

ANNUAL FINANCIAL REPORT

THE METROPOLITAN GOVERNMENT OF LYNCHBURG, MOORE COUNTY, TENNESSEE



FOR THE YEAR ENDED JUNE 30, 2006

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

ANNUAL FINANCIAL REPORT
THE METROPOLITAN GOVERNMENT OF
LYNCHBURG, MOORE COUNTY, TENNESSEE
FOR THE YEAR ENDED JUNE 30, 2006

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

THE METROPOLITAN GOVERNMENT OF LYNCHBURG, MOORE COUNTY, TENNESSEE

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Audit Highlights

Annual Financial Report

The Metropolitan Government of Lynchburg, Moore County, Tennessee
For the Year Ended June 30, 2006

Scope

We have audited the basic financial statements of the Metropolitan Government of Lynchburg, Moore County as of and for the year ended June 30, 2006.

Results

Our report on the metropolitan government's financial statements is unqualified.

Our audit resulted in 12 findings and recommendations, which we have reviewed with metropolitan government management. Detailed findings, recommendations, and management's responses are included in the Single Audit Report.

Findings

The following are summaries of the audit findings:

OFFICE OF METROPOLITAN EXECUTIVE

- ◆ The office did not issue purchase orders for some purchases.
- ◆ Expenditures exceeded appropriations approved by the Metropolitan Council in the Solid Waste/Sanitation Fund by \$23,799.
- ◆ The Solid Waste/Sanitation Fund had a cash overdraft of \$3,401 at June 30, 2006.

OFFICE OF HIGHWAY SUPERINTENDENT

- ◆ The office did not issue purchase orders for some purchases and paid several invoices without documentation that goods had been received or services had been rendered.
 - ◆ Official leave records did not always properly distinguish between sick leave and annual leave. Also, time sheets were not signed by a supervisor as evidence of review and approval.
 - ◆ The office did not file claims for reimbursements of applicable litter grant expenditures, and some litter grant expenditures were not adequately documented.
-

OFFICE OF DIRECTOR OF SCHOOLS

- ◆ In several instances, purchase orders were issued after purchases were made making them approval for payments, rather than approval for purchases.
 - ◆ Extended school program collections were not deposited with the county trustee within three days of collection as required by state statute.
-

OFFICE OF SHERIFF

- ◆ The office did not file the Annual Report of County Activities with the district attorney general or the Quarterly Report of Confidential Funds with the metropolitan clerk.
 - ◆ The office did not file an accurate annual financial report.
-

OTHER FINDINGS

- ◆ Duties were not segregated adequately among the officials and employees in the Offices of Metropolitan Executive; Highway Superintendent; Director of Schools; Trustee; Metropolitan Clerk; Circuit, General Sessions, and Juvenile Courts Clerk; Clerk and Master; Register; and Sheriff.
- ◆ Officials had not adopted a central system of accounting and budgeting.

INTRODUCTORY SECTION

Metropolitan Government Officials

June 30, 2006

Officials

Peggy Gattis, Metropolitan Executive
Richie Pierce, Highway Superintendent
Wayne Stewart, Director of Schools
Lynn Harrison, Trustee
Wayne Harrison, Assessor of Property
Nancy Hatfield, Metropolitan Clerk
Trixie Harrison, Circuit, General Sessions, and Juvenile Courts Clerk
Tammy Roberts, Clerk and Master
Barbara Durm, Register
Mark Logan, Sheriff

Metropolitan Council

David Parks, Chairman	
Arvis Bobo	Joe Millsaps
Wayne Brandon	William Pyrdom
Tommy Brown	Chris Roberts
Jackie Burton	Glenn Searcy
Robin Holt	Sloan Stewart
Coleman March	Glen Thomas
David Maynard	Mike Womack

Urban Council

Ray McEwen
Edgar Price
Charles Rogers

Board of Education

David Camp, Chairman	
Terry Evans	Lorrie McKenzie
Chris Grizzard	Ronnie Smith

FINANCIAL SECTION



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
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INDEPENDENT AUDITOR'S REPORT

March 27, 2007

Metropolitan Executive and
Metropolitan Council
Lynchburg, Moore County, Tennessee

To the Metropolitan Executive and Metropolitan Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Metropolitan Government of Lynchburg, Moore County, Tennessee, as of and for the year ended June 30, 2006, which collectively comprise the metropolitan government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the metropolitan government's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Metropolitan Lynchburg – Moore County Water and Sewer Department, which represent 100 percent of the assets and revenues of the business-type activities. The Metropolitan Lynchburg – Moore County Water and Sewer Department is also a major fund. In addition, we did not audit the financial statements of the discretely presented Moore County Emergency Communications District which represent two percent and two percent, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors, whose reports have been furnished to us, and our opinions on the financial statements, insofar as they relate to the amounts included for the Metropolitan Lynchburg – Moore County Water and Sewer Department and the discretely presented Moore County Emergency Communications District, are based solely on the reports of the other auditors.

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 and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Metropolitan Government of Lynchburg, Moore County, Tennessee, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 27, 2007, on our consideration of the metropolitan government'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 management of the metropolitan government did not prepare a management's discussion and analysis. The management's discussion and analysis section is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

The budgetary comparison information on pages 67 through 71 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 metropolitan government's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds, combining and individual fund financial statements of the Metropolitan School Department (a discretely presented component unit), 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, combining and individual fund financial

statements of the Metropolitan School Department (a discretely presented component unit), and the 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 cursive script that reads "John G. Morgan". The signature is written in black ink and includes a long horizontal flourish at the end.

John G. Morgan
Comptroller of the Treasury

JGM/rc

BASIC FINANCIAL STATEMENTS

Exhibit A

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Statement of Net Assets
June 30, 2006

	Primary Government			Component Units		
	Governmental	Business-	Total	Metropolitan	Emergency	
	Activities	type		School	Communications	
		Activities		Department	District	
<u>ASSETS</u>						
Cash and Cash Equivalents	\$ 375	\$ 305,696	\$ 306,071	\$ 0	\$ 0	
Equity in Pooled Cash and Investments	1,011,231	0	1,011,231	567,932	73,508	
Inventories	0	31,457	31,457	10,909	0	
Accounts Receivable	85,098	26,764	111,862	78	2,134	
Allowance for Uncollectibles	(17,695)	(2,884)	(20,579)	0	0	
Other Receivables	0	3,507	3,507	0	0	
Due from Other Governments	500,503	0	500,503	84,216	11,892	
Due from Primary Government	0	0	0	31	0	
Due from Component Units	7,167	0	7,167	0	0	
Prepaid Items	0	0	0	0	71	
Unbilled Charges for Services	0	55,432	55,432	0	0	
Accrued Interest Receivable	0	0	0	0	164	
Property Taxes Receivable	1,671,548	0	1,671,548	1,477,914	0	
Allowance for Uncollectible Property Taxes	(13,784)	0	(13,784)	(13,914)	0	
Restricted Assets:						
Customer Deposits	0	520	520	0	0	
Revenue Bond Future Debt Service Account	0	71,659	71,659	0	0	
Capital Assets:						
Assets Not Depreciated:						
Land	308,779	0	308,779	39,342	0	
Construction in Progress	0	167,438	167,438	0	0	
Assets Net of Accumulated Depreciation:						
Buildings and Improvements	1,121,828	0	1,121,828	4,372,625	0	
Other Capital Assets	803,272	5,985,853	6,789,125	136,293	45,229	
Infrastructure	565,200	0	565,200	0	0	
Total Assets	\$ 6,043,522	\$ 6,645,442	\$ 12,688,964	\$ 6,675,426	\$ 132,998	
<u>LIABILITIES</u>						
Accounts Payable	\$ 201,389	\$ 63,374	\$ 264,763	\$ 39,441	\$ 4,175	
Accrued Payroll	0	9,358	9,358	0	0	
Payroll Deductions Payable	2,444	0	2,444	132,971	0	
Due to Component Unit	31	0	31	0	0	
Accrued Interest Payable	13,251	9,583	22,834	0	0	

(Continued)

Exhibit A

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Statement of Net Assets (Cont.)

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Metropolitan School Department	Emergency Communications District
<u>LIABILITIES (Cont.)</u>					
Due to State of Tennessee	\$ 7	\$ 5,326	\$ 5,333	\$ 0	\$ 0
Other Current Liabilities	0	22,022	22,022	0	0
Accrued Leave - Current	0	13,174	0	0	0
Cash Overdraft	3,401	0	3,401	0	0
Deferred Revenue - Current Property Taxes	1,622,495	0	1,622,495	1,432,000	0
Noncurrent Liabilities:					
Due Within One Year	247,842	162,434	410,276	53,825	0
Due in More Than One Year	637,825	2,391,593	3,029,418	105,500	0
Total Liabilities	<u>\$ 2,728,685</u>	<u>\$ 2,676,864</u>	<u>\$ 5,405,549</u>	<u>\$ 1,763,737</u>	<u>\$ 4,175</u>
<u>NET ASSETS</u>					
Invested in Capital Assets, Net of Related Debt	\$ 2,278,616	\$ 3,573,357	\$ 5,851,973	\$ 0	\$ 0
Invested in Capital Assets Restricted for:	0	0	0	4,548,260	45,229
Urban Services	3,476	0	3,476	0	0
Solid Waste/Sanitation	22,423	0	22,423	0	0
Drug Control	55,365	0	55,365	0	0
Highway/Public Works	250,962	0	250,962	0	0
Debt Service	390,907	71,660	462,567	0	0
School Federal Projects	0	0	0	12,246	0
Central Cafeteria	0	0	0	26,377	0
Other Purposes	31,510	0	31,510	7,553	0
Unrestricted	281,578	323,561	605,139	317,253	83,594
Total Net Assets	<u>\$ 3,314,837</u>	<u>\$ 3,968,578</u>	<u>\$ 7,283,415</u>	<u>\$ 4,911,689</u>	<u>\$ 128,823</u>

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

Exhibit B

The Metropolitan Government of Lynchburg, Moore County, Tennessee
 Statement of Activities
 For the Year Ended June 30, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Metropolitan School Department	Emergency Communications District
					Governmental Activities	Business-type Activities	Total		
Primary Government:									
Governmental Activities:									
General Government	\$ 131,942	\$ 54,052	\$ 87,939	\$ 16,000	\$ 26,049	\$ 0	\$ 26,049	\$ 0	\$ 0
Finance	205,715	141,343	3,803	0	(60,569)	0	(60,569)	0	0
Administration of Justice	194,299	103,270	9,000	0	(82,029)	0	(82,029)	0	0
Public Safety	1,132,901	148,451	48,640	43,896	(891,914)	0	(891,914)	0	0
Public Health and Welfare	587,893	316,823	3,457	0	(267,613)	0	(267,613)	0	0
Social, Cultural, and Recreational Services	365,832	6,378	0	0	(359,454)	0	(359,454)	0	0
Agriculture and Natural Resources	51,207	0	0	0	(51,207)	0	(51,207)	0	0
Other Operations	314,468	210	0	227,206	(87,052)	0	(87,052)	0	0
Highways/Public Works	1,404,439	0	1,170,137	177,746	(56,556)	0	(56,556)	0	0
Interest on Long-term Debt	27,744	0	0	0	(27,744)	0	(27,744)	0	0
Other Debt Service	3,643	0	0	0	(3,643)	0	(3,643)	0	0
Total Governmental Activities	\$ 4,420,083	\$ 770,527	\$ 1,322,976	\$ 464,848	\$ (1,861,732)	\$ 0	\$ (1,861,732)	\$ 0	\$ 0
Business-type Activities:									
Water and Sewer Department	\$ 1,101,237	\$ 1,170,524	\$ 43,918	\$ 212,298	\$ 0	\$ 325,503	\$ 325,503	\$ 0	\$ 0
Total Business-type Activities	\$ 1,101,237	\$ 1,170,524	\$ 43,918	\$ 212,298	\$ 0	\$ 325,503	\$ 325,503	\$ 0	\$ 0
Total Primary Government	\$ 5,521,320	\$ 1,941,051	\$ 1,366,894	\$ 677,146	\$ (1,861,732)	\$ 325,503	\$ (1,536,229)	\$ 0	\$ 0
Component Unit:									
Metropolitan School Department	\$ 7,348,698	\$ 273,585	\$ 597,554	\$ 0	\$ 0	\$ 0	\$ 0	\$ (6,477,559)	\$ 0
Emergency Communications District	76,589	35,716	0	91,892	0	0	0	0	51,019
Total Component Unit	\$ 7,425,287	\$ 309,301	\$ 597,554	\$ 91,892	\$ 0	\$ 0	\$ 0	\$ (6,477,559)	\$ 51,019

(Continued)

