the patient subsidiary accounts receivable ledger did not reflect the correct individual accounts receivable balances, we could not determine if this policy had been followed. Because of these deficiencies, patient accounts receivable at June 30, 2006, have not been reflected in the financial statements of this report. The exclusion of patient accounts receivable of the Ambulance Service at June 30, 2006, is not considered to have a material effect on Lake County's financial statements.

RECOMMENDATION

The control account for patient accounts receivable should be maintained properly and should accurately reflect patient accounts receivable at all times. Also, the subsidiary patient accounts receivable ledger should be maintained properly and reconciled with the control account.

FINDING 06.08 THE COUNTY VIOLATED THE CONFLICT OF INTEREST STATUTE AND MADE PURCHASES FROM A BUSINESS OWNED BY A COUNTY COMMISSIONER
(Noncompliance Under Government Auditing Standards)

During the year, the Sheriff's Office used General Fund monies to purchase groceries totaling \$48,752 from Bestway Grocery, a business owned by Denny Johnson, a member of the Lake County Commission. These payments to a business owned by a member of the County Commission violate the state conflict of interest statute, Section 12-4-101(a)(1), Tennessee Code Annotated. This statute states that "it is unlawful for any officer, committee member, director, or other person whose duty it is to vote for, let out, overlook, or in any manner to superintend any work or any contract in which any municipal corporation, county ... shall or may be interested, to be directly interested in any such contract."

RECOMMENDATION

County officials should review these payments and resolve the conflict of interest.

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

There were no findings and questioned costs for federal programs.

**LAKE COUNTY, TENNESSEE, AND THE
LAKE COUNTY SCHOOL DEPARTMENT
AUDITEE REPORTING RESPONSIBILITIES
For the Year Ended June 30, 2006**

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