Exhibit B

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Statement of Activities (Cont.)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-type Activities	Total	Metropolitan School Department	Emergency Communica- tions District
General Revenues:									
Taxes:									
Property Taxes Levied for General Purposes					\$ 1,350,049	\$ 0	\$ 1,350,049	\$ 1,665,511	\$ 0
Property Taxes Levied for Debt Service					31,019	0	31,019	0	0
Local Option Sales Tax					263,886	0	263,886	263,957	0
Other Local Taxes					141,302	0	141,302	991	0
Grants and Contributions Not Restricted to Specific Programs					395,176	0	395,176	4,218,479	0
Unrestricted Investment Earnings					59,767	10,239	70,006	290	883
Miscellaneous					29,366	0	29,366	4,419	0
Special Items					0	0	0	9,157	0
Total General Revenues					\$ 2,270,565	\$ 10,239	\$ 2,280,804	\$ 6,162,804	\$ 883
Change in Net Assets					\$ 408,833	\$ 335,742	\$ 744,575	\$ (314,755)	\$ 51,902
Net Assets, July 1, 2005					2,906,004	3,632,836	6,538,840	5,226,444	76,921
Net Assets, June 30, 2006					\$ 3,314,837	\$ 3,968,578	\$ 7,283,415	\$ 4,911,689	\$ 128,823

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

Exhibit C-1

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Balance Sheet
Governmental Funds
June 30, 2006

	Major Funds		Nonmajor	Total
	General	Highway / Public Works	Other Govern- mental Funds	
<u>ASSETS</u>				
Cash	\$ 175	\$ 0	\$ 200	\$ 375
Equity in Pooled Cash and Investments	514,941	76,373	419,917	1,011,231
Accounts Receivable	59,246	0	25,852	85,098
Allowance for Uncollectibles	(16,906)	0	(789)	(17,695)
Due from Other Governments	75,041	382,386	43,076	500,503
Due from Other Funds	200	0	0	200
Due from Component Units	7,167	0	0	7,167
Property Taxes Receivable	1,138,276	20,237	219,630	1,378,143
Allowance for Uncollectible Property Taxes	(10,597)	(172)	(1,687)	(12,456)
Total Assets	\$ 1,767,543	\$ 478,824	\$ 706,199	\$ 2,952,566
<u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 11,069	\$ 190,320	\$ 0	\$ 201,389
Payroll Deductions Payable	2,444	0	0	2,444
Cash Overdraft	0	0	3,401	3,401
Due to Other Funds	0	0	200	200
Due to Component Units	31	0	0	31
Due to State of Tennessee	7	0	0	7
Deferred Revenue - Current Property Taxes	1,103,560	19,706	207,152	1,330,418
Deferred Revenue - Delinquent Property Taxes	20,791	312	10,486	31,589
Other Deferred Revenues	72,588	162,595	17,734	252,917
Total Liabilities	\$ 1,210,490	\$ 372,933	\$ 238,973	\$ 1,822,396
<u>Fund Balances</u>				
Reserved for Alcohol and Drug Treatment	\$ 1,952	\$ 0	\$ 0	\$ 1,952
Reserved for Litigation Tax - Jail, Workhouse, or Courthouse	13,062	0	0	13,062
Reserved for Sexual Offender Registration	313	0	0	313
Reserved for Computer System - Register	6,702	0	0	6,702
Reserved for Automation Purposes - Chancery Court	12	0	0	12
Reserved for Automation Purposes - Sheriff	398	0	0	398
Reserved for Other General Purposes	9,071	0	0	9,071
Unreserved, Reported In:				
General Fund	525,543	0	0	525,543
Special Revenue Funds	0	105,891	76,591	182,482
Debt Service Funds	0	0	390,635	390,635
Total Fund Balances	\$ 557,053	\$ 105,891	\$ 467,226	\$ 1,130,170
Total Liabilities and Fund Balances	\$ 1,767,543	\$ 478,824	\$ 706,199	\$ 2,952,566

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

Exhibit C-2

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2006

Amounts reported for governmental activities in the statement of net assets (Exhibit A) are different because:

Total fund balances - balance sheet - governmental funds (Exhibit C-1)		\$	1,130,170
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Add: land	\$	308,779	
Add: buildings and improvements net of accumulated depreciation		1,121,828	
Add: infrastructure net of accumulated depreciation		565,200	
Add: other capital assets net of accumulated depreciation		<u>803,272</u>	2,799,079
(2) Long-term liabilities are not due in the current period and therefore are not reported in the governmental funds.			
Less: notes payable	\$	(839,489)	
Less: compensated absences payable		(46,178)	
Less: accrued interest on notes		<u>(13,251)</u>	(898,918)
(3) Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.			<u>284,506</u>
Net assets of governmental activities (Exhibit A)		\$	<u><u>3,314,837</u></u>

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

Exhibit C-3

The Metropolitan Government of Lynchburg, Moore 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	Other Govern- mental Funds	
<u>Revenues</u>				
Local Taxes	\$ 1,512,234	\$ 53,296	\$ 401,731	\$ 1,967,261
Licenses and Permits	9,346	0	2,959	12,305
Fines, Forfeitures, and Penalties	25,042	0	32,626	57,668
Charges for Current Services	126,763	0	161,719	288,482
Other Local Revenues	90,347	18,857	8,274	117,478
Fees Received from County Officials	243,442	0	0	243,442
State of Tennessee	487,059	1,334,580	3,457	1,825,096
Federal Government	286,746	0	0	286,746
Other Governments and Citizens Groups	83,829	0	0	83,829
Total Revenues	<u>\$ 2,864,808</u>	<u>\$ 1,406,733</u>	<u>\$ 610,766</u>	<u>\$ 4,882,307</u>
<u>Expenditures</u>				
Current:				
General Government	\$ 365,397	\$ 0	\$ 12,939	\$ 378,336
Finance	169,004	0	0	169,004
Administration of Justice	168,471	0	0	168,471
Public Safety	1,018,856	0	19,517	1,038,373
Public Health and Welfare	257,722	0	248,112	505,834
Social, Cultural, and Recreational Services	108,504	0	0	108,504
Agricultural and Natural Resources	47,141	0	0	47,141
Other Operations	690,237	0	0	690,237
Highways	0	1,495,562	0	1,495,562
Debt Service:				
Principal on Debt	0	0	219,608	219,608
Interest on Debt	0	0	21,488	21,488
Other Debt Service	0	0	3,643	3,643
Capital Projects	225,000	0	0	225,000
Total Expenditures	<u>\$ 3,050,332</u>	<u>\$ 1,495,562</u>	<u>\$ 525,307</u>	<u>\$ 5,071,201</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (185,524)</u>	<u>\$ (88,829)</u>	<u>\$ 85,459</u>	<u>\$ (188,894)</u>
<u>Other Financing Sources (Uses)</u>				
Notes Issued	\$ 425,000	\$ 0	\$ 0	\$ 425,000
Transfers In	0	0	9,740	9,740
Transfers Out	(9,740)	0	0	(9,740)
Total Other Financing Sources (Uses)	<u>\$ 415,260</u>	<u>\$ 0</u>	<u>\$ 9,740</u>	<u>\$ 425,000</u>
Net Change in Fund Balances	\$ 229,736	\$ (88,829)	\$ 95,199	\$ 236,106
Fund Balance, July 1, 2005	327,317	194,720	372,027	894,064
Fund Balance, June 30, 2006	<u>\$ 557,053</u>	<u>\$ 105,891</u>	<u>\$ 467,226</u>	<u>\$ 1,130,170</u>

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

Exhibit C-4

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities (Exhibit B) are different because:

Net change in fund balances - total governmental funds (Exhibit C-3)		\$	236,106
(1) Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense. The difference between capital outlays and depreciation is itemized as follows:			
Add: capital assets purchased in the current period	\$	670,205	
Less: current year depreciation		<u>(226,656)</u>	443,549
(2) Revenues in the statement of activities that do not provide current financial resources are not reported in the funds.			
Add: deferred delinquent property taxes/other deferred June 30, 2006	\$	284,506	
Less: deferred delinquent property taxes/other deferred June 30, 2005		<u>(337,897)</u>	(53,391)
(3) The issuance of long-term debt (e.g., bonds, other loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:			
Less: note proceeds	\$	(425,000)	
Add: principal payment on notes		<u>219,608</u>	(205,392)
(4) Some expenses reported in the statement of activities do not require the uses of current financial resources and therefore are not reported as expenditures in governmental funds.			
Add: change in accrued interest payable	\$	(6,256)	
Less: change in compensated absences		<u>(5,783)</u>	(12,039)
Change in net assets of governmental activities (Exhibit B)			<u>\$ 408,833</u>

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

Exhibit D-1

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Statement of Net Assets
Proprietary Fund
June 30, 2006

	Major Enterprise Fund
	Water and Sewer Department
<u>ASSETS</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 305,696
Inventories	31,457
Accounts Receivable	26,764
Allowance for Uncollectibles	(2,884)
Other Receivables	3,507
Unbilled Charges for Services	55,432
Total Current Assets	<u>\$ 419,972</u>
Noncurrent Assets:	
Restricted Assets:	
Customer Deposits	\$ 520
Revenue Bond Future Debt Service Account	71,659
Capital Assets:	
Construction in Progress	167,438
Utility Plant in Service	8,085,037
Accumulated Depreciation - Other Capital Assets	(2,099,184)
Total Noncurrent Assets	<u>\$ 6,225,470</u>
Total Assets	<u>\$ 6,645,442</u>
<u>LIABILITIES</u>	
Current Liabilities:	
Accounts Payable	\$ 63,374
Accrued Payroll	9,358
Accrued Leave	13,174
Due to Other Taxing Units	5,326
Revenue Bonds Payable - Current	30,957
Accrued Interest Payable	9,583
Capital Outlay Notes Payable	131,477
Deferred Fees	6,106
Customer Deposits	15,916
Total Current Liabilities	<u>\$ 285,271</u>
Noncurrent Liabilities:	
Capital Outlay Notes Payable - Long-term	\$ 1,451,137
Revenue Bonds Payable - Long-term	959,186
Less: Deferred Loans Costs	(18,730)
Total Noncurrent Liabilities	<u>\$ 2,391,593</u>
Total Liabilities	<u>\$ 2,676,864</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	\$ 3,573,357
Restricted for Debt Service	71,660
Unrestricted	<u>323,561</u>
Total Net Assets	<u>\$ 3,968,578</u>

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

Exhibit D-2

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2006

	Major Enterprise Fund <hr/> Water and Sewer Department <hr/>
<u>Operating Revenues</u>	
Charges for Current Services	\$ 1,170,524
Total Operating Revenues	<u>\$ 1,170,524</u>
<u>Operating Expenses</u>	
Public Health and Welfare	\$ 815,838
Depreciation	188,194
Total Operating Expenses	<u>\$ 1,004,032</u>
Operating Income (Loss)	<u>\$ 166,492</u>
<u>Nonoperating Revenues (Expenses)</u>	
Investment Income	\$ 10,239
Interest Expense	(92,695)
Loss on Retirement of Capital Assets	(4,510)
Total Nonoperating Revenues (Expenses)	<u>\$ (86,966)</u>
Income Before Contributions and Grants	\$ 79,526
Tap Fees in Excess of Costs	19,282
Contributions From Developers	24,636
Grants	<u>212,298</u>
Change in Net Assets	\$ 335,742
Net Assets, July 1, 2005	<u>3,632,836</u>
Net Assets, June 30, 2006	<u>\$ 3,968,578</u>

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

Exhibit D-3

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2006

	Major Enterprise Fund <hr/> Water and Sewer Department
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Receipts from Customers and Users	\$ 1,158,765
Payments to Suppliers	(362,757)
Payments to Employees	(456,267)
Net Cash Provided By (Used In) Operating Activities	<u>\$ 339,741</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING</u>	
<u>ACTIVITIES</u>	
Purchases of Capital Assets	\$ (796,232)
Proceeds from Long-term Debt	500,864
Capital Contributions	278,365
Principal Payments on Long-term Debt	(155,935)
Interest Payments on Long-term Debt	(93,948)
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>\$ (266,886)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Purchase of Certificate of Deposit	\$ (63)
Investment Income	10,239
Net Cash Provided By (Used In) Investing Activities	<u>\$ 10,176</u>
Increase (Decrease) in Cash	\$ 83,031
Cash, July 1, 2005	<u>142,749</u>
Cash, June 30, 2006	<u><u>\$ 225,780</u></u>
<u>Reconciliation of Operating Income to Net Cash Provided</u>	
<u>(Used) By Operating Activities</u>	
Operating Income (Loss)	\$ 166,492
Adjustments to Reconcile Operating Income to Net Cash Provided By (Used) Operating Activities:	
Depreciation and Amortization Expense	188,194
(Increase) Decrease in Accounts Receivable	(3,858)
(Increase) Decrease in Other Receivables	(2,234)
(Increase) Decrease in Other Accrued Revenue	(7,781)
(Increase) Decrease in Prepaid Items	18,845
(Increase) Decrease in Inventories	(5,165)
Increase (Decrease) in Accounts Payable	(6,555)
Increase (Decrease) in Accrued Wages and Payroll	(7,192)
Increase (Decrease) in Due to Other Taxing Units	1,302
Increase (Decrease) in Customer Deposits and Deferred Fees	(6,846)
Increase (Decrease) in Accrued Leave	4,539
Net Cash Provided By Operating Activities	<u>\$ 339,741</u>
<u>Reconciliation of Cash With Statement of Net Assets</u>	
Cash and Cash Equivalents Per Satatement of Net Assets	\$ 305,696
Add: Revenue Bonds Future Debt Service Account	71,659
Less: Certificates of Deposit	<u>(151,575)</u>
Cash, June 30, 2006	<u><u>\$ 225,780</u></u>

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

Exhibit E

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2006

	<u>Agency Fund</u>
<u>ASSETS</u>	
Cash	\$ <u>47,104</u>
Total Assets	\$ <u><u>47,104</u></u>
<u>LIABILITIES</u>	
Due to Litigants, Heirs, and Others	\$ <u>47,104</u>
Total Liabilities	\$ <u><u>47,104</u></u>

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

**THE METROPOLITAN GOVERNMENT OF
LYNCHBURG, MOORE COUNTY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The following are the more significant accounting policies of the metropolitan government:

A. Reporting Entity

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

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

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

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

The Moore County Emergency Communications District provides a simplified means of securing emergency services through a uniform emergency number for the residents of Moore County, and the Metropolitan Council 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 Metropolitan Council's approval.

The School Department does not issue separate financial statements from those of the metropolitan government. Therefore, basic financial statements of the School Department are included in this report as listed in the table of contents. Complete financial statements of the Moore County Emergency Communications District can be obtained from its administrative office at the following address:

Administrative Office:

Moore County Emergency Communications District
P.O. Box 8051
Lynchburg, TN 37352

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities, which rely to a significant extent on fees and charges, are required to be reported separately from governmental activities in government-wide financial statements. The primary government of Moore County has one business-type activity to report, the Metropolitan Lynchburg – Moore County Water and Sewer Department. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The Metropolitan School Department component unit only reports governmental activities in the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The Metropolitan Government of Lynchburg, Moore County issues all debt for the discretely presented Metropolitan School Department. The metropolitan government contributed no debt issues to the School Department during the year ended June 30, 2006.

Separate financial statements are provided for governmental funds, the proprietary fund, and the fiduciary fund. The fiduciary fund is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which have no measurement focus. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund financial statements of the metropolitan government 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/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. The metropolitan government only reports one proprietary fund, the Metropolitan Lynchburg – Moore County Water and Sewer Department Fund, an enterprise fund.

Separate financial statements are provided for governmental funds, the proprietary fund, and the fiduciary fund. Major individual governmental funds and the major individual enterprise fund 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 metropolitan government 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 metropolitan government 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 metropolitan government receives cash.

Proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus (except for agency funds which have no 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 metropolitan government reports the following major governmental funds:

General Fund – This is the metropolitan government’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 metropolitan government’s Highway Department.

The metropolitan government reports the following major proprietary fund:

Water and Sewer Department Fund – The Water and Sewer Department Fund accounts for water and sewer services provided by the metropolitan government.

Additionally, the metropolitan government reports the following fund types:

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

Agency Fund – The Constitutional Officers - Agency Fund accounts for amounts collected in an agency capacity by the constitutional officers. 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.

The discretely presented Metropolitan School Department reports the following major governmental fund:

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

Additionally, the Metropolitan School Department reports the following fund type:

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

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

D. 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 metropolitan government's own legally issued bonds or notes; the State Treasurer's Investment Pool; and repurchase agreements.

The metropolitan trustee maintains a cash and internal investment pool that is used by all metropolitan government (excluding the Water and Sewer Fund, enterprise fund) and School Department funds. Each fund's portion of this pool is displayed on the balance sheets or statements of net assets as Equity in Pooled Cash and Investments. Most income from these pooled investments is assigned to the General Fund. The metropolitan government 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 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.

All ambulance, solid waste collection fees, and property taxes receivables are shown with allowances for uncollectibles. Ambulance and solid waste receivables allowances for uncollectibles are based on historical collection data. The allowance for uncollectible property taxes is equal to one-half 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. Inventories

Inventories of the School Department are recorded at cost, determined on the first-in, first-out method.

4. Capital Assets

Governmental funds do not capitalize the cost of capital outlays; these funds report capital outlays as expenditures upon acquisition.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items acquired after July 1, 2003), are reported in the governmental and business-type columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 or more (\$25,000 for infrastructure) and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, equipment, and infrastructure of the primary government (excluding the Water and Sewer Fund, enterprise fund) and the discretely presented School Department are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	20-50
Other Capital Assets	5-15
Infrastructure:	
Roads	10-15
Bridges	40

5. Compensated Absences

It is the metropolitan government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the metropolitan government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred for the metropolitan government. 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.

General policy of the School Department for all professional personnel (teachers) permits the unlimited accumulation of unused sick leave days. The granting of sick leave for professional personnel has no guaranteed payment attached and therefore requires no accrual or recording. Noncertified personnel of the School Department earn varying amounts of annual and sick leave days. The School Department has an informal policy of paying employees their accumulated balances at termination.

6. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt using the straight-line method. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Only the matured portion (the portion that has come due for payment) of long-term indebtedness, including notes 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.

7. Net Assets and Fund Equity

In the government-wide financial statements, equity is classified as net assets and displayed in three components.

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

As of June 30, 2006, the metropolitan government had \$319,026 outstanding debt for capital purposes for the discretely presented Metropolitan School Department. This debt is a liability of the metropolitan government, but the capital assets acquired are reported in the financial statements of the School Department. Therefore, the metropolitan government has incurred a liability significantly decreasing its unrestricted net assets with no corresponding increase in the metropolitan government’s capital assets.

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

<u>Fund/Purpose</u>	<u>Amount</u>
General:	
Building construction	\$ 28,410
Law enforcement equipment	5,569

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Primary Government

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

Discretely Presented Metropolitan School Department

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

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

Primary Government

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

Discretely Presented Metropolitan School Department

Exhibit I-5 includes explanations of the nature of individual elements of items required to reconcile the net change in fund balances – total governmental funds with the change in net assets of governmental activities reported in the government-wide statement of activities.

III. 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, and the capital projects funds, which adopt project length budgets. All annual appropriations lapse at fiscal year end.

The metropolitan government 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 Metropolitan Council 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: Metropolitan Council, Metropolitan Executive, County Attorney, etc.). Management may make revisions within major categories, but only the Metropolitan Council may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

The metropolitan government'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.

B. Cash Overdraft

The Solid Waste/Sanitation Fund had a cash overdraft of \$3,401 at June 30, 2006. This cash overdraft resulted from issuing warrants that exceeded cash on deposit with the metropolitan trustee. The cash overdraft was liquidated subsequent to June 30, 2006.

C. Expenditures Exceeded Appropriations

Expenditures exceeded appropriations approved by the Metropolitan Council in the following funds' major appropriation categories (the legal level of control):

<u>Fund/Category</u>	<u>Amount Overspent</u>
Primary Government:	
Highway Public/Works:	
Administration	\$ 189
General Debt Service:	
Interest on Debt - Education	116
Other Debt Service - General Government	443
Discretely Presented School Department:	
School Federal Projects:	
Instruction:	
Regular Instruction Program	3,643
Special Education Program	474
Vocational Education Program	667

Also, expenditures exceeded total appropriations in the Solid Waste/Sanitation Fund by \$23,799.

Such overexpenditures are a violation of state statutes. These overexpenditures were funded by available fund balances.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The metropolitan government (excluding the Water and Sewer Fund, enterprise fund) and School Department participate in an internal cash and investment pool through the Office of Trustee. The metropolitan trustee is the treasurer of the metropolitan government and in this capacity is responsible for receiving, disbursing, and investing most metropolitan government funds. Each fund's portion of this pool is displayed on the balance sheets or statements of net assets as Equity in Pooled Cash and Investments. Cash reflected on the balance sheets or statements of net assets represents 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 metropolitan government.

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 metropolitan government had no pooled and nonpooled investments as of June 30, 2006.

B. Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

Primary Government

Governmental Activities:

	Balance 7-1-05	Increases	Decreases	Balance 6-30-06
Capital Assets Not Depreciated:				
Land	\$ 82,950	\$ 225,829	\$ 0	\$ 308,779
Total Capital Assets Not Depreciated	<u>\$ 82,950</u>	<u>\$ 225,829</u>	<u>\$ 0</u>	<u>\$ 308,779</u>
Capital Assets Depreciated:				
Buildings and Improvements	\$ 1,885,169	\$ 0	\$ 0	\$ 1,885,169
Roads and Bridges	503,584	124,621	0	628,205
Other Capital Assets	2,211,366	319,755	(19,950)	2,511,171
Total Capital Assets Depreciated	<u>\$ 4,600,119</u>	<u>\$ 444,376</u>	<u>\$ (19,950)</u>	<u>\$ 5,024,545</u>

Governmental Activities (Cont.):

	Balance 7-1-05	Increases	Decreases	Balance 6-30-06
Less Accumulated Depreciation For:				
Buildings and Improvements	\$ 727,027	\$ 36,314	\$ 0	\$ 763,341
Roads and Bridges	31,738	31,267	0	63,005
Other Capital Assets	1,568,774	159,075	(19,950)	1,707,899
Total Accumulated Depreciation	<u>\$ 2,327,539</u>	<u>\$ 226,656</u>	<u>\$ (19,950)</u>	<u>\$ 2,534,245</u>
Total Capital Assets Depreciated, Net	<u>\$ 2,272,580</u>	<u>\$ 217,720</u>	<u>\$ 0</u>	<u>\$ 2,490,300</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,355,530</u>	<u>\$ 443,549</u>	<u>\$ 0</u>	<u>\$ 2,799,079</u>

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 10,891
Finance	1,683
Public Safety	92,795
Public Health and Welfare	15,475
Social, Cultural, and Recreational Services	11,048
Agriculture and Natural Resources	1,460
Highway/Public Works	<u>93,304</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 226,656</u>

Discretely Presented Metropolitan School Department**Governmental Activities:**

	Balance 7-1-05	Increases	Decreases	Balance 6-30-06
Capital Assets Not Depreciated:				
Land	\$ 39,342	\$ 0	\$ 0	\$ 39,342
Total Capital Assets Not Depreciated	<u>\$ 39,342</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 39,342</u>

Governmental Activities (Cont.):

	Balance 7-1-05	Increases	Decreases	Balance 6-30-06
Capital Assets Depreciated:				
Buildings and				
Improvements	\$ 9,499,750	\$ 97,386	\$ 0	\$ 9,597,136
Other Capital Assets	848,885	19,759	(190,555)	678,089
Total Capital Assets				
Depreciated	<u>\$ 10,348,635</u>	<u>\$ 117,145</u>	<u>\$ (190,555)</u>	<u>\$ 10,275,225</u>
Less Accumulated				
Depreciation For:				
Buildings and				
Improvements	\$ 5,221,538	\$ 2,973	\$ 0	\$ 5,224,511
Other Capital Assets	421,168	228,926	(108,298)	541,796
Total Accumulated				
Depreciation	<u>\$ 5,642,706</u>	<u>\$ 231,899</u>	<u>\$ (108,298)</u>	<u>\$ 5,766,307</u>
Total Capital Assets				
Depreciated, Net	<u>\$ 4,705,929</u>	<u>\$ (114,754)</u>	<u>\$ (82,257)</u>	<u>\$ 4,508,918</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 4,745,271</u>	<u>\$ (114,754)</u>	<u>\$ (82,257)</u>	<u>\$ 4,548,260</u>

Depreciation expense was charged to functions of the School Department as follows:

Governmental Activities:

Instruction	\$ 159,469
Support Services	58,520
Operation of Non-Instructional Services	<u>13,910</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 231,899</u></u>

C. 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>
Primary Government:		
General	Nonmajor governmental	\$ 200
Discretely Presented School Department:		
General Purpose School	Nonmajor governmental	5

These balances 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.

The receivable in the General Purpose School Fund (\$5) was in transit from the School Federal Projects Fund at June 30, 2006.

Due to/from primary government and component units:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
	Component Unit:	
Primary government:	School Department:	
General	General Purpose School	\$ 7,167

The receivable in the General Fund (\$7,167) was in transit from the General Purpose School Fund at June 30, 2006.

Interfund Transfers:

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

Primary Government	<u>Transfer In</u>
	Nonmajor
	Governmental
	Fund
<u>Transfers Out</u>	
General Fund	<u>\$ 9,740</u>
Total	<u><u>\$ 9,740</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.

D. Long-term Debt

Primary Government

Notes

Capital outlay notes are issued to fund capital facilities and other capital outlay purchases, such as equipment.

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

Capital outlay notes outstanding as of June 30, 2006, are as follows:

Type	Interest Rates	Original Amount of Issue	Balance 6-30-06
Capital Outlay Notes	.84 to 4.75%	\$ 2,030,598	\$ 839,489

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

Year Ending June 30	Notes	
	Principal	Interest
2007	\$ 245,533	\$ 29,562
2008	236,475	21,416
2009	63,123	13,281
2010	53,384	10,757
2011	50,302	8,748
2012-2015	190,672	15,892
Total	<u>\$ 839,489</u>	<u>\$ 99,656</u>

There is \$390,635 available in the General Debt Service Fund to service long-term debt. Debt per capita totaled \$146, 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:

	Notes	Compensated Absences
Balance, July 1, 2005	\$ 634,097	\$ 40,395
Additions	425,000	67,177
Deductions	(219,608)	(61,394)
Balance, June 30, 2006	<u>\$ 839,489</u>	<u>\$ 46,178</u>
Balance Due Within One Year	<u>\$ 245,533</u>	<u>\$ 2,309</u>

Compensated absences will be paid from the employing funds, primarily the General and the Highway/Public Works Funds.

Discretely Presented Metropolitan School Department

Changes in Long-term Liabilities

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

Governmental Activities:

	<u>Compensated Absences</u>
Balance, July 1, 2005	\$ 138,722
Additions	64,782
Deductions	<u>(44,179)</u>
Balance, June 30, 2006	<u>\$ 159,325</u>
Balance Due Within One Year	<u>\$ 53,825</u>

Compensated absences will be paid from the employing funds, primarily the General Purpose School and School Federal Projects Funds.

E. Short-term Debt

The metropolitan government issued tax anticipation notes in advance of property tax collections and deposited the proceeds in the General Fund. These notes were necessary because funds were not available to provide adequate cash flow before current tax collections. Short-term debt activity for the year ended June 30, 2006, was as follows:

	Balance 7-1-05	Issued	Redeemed	Balance 6-30-06
Tax Anticipation Notes	\$ 0	\$ 100,000	\$ (100,000)	\$ 0

V. OTHER INFORMATION

A. Risk Management

The metropolitan government joined the Tennessee School Boards Management Trust (TSB-RMT), which is a public entity risk pool established by the Tennessee School Boards Association, an association of member school districts. The metropolitan government pays an annual premium 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. The TSB-RMT reinsures through commercial insurance companies for claims exceeding \$200,000 for each insured event.

The metropolitan government continues to carry commercial insurance for risks associated with the employees' health insurance plan. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The discretely presented School Department provides health insurance coverage to its employees through the Local Government Group Insurance Fund (LGGIF), a public entity risk pool established to provide a program of health insurance coverage for employees of local governments and quasi-governmental entities that was established for the primary purpose of providing services for or on behalf of state and local governments. In accordance with Section 8-27-207, Tennessee Code Annotated, all local governments and quasi-governmental entities described above are eligible to participate. The LGGIF is included in the Comprehensive Annual Financial Report of the State of Tennessee, but the state does not retain any risk for losses by the fund. The state statute provides for the LGGIF 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 the metropolitan government 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 the metropolitan government 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 metropolitan government had no net assets restricted by enabling legislation to disclose as of June 30, 2006. But it is reasonably expected that the metropolitan government 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 metropolitan government was not offering any termination benefits to employees as of June 30, 2006. But it is reasonably expected that the metropolitan government will offer termination benefits in subsequent years subject to the accounting and reporting requirements of GASB Statement No. 47.

C. Subsequent Event

On June 30, 2006, Wayne Stewart left the Office of Director of Schools and was succeeded by Chad Moorehead.

D. Contingent Liabilities

The metropolitan government is involved in several pending lawsuits. The metropolitan government's attorney estimates that the potential claims against the metropolitan government not covered by insurance resulting from

such litigation would not materially affect the financial statements of the metropolitan government.

The metropolitan government and several other Tennessee counties have been named as defendants in a lawsuit demanding compliance with the requirements of the American with Disabilities Act (ADA). This lawsuit applies to all metropolitan facilities. As of the date of this report, the metropolitan government believes it has completed various projects to renovate the existing facilities to bring them into substantial compliance with the ADA. A settlement order has been entered and is being monitored by the court.

E. Retirement Commitments

Plan Description

Employees of the metropolitan government and 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 the metropolitan government 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

Metropolitan Government Employees

The metropolitan government requires employees to contribute five percent of earnable compensation. The metropolitan government is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2006, was 7.17 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the metropolitan government is established and may be amended by the TCRS Board of Trustees.

School Department Employees

The School Department requires employees to contribute five percent of earnable compensation. The School Department is required to contribute at an actuarially determined rate; the rate for the fiscal year ended 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 the School Department is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

Metropolitan Government Employees

For the year ended June 30, 2006, the metropolitan government's annual pension cost of \$24,001 to TCRS was equal to the metropolitan government'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), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post-retirement increases of three percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. The metropolitan government'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 17 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	\$24,001	100%	\$0
6-30-05	21,807	100	0
6-30-04	22,853	100	0

School Department Employees

For the year ended June 30, 2006, the School Department's annual pension cost of \$19,713 to TCRS was equal to the School Department'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), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post-retirement increases of three percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. School Department's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2003, was ten 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	\$19,713	100%	\$0
6-30-05	19,456	100	0
6-30-04	0	100	0

Schedule of Funding Progress

Metropolitan Government Employees

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6-30-05	\$638	\$749	\$111	85.18%	\$300	37.00%
6-30-03	552	668	116	82.63	294	39.46
6-30-01	428	554	126	77.26	286	44.06

School Department Employees

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6-60-05	\$2,035	\$2.035	\$0	100%	\$883	0%
6-30-03	1,873	1,873	0	100	847	0
6-30-01	1,724	1,724	0	100	789	0

SCHOOL TEACHERS

Plan Description

The 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 School Department County 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 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 \$185,267, \$184,065, and \$102,941, respectively, equal to the required contributions for each year.

F. Other Post-employment Benefits

In addition to the retirement commitments described above, the discretely presented School Department provides post-retirement health care benefits, in accordance with contract provisions, to all employees who retire from the School Department with at least 20 years employment and 30 years vested service with the Tennessee Consolidated Retirement System and who have been covered under the School Department's sponsored insurance plan for one full year prior to retirement. Currently three retirees meet those eligibility requirements. The School Department pays 55 percent of the medical premiums for retirees. Expenditures for post-retirement health care benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not reported to the county. During the year, expenditures totaling \$6,664 were recognized for post-employment health care.

G. Purchasing Law

The metropolitan government follows the Metropolitan Charter, which provides for all purchases and contracts for goods or services to be made

through a consolidated Metropolitan Purchasing Department. The charter further provides for the metropolitan executive to manage/conduct the Metropolitan Purchasing Department according to the procedures adopted by the Metropolitan Council. The Metropolitan Council is required by the charter to establish a three-member oversight committee to oversee the activity of the Metropolitan Purchasing Department.

The Metropolitan Council has not created a consolidated Metropolitan Purchasing Department. However, effective June 21, 1999 (amended October 18, 2004), the council adopted the following purchasing procedures to be administered by the metropolitan executive assisted by the director of schools and the highway superintendent:

1. Purchase orders are required for all purchases estimated to exceed \$250.
2. Purchase orders shall be approved by the metropolitan executive for the general metropolitan government, the director of schools for the School Department, and the highway superintendent for the Highway Department.
3. Evidence of receiving goods or services should be noted on all invoices prior to payment.
4. The Metropolitan Council set bid requirements for the Office of Metropolitan Executive to follow the general statutes of the County Purchasing Law of 1983, Sections 5-14-201 through 5-14-206, Tennessee Code Annotated (TCA), which provide for competitive bids on all purchases exceeding \$5,000.
5. The Metropolitan Council set the bid requirements for the Office of Highway Superintendent to follow the general statutes of the County Purchasing Law of 1983, Sections 5-14-201 through 5-14-206, TCA and the Uniform Road Law, Section 54-7-113, TCA, which provide for purchases exceeding \$10,000 to be made after public advertisement and solicitation of competitive bids.
6. The Metropolitan Council set the bid requirements for the Office of Director of Schools to follow the general statutes applicable to schools as set forth in Section 49-2-203, TCA, which provides for the 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 that competitive bids be solicited through newspaper advertisement on all purchases exceeding \$10,000.

VI. OTHER NOTES – WATER AND SEWER DEPARTMENT (ENTERPRISE FUND)

A. General

The financial statements include the accounts of Metropolitan Lynchburg – Moore County Water and Sewer Department, which is owned by Metropolitan Lynchburg – Moore County, Tennessee, (the primary government) and is governed by the Metropolitan Council and a Utility

Board, composed of members of the council. The department does not represent a separate legal entity separate and apart from the primary government.

B. Summary of Significant Accounting Policies

The accounting policies of the department conform to generally accepted accounting principles as applicable to enterprise funds. The department applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB, in which case, GASB prevails. A proprietary activity may also elect to apply all FASB statements and interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The department has not elected this option. The following is a summary of significant policies:

Accounting Method – These financial statements have been prepared on the accrual basis of accounting. The department accrues the unbilled revenue from the dates of the most recent meter readings to the balance sheet date.

Utility Plant and Depreciation – The utility plant in service is reported at cost and includes improvements, with a cost in excess of \$3,000 that significantly adds to utility plant or extends useful lives. The costs of maintenance and repairs are charged to expense, as are tap connection costs. Depreciation is calculated by the straight-line method to allocate the cost of the assets over their estimated useful lives using guidelines set forth by the Utility Review Board. The estimated useful lives are as follows:

<u>Assets</u>	<u>Years</u>
Structures	20-50
Utility plant other than structure and equipment	25-50
Equipment	5-10

Allowance for Uncollectible Accounts – The department provides an allowance for uncollectible accounts equal to estimated losses that will be incurred in collection of all receivables. The estimated losses are based on historical collection experience and a review of the current status of the outstanding receivables.

Inventories – Inventories are stated at cost, first-in, first-out method.

Amortization of Deferred Loan Costs – Deferred loan costs are being amortized, on the straight-line method, over the life of the bonds.

Compensated Absences – The costs of vacation pay granted to employees are recorded as expenditures when earned.

Cash Equivalents – For purposes of the statement of cash flows, the department considers all highly liquid investments (including restricted assets) purchased with an original maturity of three months or less to be cash equivalents.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Capitalized Interest – Net interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The department capitalized \$504 of interest cost during the current year.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the department are charges to customers for sales and services. The department also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative and maintenance expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonreporting revenues and expenses.

As a general rule, when both restricted and unrestricted resources are available for use, it is the department's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Utility Plant Additions and Retirements

Business-type Activities:

	Balance 7-1-05	Additions	Deductions	Balance 6-30-06
Capital Assets:				
General	\$ 334,771	\$ 43,660	\$ 9,380	\$ 369,051
Water	5,284,817	660,448	0	5,945,265
Sewer	1,684,565	3,793	0	1,688,358
Maintenance	82,363	0	0	82,363
Total Capital Assets	<u>\$ 7,386,516</u>	<u>\$ 707,901</u>	<u>\$ 9,380</u>	<u>\$ 8,085,037</u>

Business-type Activities (Cont.):

	Balance 7-1-05	Additions	Deductions	Balance 6-30-06
Allowances for Depreciation:				
General	\$ 57,471	\$ 16,937	\$ 4,870	\$ 69,137
Water	983,469	121,574	0	1,105,043
Sewer	861,602	42,459	0	904,061
Maintenance	14,198	6,745	0	20,943
Total Depreciation	<u>\$ 1,916,740</u>	<u>\$ 187,715</u>	<u>\$ 4,870</u>	<u>\$ 2,099,184</u>

D. Cash and Restricted Funds

The following is a summary of cash and restricted funds at June 30, 2006:

	Cash	Certificates of Deposit	Total
Cash for general use:			
Cash on Hand	\$ 300	\$ 0	\$ 300
Cash in Bank	153,821	151,575	305,396
Restricted funds:			
Bond reserve fund	71,659	0	71,659
Total	<u>\$ 225,780</u>	<u>\$ 151,575</u>	<u>\$ 377,355</u>

The Bond Reserve Fund is restricted for future bond and interest payments.

The department has also designated \$230,927 as a depreciation reserve account to be used to fund capital asset replacements.

It is the department's policy to require its financial institution to collateralize deposits not covered by depository insurance by pledging securities held in the department's name by depositories acting as agents for the department.

E. Revenue Bonds

A summary of transactions for the year ended June 30, 2006, includes the following:

Balance - beginning of year	\$ 1,027,628
Bond payments	(37,485)
Less current maturities	<u>(30,957)</u>
Revenue bonds, less current maturities - end of year	<u>\$ 959,186</u>

Details of water and sewer revenue bonds are as follows:

Series 1989 Sewer Revenue and Tax Bonds, 5%, payable \$1,530 per month including principal and interest with final maturity in 2009	\$ 38,672
Series 1992 Water Revenue and Tax Bonds, 6.625%, payable \$301 per month including principal and interest with final maturity in 2030	42,955
Series 1992A Water Revenue and Tax Bonds, 6.375%, payable \$138 per month including principal and interest with final maturity in 2029	19,944
Series 1994 Water Revenue and Tax Bonds, 5.5%, payable \$462 per month including principal and interest with final maturity in 2032	75,900
Series 1997 Water Revenue and Tax Bonds, 4.875%, payable \$1,459 per month including principal and interest with final maturity in 2036	272,344
Series 2000 Water Revenue and Tax Bonds, 4.75%, payable \$1,711 per month including principal and interest with final maturity in 2038	336,638
Series 2001 Water Revenue and Tax Bonds, 4.75%, payable \$1,012 per month including principal and interest with final maturity in 2040	<u>203,690</u>
Total	<u>\$ 990,143</u>

The bonds are payable from and secured primarily by a pledge of the net revenues of the department; in the event such revenues are insufficient, the bonds are further secured by the taxing power of the metropolitan government.

The annual requirements to amortize principal and interest for all revenue bonds as of June 30, 2006, are as follows:

Year	Principal	Interest
2007	\$ 30,957	\$ 48,429
2008	32,543	46,813
2009	19,732	45,416
2010	16,405	44,591
2011	17,247	43,749
2012-2016	100,514	204,465
2017-2021	129,266	175,715
2022-2026	166,366	138,613
2027-2031	204,239	91,284
2032-2036	197,006	41,258
2037-2040	<u>75,868</u>	<u>5,113</u>
Total	<u>\$ 990,143</u>	<u>\$ 885,446</u>

Under provisions of the bond agreements, the department is required to establish and maintain various funds as follows:

Revenue Fund – All revenues are to be deposited in this fund and shall be disbursed for the establishment of the other required funds.

Operation and Maintenance Fund – The money transferred from the revenue fund is to be deposited to this fund for payment of current expenses. The maximum balance of this fund shall not exceed one-fourth of the amount budgeted for current expenses for the fiscal year.

Bond Funds – The next monies available are to be used to establish bond funds to be used to pay the principal and interest on the bonds as such payments are due. As part of the Bond Funds, Debt Service Reserve Accounts are also to be funded in the amount of \$18,360 for the 1989 series, \$3,612 for the 1992 series, \$1,656 for the 1992A series, \$5,544 for the 1994 series, \$17,508 for the 1997 series, \$20,532 for the 2000 series, and \$12,144 for the 2001 series. All reserve accounts were funded as required at June 30, 2006.

As required by provisions of the bond agreements, the beginning and end of the year balances of the required funds are as follows:

	<u>7-1-05</u>	<u>6-30-06</u>
Revenue	\$ 230,038	\$ 304,121
Operation and Maintenance	1,512	1,575
Bond	62,711	71,660

F. Notes Payable

Interest rates and repayment schedules for loans the department has with Farmers Bank are as follows:

Year Ending June 30	<u>Office Building 3.23%</u>		<u>Sewer Lift Station 2.55%</u>	
	Principal	Interest	Principal	Interest
2007	\$ 11,325	\$ 2,735	\$ 30,372	\$ 1,216
2008	11,690	2,371	30,702	432
2009	12,079	1,981	0	0
2010	12,475	1,585	0	0
2011	12,884	1,176	0	0
2012-2014	29,352	1,082	0	0
Total	<u>\$ 89,805</u>	<u>\$ 10,930</u>	<u>\$ 61,074</u>	<u>\$ 1,648</u>

Repayment schedules for loans the department has with Moore County Bank are as follows:

Year Ending				
June 30	Principal	Interest	Principal	Interest
2007	\$ 28,157	\$ 10,521	\$ 5,742	\$ 2,118
2008	29,147	9,531	7,107	1,918
2009	30,225	8,454	7,313	1,713
2010	31,316	7,364	7,524	1,501
2011	32,445	6,233	7,742	1,283
2012-2016	<u>157,814</u>	<u>12,951</u>	<u>41,804</u>	<u>2,923</u>
Total	<u>\$ 309,104</u>	<u>\$ 55,054</u>	<u>\$ 77,232</u>	<u>\$ 11,456</u>

The notes are secured by the full faith and credit of the Metropolitan Government of Lynchburg, Moore County and bear interest rates of 3.55 percent and 2.86 percent, respectively.

Metropolitan Lynchburg, Moore County, Tennessee, (the primary government) has borrowed funds under the State of Tennessee's revolving loan program for the department's construction projects. The principal and interest payments required under the terms of the loan, which are secured by the department's revenues and have a stated interest rate of 2.95 percent, are as follows:

Year	Principal	Interest
2007	\$ 35,047	\$ 24,401
2008	36,095	23,353
2009	37,175	22,273
2010	38,286	21,162
2011	39,431	20,017
2012-2016	215,563	81,677
2017-2021	249,778	47,462
2022-2025	<u>192,586</u>	<u>9,994</u>
Total	<u>\$ 843,961</u>	<u>\$ 250,339</u>

The department also has the following lines of credit for interim financing on its construction projects.

	Amount Approved	Amount Drawn	Interest Rate
\$	1,023,000	\$ 97,270	3.475 %
	1,500,000	0	3.475 *

* For twelve months, not to exceed 5.475 percent, thereafter.

Notes payable activity for the year ended June 30, 2006, is as follows:

Balance 7-1-05	Draws	Repayments	Balance 6-30-06
\$ 1,200,200	\$ 500,864	\$ 118,449	\$ 1,582,615

G. Lease-Purchase Agreement with County Line Cooperative

During 1979, the Town of Lynchburg (prior to its restructuring as Metropolitan Lynchburg – Moore County) entered into a lease-purchase agreement with County Line Cooperative in Moore County, Tennessee, to take over the operation and maintenance of the cooperative’s water distribution system. The Metropolitan Council has the option to purchase the water distribution system at any time during the term of this lease either for the sum of one dollar, or the then-existing balance due on the loan to Rural Development – USDA, whichever is greater. The Metropolitan Council has the option to renew the lease for additional periods of two years until September 11, 2010. The department accounted for this transaction as a capitalized lease and recorded the assets and related capitalized lease obligation (Rural Development – USDA note payable – See Note E).

H. Water Line Purchase

The department purchased the old Fayetteville Road water line from the Lincoln County Utility Board for \$150,000. The sales agreement executed July 27, 2004, requires a payment of \$25,000 at execution of the agreement with the balance to be paid in six equal annual installments with interest on the outstanding principal balance of four percent. Principal and interest payments required under the agreement are as follows:

August	Principal	Interest
2006	\$ 20,833	\$ 4,167
2007	20,833	3,333
2008	20,833	2,500
2009	20,833	1,667
2010	20,835	833
Total	<u>\$ 104,167</u>	<u>\$ 12,500</u>

I. Risk Management

The department is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The department obtains insurance coverage covering the above risks of loss through a public risk entity pool, Tennessee School Boards Risk Management Trust (TSB-RMT), which reinsures through commercial insurance companies for claims exceeding \$200,000 for each insured event. An annual loss fund is established based on TSB-RMT's known losses. If this amount is exhausted, TSB-RMT will pay the additional amount in self-insured retentions from surplus. If loss fund payments exceed available surplus, assessments to members could be possible. No estimates of any possible future assessments have been made.

Settled claims in the past three years have not exceeded the coverages.

J. Income Taxes

As a governmental entity, the department is exempt from federal, state, and local income taxes.

K. Significant Concentrations

The department operates principally to distribute water to residents of Moore County, Tennessee. The department grants credit to its customers, which at June 30, 2006, totaled \$26,764. Deposits from these customers, totaling \$15,916 at June 30, 2006, are held as security for these accounts receivable.

Water and sewer revenues from the Jack Daniels Distillery account for approximately 25 percent of the department's total water and sewer revenues.

L. Environmental Contingency

The department's facilities and operations are subject to a wide range of environmental protection laws related to the use and disposal of hazardous materials. As a result, there is the possibility that environmental conditions may arise which would require the department to incur clean-up costs. As in prior years, management continues its efforts to comply, and to determine compliance, with all applicable environmental protection laws and does not believe such costs, if any, would materially affect the department's financial position or its future cash flows.

M. Loan and Grant Funding

USDA Rural Development has awarded a \$1,050,000 loan and a \$400,000 grant to Metropolitan Lynchburg, Moore County. The funding will be used to construct a water treatment plant expansion, a transmission line, a 500,000

gallon storage tank, and other improvements for the department. As of June 30, 2006, the department had drawn \$97,270 in interim financing related to these projects.

N. Commitments

The status of construction contracts awarded for the federally funded projects is as follows:

<u>Contractor</u>	<u>Amount of Contract</u>	<u>Costs incurred through June 30, 2006</u>
Hawkins & Price, LLC	\$ 89,503	\$ 51,460
Laurel Construction Company	413,000	0
Haren Construction	1,223,700	0
Richland, LLC	1,630,000	0

O. Subsequent Event

On August 25, 2006, the Utility Board accepted a proposal from Winchester Utilities to purchase water lines. The department would acquire water lines for a purchase price of \$181,032, which it intends to finance over ten years in monthly installments of \$1,509.

VII. OTHER NOTES – DISCRETELY PRESENTED EMERGENCY COMMUNICATIONS DISTRICT

A. Summary of Significant Accounting Policies

The Moore County Emergency Communications District was established to provide an enhanced level of 911 services to the Moore County citizens by acquiring certain types of equipment that enable emergency service providers to respond more rapidly and more effectively due to increased speed in the transmittal of critical information and improved reliability of address and information. It is a component unit of the metropolitan government. The Moore County Emergency Communications District is run by a board of directors, which is appointed by the metropolitan government. The district must file a budget with the metropolitan government each year. Any bond issued by the district is subject to approval by the metropolitan government.

The district uses the accrual basis of accounting and the economic resources measurement focus. Revenues are recognized when earned, and expenses are recognized when incurred. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local

Governmental Units, and by the Financial Accounting Standards Board. As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the board has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedures issued after November 30, 1989.

Depreciation – Depreciation is computed at rates designed to amortize the cost of the individual assets over their useful lives. Depreciation begins when the capital assets are placed in service. Depreciation is summarized as follows:

<u>Asset</u>	<u>Method</u>	<u>Estimated Useful Life</u>	<u>Depreciation</u>
Owned Operating Equipment	S/L	5 & 10 Years	\$ 6,884

Operating and Nonoperating Income – Operating income includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues are emergency telephone and wireless surcharges. Principal operating expenses are the costs of providing services and include administrative expenses and depreciation of capital assets.

Nonoperating income consists of investment income, interest income, and State of Tennessee grants and reimbursements.

B. Deposits

The following is a schedule of bank accounts at June 30, 2006:

Checking - Farmer's Bank	\$ 37,295
Savings - Moore County Bank	12,378
Certificates of Deposit - Moore County Bank	19,642
Certificates of Deposit - Farmer's Bank	<u>4,193</u>
Total	<u>\$ 73,508</u>

At June 30, 2006, the carrying amount of the Moore County Emergency Communications District's cash deposits was \$73,508. The district's deposit accounts were covered by up to \$100,000 by the Federal Deposit Insurance Corporation.

C. Bonding

Moore County Emergency Communications District has a bond covering certain members of the board at June 30, 2006. This is the only risk area the district is exposed to at this time. There have been no losses or settlements during the past three years.

D. Capital Assets

The following is a schedule of equipment at June 30, 2006:

<u>Assets</u>	<u>Balance 7-1-05</u>	<u>Changes</u>	<u>Balance 6-30-06</u>
Owned Equipment	\$ 54,639	\$ 34,646	\$ 89,285
Total	<u>\$ 54,639</u>	<u>\$ 34,646</u>	<u>\$ 89,285</u>

<u>Assets</u>	<u>Balance 6-30-06</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Owned Equipment	\$ 89,285	\$ 44,056	\$ 45,229
Total	<u>\$ 89,285</u>	<u>\$ 44,056</u>	<u>\$ 45,229</u>

E. Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits with original maturities of three months or less with local financial institutions.

F. Accounts Receivable/Due From State Emergency Communications Board

The amounts of \$2,134 from Bell South Telephone Company and \$11,892 due from the State of Tennessee represent amounts due the district for subscriber service charges and wireless charges at June 30, 2006. There is no need for an allowance for bad debts.

G. Compensated Absences

There were no employees at June 30, 2006.

H. Calculation of Invested in Capital Assets

Net Book Value	\$	45,229
Current and Noncurrent Assets		<u>0</u>
Invested in Capital Assets	\$	<u>45,229</u>

I. Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the district's policy to use restricted resources first.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit F-1

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
General 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	\$ 1,512,234	\$ 0	\$ 1,512,234	\$ 1,431,119	\$ 1,431,530	\$ 80,704
Licenses and Permits	9,346	0	9,346	6,500	6,500	2,846
Fines, Forfeitures, and Penalties	25,042	0	25,042	21,675	22,799	2,243
Charges for Current Services	126,763	0	126,763	95,950	96,297	30,466
Other Local Revenues	90,347	0	90,347	72,986	78,845	11,502
Fees Received from County Officials	243,442	0	243,442	203,400	203,400	40,042
State of Tennessee	487,059	0	487,059	389,463	402,022	85,037
Federal Government	286,746	0	286,746	0	283,790	2,956
Other Governments and Citizens Groups	83,829	0	83,829	0	67,829	16,000
Total Revenues	\$ 2,864,808	\$ 0	\$ 2,864,808	\$ 2,221,093	\$ 2,593,012	\$ 271,796
<u>Expenditures</u>						
<u>General Government</u>						
Metropolitan Council	\$ 109,478	\$ 0	\$ 109,478	\$ 103,553	\$ 110,171	\$ 693
Metropolitan Executive	87,988	0	87,988	89,402	89,402	1,414
County Attorney	5,737	0	5,737	5,737	5,737	0
Election Commission	43,349	0	43,349	42,093	43,743	394
Register of Deeds	56,236	0	56,236	57,748	57,748	1,512
Planning	11,803	0	11,803	11,888	11,888	85
County Buildings	46,461	(5,047)	41,414	63,380	61,411	19,997
Preservation of Records	4,345	0	4,345	0	4,345	0
<u>Finance</u>						
Property Assessor's Office	63,344	0	63,344	64,414	64,414	1,070
County Trustee's Office	52,894	0	52,894	53,448	53,448	554
Metropolitan Clerk's Office	52,766	0	52,766	53,749	53,749	983
<u>Administration of Justice</u>						
Circuit Court	58,334	0	58,334	64,136	64,136	5,802

(Continued)

Exhibit F-1

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
General Fund (Cont.)

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Expenditures (Cont.)</u>						
<u>Administration of Justice (Cont.)</u>						
General Sessions Court	\$ 44,133	\$ 0	\$ 44,133	\$ 44,544	\$ 44,544	\$ 411
Chancery Court	49,472	0	49,472	50,298	50,720	1,248
Juvenile Court	9,000	0	9,000	9,000	9,000	0
Judicial Commissioners	7,532	0	7,532	7,187	7,567	35
<u>Public Safety</u>						
Sheriff's Department	585,416	(51,640)	533,776	547,708	585,418	51,642
Administration of the Sexual Offender Registry	347	0	347	0	347	0
Jail	180,642	0	180,642	181,761	181,761	1,119
Fire Prevention and Control	252,451	(4,777)	247,674	253,440	264,565	16,891
County Coroner/Medical Examiner	0	0	0	200	200	200
<u>Public Health and Welfare</u>						
Local Health Center	29,037	0	29,037	29,346	29,346	309
Rabies and Animal Control	595	0	595	0	595	0
Ambulance/Emergency Medical Services	221,820	0	221,820	238,796	238,223	16,403
Alcohol and Drug Programs	4,270	0	4,270	0	4,368	98
Regional Mental Health Center	2,000	0	2,000	2,000	2,000	0
<u>Social, Cultural, and Recreational Services</u>						
Senior Citizens Assistance	5,880	0	5,880	5,880	5,880	0
Libraries	61,242	(427)	60,815	59,055	61,455	640
Parks and Fair Boards	35,870	(4,100)	31,770	53,792	53,792	22,022
Other Social, Cultural, and Recreational	5,512	0	5,512	0	5,512	0
<u>Agriculture & Natural Resources</u>						
Agriculture Extension Service	41,034	0	41,034	46,144	46,144	5,110
Forest Service	350	0	350	350	350	0
Soil Conservation	5,757	0	5,757	5,765	5,765	8

(Continued)

Exhibit F-1

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
General Fund (Cont.)

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Expenditures (Cont.)</u>						
<u>Other Operations</u>						
Tourism	\$ 3,789	\$ 0	\$ 3,789	\$ 3,595	\$ 4,006	\$ 217
Other Economic and Community Development	310,679	0	310,679	0	310,679	0
Employee Benefits	375,769	0	375,769	393,800	385,532	9,763
<u>Capital Projects</u>						
Social, Cultural, and Recreation Projects	225,000	0	225,000	0	225,000	0
Total Expenditures	\$ 3,050,332	\$ (65,991)	\$ 2,984,341	\$ 2,542,209	\$ 3,142,961	\$ 158,620
Excess (Deficiency) of Revenues Over Expenditures	\$ (185,524)	\$ 65,991	\$ (119,533)	\$ (321,116)	\$ (549,949)	\$ 430,416
<u>Other Financing Sources (Uses)</u>						
Notes Issued	\$ 425,000	\$ 0	\$ 425,000	\$ 200,000	\$ 425,000	\$ 0
Transfers Out	(9,740)	0	(9,740)	(9,740)	(9,740)	0
Total Other Financing Sources (Uses)	\$ 415,260	\$ 0	\$ 415,260	\$ 190,260	\$ 415,260	\$ 0
Net Change in Fund Balance	\$ 229,736	\$ 65,991	\$ 295,727	\$ (130,856)	\$ (134,689)	\$ 430,416
Fund Balance, July 1, 2005	327,317	(65,991)	261,326	217,329	217,329	43,997
Fund Balance, June 30, 2006	\$ 557,053	\$ 0	\$ 557,053	\$ 86,473	\$ 82,640	\$ 474,413

**THE METROPOLITAN GOVERNMENT OF
LYNCHBURG, MOORE COUNTY, TENNESSEE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2006**

BUDGETARY INFORMATION

The metropolitan government 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 Metropolitan Council 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: Metropolitan Council, Board of Equalization, Metropolitan Executive, County Attorney, etc.). Management may make revisions within major categories, but only the Metropolitan Council may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

The metropolitan government'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.

Urban Services Fund – The Urban Services Fund represents financial activity for the Urban Services District.

Solid Waste/Sanitation Fund – The Solid Waste/Sanitation Fund is used to account for household garbage pick-up and the convenience center 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.

Debt Service Fund

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

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

Exhibit G-1

The Metropolitan Government of Lynchburg, Moore County, Tennessee
 Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2006

	Special Revenue Funds					Debt Service Fund	Total Nonmajor Governmental Funds
	Urban Services	Solid Waste / Sanitation	Drug Control	Constitutional Officers - Fees	Total	General Debt Service	
<u>ASSETS</u>							
Cash	\$ 0	\$ 0	\$ 0	\$ 200	\$ 200	\$ 0	200
Equity in Pooled Cash and Investments	3,471	0	55,365	0	58,836	361,081	419,917
Accounts Receivable	0	25,852	0	0	25,852	0	25,852
Allowance for Uncollectibles	0	(789)	0	0	(789)	0	(789)
Due from Other Governments	0	596	0	0	596	42,480	43,076
Property Taxes Receivable	114,910	67,457	0	0	182,367	37,263	219,630
Allowance for Uncollectible Property Taxes	(809)	(575)	0	0	(1,384)	(303)	(1,687)
Total Assets	\$ 117,572	\$ 92,541	\$ 55,365	\$ 200	\$ 265,678	\$ 440,521	\$ 706,199
<u>LIABILITIES AND FUND BALANCES</u>							
<u>Liabilities</u>							
Cash Overdraft	\$ 0	\$ 3,401	\$ 0	\$ 0	\$ 3,401	\$ 0	3,401
Due to Other Funds	0	0	0	200	200	0	200
Deferred Revenue - Current Property Taxes	105,101	65,688	0	0	170,789	36,363	207,152
Deferred Revenue - Delinquent Property Taxes	8,995	1,029	0	0	10,024	462	10,486
Other Deferred Revenues	0	4,673	0	0	4,673	13,061	17,734
Total Liabilities	\$ 114,096	\$ 74,791	\$ 0	\$ 200	\$ 189,087	\$ 49,886	\$ 238,973
<u>Fund Balances</u>							
Unreserved	\$ 3,476	\$ 17,750	\$ 55,365	\$ 0	\$ 76,591	\$ 390,635	\$ 467,226
Total Fund Balances	\$ 3,476	\$ 17,750	\$ 55,365	\$ 0	\$ 76,591	\$ 390,635	\$ 467,226
Total Liabilities and Fund Balances	\$ 117,572	\$ 92,541	\$ 55,365	\$ 200	\$ 265,678	\$ 440,521	\$ 706,199

Exhibit G-2

Moore 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				Debt Service Fund	Total Nonmajor Governmental Funds
	Urban Services	Solid Waste / Sanitation	Drug Control	Total	General Debt Service	
<u>Revenues</u>						
Local Taxes	\$ 5,598	\$ 62,105	\$ 0	\$ 67,703	\$ 334,028	\$ 401,731
Licenses and Permits	2,959	0	0	2,959	0	2,959
Fines, Forfeitures, and Penalties	0	0	32,626	32,626	0	32,626
Charges for Current Services	0	161,719	0	161,719	0	161,719
Other Local Revenues	85	8,189	0	8,274	0	8,274
State of Tennessee	0	3,457	0	3,457	0	3,457
Total Revenues	\$ 8,642	\$ 235,470	\$ 32,626	\$ 276,738	\$ 334,028	\$ 610,766
<u>Expenditures</u>						
Current:						
General Government	\$ 12,939	\$ 0	\$ 0	\$ 12,939	\$ 0	\$ 12,939
Public Safety	0	0	19,517	19,517	0	19,517
Public Health and Welfare	0	248,112	0	248,112	0	248,112
Debt Service:						
Principal on Debt	0	0	0	0	219,608	219,608
Interest on Debt	0	0	0	0	21,488	21,488
Other Debt Service	0	0	0	0	3,643	3,643
Total Expenditures	\$ 12,939	\$ 248,112	\$ 19,517	\$ 280,568	\$ 244,739	\$ 525,307
Excess (Deficiency) of Revenues Over Expenditures	\$ (4,297)	\$ (12,642)	\$ 13,109	\$ (3,830)	\$ 89,289	\$ 85,459
<u>Other Financing Sources (Uses)</u>						
Transfers In	\$ 0	\$ 0	\$ 0	\$ 0	\$ 9,740	\$ 9,740
Total Other Financing Sources (Uses)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 9,740	\$ 9,740
Net Change in Fund Balances	\$ (4,297)	\$ (12,642)	\$ 13,109	\$ (3,830)	\$ 99,029	\$ 95,199
Fund Balance, July 1, 2005	7,773	30,392	42,256	80,421	291,606	372,027
Fund Balance, June 30, 2006	\$ 3,476	\$ 17,750	\$ 55,365	\$ 76,591	\$ 390,635	\$ 467,226

Exhibit G-3

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Urban Services Fund
For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 5,598	\$ 6,433	\$ 6,433	\$ (835)
Licenses and Permits	2,959	1,900	1,900	1,059
Other Local Revenues	85	85	85	0
Total Revenues	<u>\$ 8,642</u>	<u>\$ 8,418</u>	<u>\$ 8,418</u>	<u>\$ 224</u>
<u>Expenditures</u>				
<u>General Government</u>				
Other General Administration	\$ 12,939	\$ 12,260	\$ 14,210	\$ 1,271
Total Expenditures	<u>\$ 12,939</u>	<u>\$ 12,260</u>	<u>\$ 14,210</u>	<u>\$ 1,271</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (4,297)</u>	<u>\$ (3,842)</u>	<u>\$ (5,792)</u>	<u>\$ 1,495</u>
Net Change in Fund Balance	\$ (4,297)	\$ (3,842)	\$ (5,792)	\$ 1,495
Fund Balance, July 1, 2005	<u>7,773</u>	<u>7,643</u>	<u>7,643</u>	<u>130</u>
Fund Balance, June 30, 2006	<u>\$ 3,476</u>	<u>\$ 3,801</u>	<u>\$ 1,851</u>	<u>\$ 1,625</u>

Exhibit G-4

The Metropolitan Government of Lynchburg, Moore 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	\$ 62,105	\$ 59,047	\$ 59,047	\$ 3,058
Charges for Current Services	161,719	135,000	135,000	26,719
Other Local Revenues	8,189	8,500	8,500	(311)
State of Tennessee	3,457	3,400	3,400	57
Total Revenues	<u>\$ 235,470</u>	<u>\$ 205,947</u>	<u>\$ 205,947</u>	<u>\$ 29,523</u>
<u>Expenditures</u>				
<u>Public Health and Welfare</u>				
Recycling Center	\$ 248,112	\$ 207,313	\$ 224,313	\$ (23,799)
Total Expenditures	<u>\$ 248,112</u>	<u>\$ 207,313</u>	<u>\$ 224,313</u>	<u>\$ (23,799)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (12,642)</u>	<u>\$ (1,366)</u>	<u>\$ (18,366)</u>	<u>\$ 5,724</u>
Net Change in Fund Balance	\$ (12,642)	\$ (1,366)	\$ (18,366)	\$ 5,724
Fund Balance, July 1, 2005	30,392	38,070	38,070	(7,678)
Fund Balance, June 30, 2006	<u>\$ 17,750</u>	<u>\$ 36,704</u>	<u>\$ 19,704</u>	<u>\$ (1,954)</u>

Exhibit G-5

The Metropolitan Government of Lynchburg, Moore 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	\$ 32,626	\$ 11,500	\$ 11,500	\$ 21,126
Total Revenues	\$ 32,626	\$ 11,500	\$ 11,500	\$ 21,126
<u>Expenditures</u>				
<u>Public Safety</u>				
Drug Enforcement	\$ 19,517	\$ 25,000	\$ 25,000	\$ 5,483
Total Expenditures	\$ 19,517	\$ 25,000	\$ 25,000	\$ 5,483
Excess (Deficiency) of Revenues Over Expenditures	\$ 13,109	\$ (13,500)	\$ (13,500)	\$ 26,609
Net Change in Fund Balance	\$ 13,109	\$ (13,500)	\$ (13,500)	\$ 26,609
Fund Balance, July 1, 2005	42,256	30,844	30,844	11,412
Fund Balance, June 30, 2006	\$ 55,365	\$ 17,344	\$ 17,344	\$ 38,021

Exhibit G-6

The Metropolitan Government of Lynchburg, Moore 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	\$ 334,028	\$ 245,249	\$ 245,249	\$ 88,779
Total Revenues	\$ 334,028	\$ 245,249	\$ 245,249	\$ 88,779
<u>Expenditures</u>				
<u>Principal on Debt</u>				
General Government	\$ 66,854	\$ 70,309	\$ 70,309	\$ 3,455
Education	152,754	152,870	152,870	116
<u>Interest on Debt</u>				
General Government	5,515	5,754	5,754	239
Education	15,973	15,857	15,857	(116)
<u>Other Debt Service</u>				
General Government	3,643	3,200	3,200	(443)
Total Expenditures	\$ 244,739	\$ 247,990	\$ 247,990	\$ 3,251
Excess (Deficiency) of Revenues Over Expenditures	\$ 89,289	\$ (2,741)	\$ (2,741)	\$ 92,030
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 9,740	\$ 9,740	\$ 9,740	\$ 0
Total Other Financing Sources (Uses)	\$ 9,740	\$ 9,740	\$ 9,740	\$ 0
Net Change in Fund Balance	\$ 99,029	\$ 6,999	\$ 6,999	\$ 92,030
Fund Balance, July 1, 2005	291,606	225,975	225,975	65,631
Fund Balance, June 30, 2006	\$ 390,635	\$ 232,974	\$ 232,974	\$ 157,661

Fiduciary Fund

Agency Funds are used to account for assets held by the metropolitan government 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.

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

Exhibit H

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Statement of Changes in Assets and Liabilities - Agency Fund
For the Year Ended June 30, 2006

	Beginning Balance	Additions	Deductions	Ending Balance
<u>Constitutional Officers - Agency Fund</u>				
<u>Assets</u>				
Cash	\$ 145,523	\$ 973,455	\$ 1,071,874	\$ 47,104
Total Assets	\$ 145,523	\$ 973,455	\$ 1,071,874	\$ 47,104
<u>Liabilities</u>				
Due to Other Funds	\$ 482	\$ 0	\$ 482	\$ 0
Due to Litigants, Heirs, and Others	145,041	973,455	1,071,392	47,104
Total Liabilities	\$ 145,523	\$ 973,455	\$ 1,071,874	\$ 47,104

Metropolitan School Department

This section presents fund financial statements for the Metropolitan School Department, a discretely presented component unit. The School Department uses a General Fund and two Special Revenue Funds.

General Purpose School Fund – The General Purpose School Fund is used to account for general operations of the School Department.

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.

Central Cafeteria Fund – The Central Cafeteria Fund is used to account for the cafeteria operations in each of the schools.

Exhibit I-1

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Statement of Activities
Discretely Presented Metropolitan School Department
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets Total Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Component Unit:					
Governmental Activities:					
Instruction	\$ 4,225,795	\$ 9,792	\$ 347,855	\$ 0	\$ (3,868,148)
Support Services	2,604,606	1,200	10,330	0	(2,593,076)
Operation of Noninstructional Services	518,297	262,593	239,369	0	(16,335)
Total Governmental Activities	<u>\$ 7,348,698</u>	<u>\$ 273,585</u>	<u>\$ 597,554</u>	<u>\$ 0</u>	<u>\$ (6,477,559)</u>
General Revenues:					
Taxes:					
Property Taxes Levied for General Purposes				\$	1,665,511
Local Option Sales Tax					263,957
Other Local Taxes					991
Grants and Contributions Not Restricted to Specific Programs					4,218,479
Unrestricted Investment Income					290
Miscellaneous					4,419
Special Item					9,157
Total General Revenues				<u>\$</u>	<u>6,162,804</u>
Change in Net Assets				\$	(314,755)
Net Assets, July 1, 2005					<u>5,226,444</u>
Net Assets, June 30, 2006				<u>\$</u>	<u>4,911,689</u>

Exhibit I-2

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Balance Sheet - Governmental Funds
Discretely Presented Metropolitan School Department
June 30, 2006

	<u>Major Fund</u>	<u>Nonmajor Funds</u>	<u>Total Govern- mental Funds</u>
	General Purpose School	Other Govern- mental Funds	
<u>ASSETS</u>			
Equity in Pooled Cash and Investments	\$ 540,356	\$ 27,571	\$ 567,927
Inventories	0	10,909	10,909
Accounts Receivable	78	0	78
Due from Other Governments	70,438	13,778	84,216
Due from Other Funds	5	0	5
Due from Primary Government	31	0	31
Property Taxes Receivable	1,477,914	0	1,477,914
Allowance for Uncollectible Property Taxes	(13,914)	0	(13,914)
Total Assets	<u>\$ 2,074,908</u>	<u>\$ 52,258</u>	<u>\$ 2,127,166</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 39,441	\$ 0	\$ 39,441
Payroll Deductions Payable	119,336	13,635	132,971
Deferred Revenue - Current Property Taxes	1,432,000	0	1,432,000
Deferred Revenue - Delinquent Property Taxes	27,584	0	27,584
Other Deferred Revenues	28,505	0	28,505
Total Liabilities	<u>\$ 1,646,866</u>	<u>\$ 13,635</u>	<u>\$ 1,660,501</u>
<u>Fund Balances</u>			
Reserved for Encumbrances	\$ 37,592	\$ 0	\$ 37,592
Reserved for Inventory	0	10,909	10,909
Other Local Education Reserves	2,974	0	2,974
Reserved for Career Ladder - Extended Contract	867	0	867
Reserved for Career Ladder Program	3,712	0	3,712
Reserved for Title I Grants to Local Education Agencies	0	1,270	1,270
Reserved for Innovative Education Program Strategies	0	4,707	4,707
Reserved for Special Education - Grants to States	0	6,269	6,269
Unreserved, Reported In:			
General Fund	382,897	0	382,897
Special Revenue Funds	0	15,468	15,468
Total Fund Balances	<u>\$ 428,042</u>	<u>\$ 38,623</u>	<u>\$ 466,665</u>
Total Liabilities and Fund Balances	<u>\$ 2,074,908</u>	<u>\$ 52,258</u>	<u>\$ 2,127,166</u>

Exhibit I-3

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
Discretely Presented Metropolitan School Department
June 30, 2006

Amounts reported for governmental activities in the statement of net assets (Exhibit I-1) are different because:

Total fund balances - balance sheet - governmental funds (Exhibit I-2)	\$	466,665
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Add: land	\$	39,342
Add: buildings and improvements net of accumulated depreciation		4,372,625
Add: other capital assets net of accumulated depreciation		<u>136,293</u>
		4,548,260
(2) Long-term liabilities are not due in the current period and therefore are not reported in the funds.		
Less: compensated absences payable		(159,325)
(3) Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		<u>56,089</u>
Net assets of governmental activities (Exhibit A)	\$	<u><u>4,911,689</u></u>

Exhibit I-4

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Governmental Funds
Discretely Presented Metropolitan School Department
For the Year Ended June 30, 2006

	<u>Major Fund</u>	<u>Nonmajor Funds</u>	
	General Purpose School	Other Govern- mental Funds	Total Governmental Funds
<u>Revenues</u>			
Local Taxes	\$ 1,938,062	\$ 0	\$ 1,938,062
Licenses and Permits	632	0	632
Charges for Current Services	32,143	231,650	263,793
Other Local Revenues	23,282	2,469	25,751
State of Tennessee	4,186,876	5,587	4,192,463
Federal Government	13,009	572,839	585,848
Total Revenues	<u>\$ 6,194,004</u>	<u>\$ 812,545</u>	<u>\$ 7,006,549</u>
<u>Expenditures</u>			
Current:			
Instruction	\$ 3,635,728	\$ 291,758	\$ 3,927,486
Support Services	2,492,719	96,644	2,589,363
Operation of Non-Instructional Services	35,428	426,505	461,933
Capital Outlay	118,964	0	118,964
Total Expenditures	<u>\$ 6,282,839</u>	<u>\$ 814,907</u>	<u>\$ 7,097,746</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (88,835)</u>	<u>\$ (2,362)</u>	<u>\$ (91,197)</u>
Net Change in Fund Balances	<u>\$ (88,835)</u>	<u>\$ (2,362)</u>	<u>\$ (91,197)</u>
Fund Balance, July 1, 2005	516,877	40,985	557,862
Fund Balance, June 30, 2006	<u>\$ 428,042</u>	<u>\$ 38,623</u>	<u>\$ 466,665</u>

Exhibit I-5

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Discretely Presented Metropolitan School Department
For the Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities (Exhibit B) are different because:

Net change in fund balances - total governmental funds (Exhibit I-4)		\$	(91,197)
(1) Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense. The difference between capital outlays and depreciation is itemized as follows:			
Add: capital assets purchased in the current period	\$	117,145	
Less: current year depreciation		<u>(231,899)</u>	(114,754)
(2) The net effect of various miscellaneous transactions involving capital assets (sales, trade-ins, and donations) is to decrease net assets.			
Less: loss on disposal of capital assets			<u>(82,257)</u>
(3) Revenues in the statement of activities that do not provide current financial resources are not reported in the funds.			
Add: deferred delinquent property taxes/other deferred June 30, 2006	\$	56,089	
Less: deferred delinquent property taxes/other deferred June 30, 2005		<u>(62,033)</u>	(5,944)
(4) Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.			
Less: change in compensated absences			<u>(20,603)</u>
Change in net assets of governmental activities (Exhibit B)		\$	<u><u>(314,755)</u></u>

Exhibit I-6

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Combining Balance Sheet - Nonmajor Governmental Funds
Discretely Presented Metropolitan School Department
June 30, 2006

	<u>Special Revenue Funds</u>		
	School Federal Projects	Central Cafeteria	Total Nonmajor Governmental Funds
<u>ASSETS</u>			
Equity in Pooled Cash and Investments	\$ 4,812	\$ 22,759	\$ 27,571
Inventories	0	10,909	10,909
Due from Other Governments	13,778	0	13,778
Total Assets	<u>\$ 18,590</u>	<u>\$ 33,668</u>	<u>\$ 52,258</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Payroll Deductions Payable	\$ 6,344	\$ 7,291	\$ 13,635
Total Liabilities	<u>\$ 6,344</u>	<u>\$ 7,291</u>	<u>\$ 13,635</u>
<u>Fund Balances</u>			
Reserved for Inventory	\$ 0	\$ 10,909	\$ 10,909
Reserved for Title I Grants to Local Education Agencies	1,270	0	1,270
Reserved for Innovative Education Program Strategies	4,707	0	4,707
Reserved for Special Education - Grants to States	6,269	0	6,269
Unreserved	0	15,468	15,468
Total Fund Balances	<u>\$ 12,246</u>	<u>\$ 26,377</u>	<u>\$ 38,623</u>
Total Liabilities and Fund Balances	<u>\$ 18,590</u>	<u>\$ 33,668</u>	<u>\$ 52,258</u>

Exhibit I-7

Moore County, Tennessee
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Nonmajor Governmental Funds
Discretely Presented Metropolitan School Department
For the Year Ended June 30, 2006

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	School Federal Projects	Central Cafeteria	
<u>Revenues</u>			
Charges for Current Services	\$ 0	\$ 231,650	\$ 231,650
Other Local Revenues	0	2,469	2,469
State of Tennessee	0	5,587	5,587
Federal Government	387,136	185,703	572,839
Total Revenues	<u>\$ 387,136</u>	<u>\$ 425,409</u>	<u>\$ 812,545</u>
<u>Expenditures</u>			
Current:			
Instruction	\$ 291,758	\$ 0	\$ 291,758
Support Services	96,644	0	96,644
Operation of Non-Instructional Services	0	426,505	426,505
Total Expenditures	<u>\$ 388,402</u>	<u>\$ 426,505</u>	<u>\$ 814,907</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (1,266)</u>	<u>\$ (1,096)</u>	<u>\$ (2,362)</u>
Net Change in Fund Balances	\$ (1,266)	\$ (1,096)	\$ (2,362)
Fund Balance, July 1, 2005	<u>13,512</u>	<u>27,473</u>	<u>40,985</u>
Fund Balance, June 30, 2006	<u>\$ 12,246</u>	<u>\$ 26,377</u>	<u>\$ 38,623</u>

Exhibit I-8

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Discretely Presented Metropolitan School Department
General Purpose School Fund
For the Year Ended June 30, 2006

	Actual (GAAP Basis)	Add: Encumbrances 6/30/2006	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Revenues</u>						
Local Taxes	\$ 1,938,062	\$ 0	\$ 1,938,062	\$ 1,853,580	\$ 1,900,224	\$ 37,838
Licenses and Permits	632	0	632	750	534	98
Charges for Current Services	32,143	0	32,143	34,200	31,152	991
Other Local Revenues	23,282	0	23,282	10,600	21,219	2,063
State of Tennessee	4,186,876	0	4,186,876	4,149,283	4,185,361	1,515
Federal Government	13,009	0	13,009	0	7,920	5,089
Total Revenues	\$ 6,194,004	\$ 0	\$ 6,194,004	\$ 6,048,413	\$ 6,146,410	\$ 47,594
<u>Expenditures</u>						
<u>Instruction</u>						
Regular Instruction Program	\$ 2,984,267	\$ 0	\$ 2,984,267	\$ 3,047,944	\$ 2,998,136	\$ 13,869
Alternative Instruction Program	64,166	0	64,166	63,771	64,167	1
Special Education Program	363,305	0	363,305	367,613	364,687	1,382
Vocational Education Program	223,990	0	223,990	157,560	225,140	1,150
<u>Support Services</u>						
Attendance	7,008	0	7,008	7,006	7,042	34
Health Services	57,508	0	57,508	59,853	57,884	376
Other Student Support	211,673	0	211,673	206,411	213,659	1,986
Regular Instruction Program	334,784	0	334,784	337,877	335,911	1,127
Special Education Program	2,598	0	2,598	4,283	2,627	29
Vocational Education Program	32,334	0	32,334	26,459	32,334	0
Board of Education	154,424	0	154,424	142,690	154,966	542
Director of Schools	97,188	0	97,188	116,108	98,908	1,720
Office of the Principal	451,847	0	451,847	407,979	453,757	1,910
Fiscal Services	69,631	0	69,631	69,689	69,765	134
Operation of Plant	665,205	0	665,205	658,872	665,312	107

(Continued)

Exhibit I-8

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Discretely Presented Metropolitan School Department
General Purpose School Fund (Cont.)

	Actual (GAAP Basis)	Add: Encumbrances 6/30/2006	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Expenditures (Cont.)</u>						
<u>Support Services (Cont.)</u>						
Maintenance of Plant	\$ 89,699	\$ 595	\$ 90,294	\$ 78,120	\$ 92,257	\$ 1,963
Transportation	318,820	0	318,820	299,402	319,520	700
<u>Operation of Non-Instructional Services</u>						
Food Service	5,200	0	5,200	0	5,200	0
Community Services	30,228	0	30,228	41,916	32,218	1,990
<u>Capital Outlay</u>						
Regular Capital Outlay	118,964	36,997	155,961	125,000	160,000	4,039
Total Expenditures	\$ 6,282,839	\$ 37,592	\$ 6,320,431	\$ 6,218,553	\$ 6,353,490	\$ 33,059
Excess (Deficiency) of Revenues						
Over Expenditures	\$ (88,835)	\$ (37,592)	\$ (126,427)	\$ (170,140)	\$ (207,080)	\$ 80,653
Net Change in Fund Balance						
Fund Balance, July 1, 2005	\$ 516,877	0	516,877	354,302	354,302	162,575
Fund Balance, June 30, 2006	\$ 428,042	\$ (37,592)	\$ 390,450	\$ 184,162	\$ 147,222	\$ 243,228

Exhibit I-9

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Discretely Presented Metropolitan 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	\$ 387,136	\$ 394,829	\$ 394,829	\$ (7,693)
Total Revenues	\$ 387,136	\$ 394,829	\$ 394,829	\$ (7,693)
<u>Expenditures</u>				
<u>Instruction</u>				
Regular Instruction Program	\$ 108,476	\$ 104,833	\$ 104,833	\$ (3,643)
Special Education Program	165,296	173,336	164,822	(474)
Vocational Education Program	17,986	17,319	17,319	(667)
<u>Support Services</u>				
Health Services	14,145	25,190	33,704	19,559
Other Student Support	1,574	1,600	1,600	26
Regular Instruction Program	73,072	82,766	82,766	9,694
Special Education Program	7,853	7,854	7,854	1
Total Expenditures	\$ 388,402	\$ 412,898	\$ 412,898	\$ 24,496
Excess (Deficiency) of Revenues Over Expenditures	\$ (1,266)	\$ (18,069)	\$ (18,069)	\$ 16,803
Net Change in Fund Balance	\$ (1,266)	\$ (18,069)	\$ (18,069)	\$ 16,803
Fund Balance, July 1, 2005	13,512	18,069	18,069	(4,557)
Fund Balance, June 30, 2006	\$ 12,246	\$ 0	\$ 0	\$ 12,246

Exhibit I-10

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Discretely Presented Metropolitan School Department
Central Cafeteria Fund
For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Charges for Current Services	\$ 231,650	\$ 245,000	\$ 254,600	\$ (22,950)
Other Local Revenues	2,469	750	2,750	(281)
State of Tennessee	5,587	5,600	5,600	(13)
Federal Government	185,703	157,000	187,400	(1,697)
Total Revenues	<u>\$ 425,409</u>	<u>\$ 408,350</u>	<u>\$ 450,350</u>	<u>\$ (24,941)</u>
<u>Expenditures</u>				
<u>Operation of Non-Instructional Services</u>				
Food Service	\$ 426,505	\$ 416,040	\$ 458,040	\$ 31,535
Total Expenditures	<u>\$ 426,505</u>	<u>\$ 416,040</u>	<u>\$ 458,040</u>	<u>\$ 31,535</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (1,096)</u>	<u>\$ (7,690)</u>	<u>\$ (7,690)</u>	<u>\$ 6,594</u>
Net Change in Fund Balance	\$ (1,096)	\$ (7,690)	\$ (7,690)	\$ 6,594
Fund Balance, July 1, 2005	<u>27,473</u>	<u>17,762</u>	<u>17,762</u>	<u>9,711</u>
Fund Balance, June 30, 2006	<u>\$ 26,377</u>	<u>\$ 10,072</u>	<u>\$ 10,072</u>	<u>\$ 16,305</u>

MISCELLANEOUS SCHEDULES

Exhibit J-1

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Changes in Long-term Notes
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>								
School Construction	\$ 1,265,281	3.349 %	10-26-1998	4-10-08	\$ 471,780	\$ 0	\$ 152,754	\$ 319,026
Sanitation Truck	99,748	4.75	10-1-01	9-30-05	17,381	0	17,381	0
Ambulance	74,069	4.75	7-31-01	7-31-09	37,073	0	9,497	27,576
Health Department Building	70,000	4.75	12-14-01	12-14-10	38,801	0	7,927	30,874
Patrol Car	19,500	1	4-4-03	4-4-06	6,553	0	6,553	0
Patrol Car	19,000	1.723	10-29-03	10-29-06	12,775	0	6,333	6,442
Courthouse Roof	25,000	.84	6-23-04	6-23-07	16,734	0	8,374	8,360
Library Roof	33,000	1.96	3-2-05	3-2-08	33,000	0	10,789	22,211
Land	225,000	3.38	11-16-05	11-16-14	0	225,000	0	225,000
Fire truck	200,000	3.94	1-27-06	1-23-14	0	200,000	0	200,000
Total Notes Payable					<u>\$ 634,097</u>	<u>\$ 425,000</u>	<u>\$ 219,608</u>	<u>\$ 839,489</u>

Exhibit J-2

The Metropolitan Government of Lynchburg, Moore 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	General Debt Service	To provide funds for debt retirement	\$ <u>9,740</u>
Total Transfers			\$ <u><u>9,740</u></u>

Exhibit J-3

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Salaries and Official Bonds of Principal Officials
Primary Government and Discretely Presented Metropolitan School Department
For the Year Ended June 30, 2006

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
Metropolitan Executive Highway Superintendent	Section 8-24-102, <u>TCA</u>	\$ 51,452	\$ 25,000	RLI Insurance Company
Director of Schools	Section 8-24-102, <u>TCA</u> and Metropolitan Council State Board of Education and Metropolitan Board of Education	51,452	100,000	Western Surety Company
Trustee	Section 8-24-102, <u>TCA</u>	51,976 (1)	50,000	"
Assessor of Property	Section 8-24-102, <u>TCA</u>	44,548	277,100	RLI Insurance Company
Metropolitan Clerk	Section 8-24-102, <u>TCA</u>	44,548	10,000	"
Circuit Court Clerk	Section 8-24-102, <u>TCA</u>	44,548	25,000	"
Clerk and Master Register	Section 8-24-102, <u>TCA</u>	44,548	25,000	"
Sheriff	Section 8-24-102, <u>TCA</u>	44,548	25,000	"
		49,521 (2)	25,000	"
<u>Employee Bonds</u>				
Metropolitan Employees			150,000	Tennessee School Boards Risk Management Trust
School Department Employees			150,000	"

(1) Includes career ladder supplement of \$900.

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

Exhibit J-4

The Metropolitan Government of Lynchburg, Moore 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	Urban Services	Solid Waste / Sanitation	Drug Control	Highway / Public Works	General Debt Service	
<u>Local Taxes</u>							
<u>County Property Taxes</u>							
Current Property Tax	\$ 1,223,146	\$ 5,565	\$ 61,689	\$ 0	\$ 18,270	\$ 30,326	\$ 1,338,996
Trustee's Collections - Prior Year	26,630	29	191	0	517	528	27,895
Circuit/Clerk & Master Collections - Prior Years	4,287	0	82	0	0	94	4,463
Interest and Penalty	5,153	4	143	0	97	106	5,503
Payments in-Lieu-of Taxes - T.V.A.	4,033	0	0	0	0	0	4,033
<u>County Local Option Taxes</u>							
Local Option Sales Tax	132,850	0	0	0	0	132,920	265,770
Hotel/Motel Tax	6,830	0	0	0	0	0	6,830
Litigation Tax - General	23,331	0	0	0	0	0	23,331
Litigation Tax - Jail, Workhouse, or Courthouse	6,855	0	0	0	0	0	6,855
Business Tax	23,342	0	0	0	0	0	23,342
Mineral Severance Tax	0	0	0	0	34,412	0	34,412
<u>Statutory Local Taxes</u>							
Bank Excise Tax	6,178	0	0	0	0	0	6,178
Wholesale Beer Tax	48,689	0	0	0	0	0	48,689
Interstate Telecommunications Tax	910	0	0	0	0	0	910
Other Statutory Local Taxes	0	0	0	0	0	170,054	170,054
Total Local Taxes	\$ 1,512,234	\$ 5,598	\$ 62,105	\$ 0	\$ 53,296	\$ 334,028	\$ 1,967,261
<u>Licenses and Permits</u>							
<u>Licenses</u>							
Cable TV Franchise	\$ 1,626	\$ 2,959	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,585
<u>Permits</u>							
Building Permits	7,720	0	0	0	0	0	7,720
Total Licenses and Permits	\$ 9,346	\$ 2,959	\$ 0	\$ 0	\$ 0	\$ 0	\$ 12,305
<u>Fines, Forfeitures, and Penalties</u>							
<u>Circuit Court</u>							
Fines	\$ 2,499	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,499
Officers Costs	504	0	0	0	0	0	504
Drug Control Fines	0	0	0	315	0	0	315
Drug Court Fees	22	0	0	228	0	0	250

(Continued)

Exhibit J-4

The Metropolitan Government of Lynchburg, Moore County, Tennessee
 Schedule of Detailed Revenues -
 All Governmental Fund Types (Cont.)

	Special Revenue Funds					Debt Service Fund	Total
	General	Urban Services	Solid Waste / Sanitation	Drug Control	Highway / Public Works	General Debt Service	
<u>Fines, Forfeitures, and Penalties (Cont.)</u>							
<u>Circuit Court (Cont.)</u>							
Jail Fees	\$ 8	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	8
Interpreter Fees	150	0	0	0	0	0	150
Data Entry Fee - Circuit Court	88	0	0	0	0	0	88
<u>General Sessions Court</u>							
Fines	6,377	0	0	0	0	0	6,377
Officers Costs	7,944	0	0	0	0	0	7,944
Game and Fish Fines	81	0	0	0	0	0	81
Drug Control Fines	309	0	0	16,472	0	0	16,781
Drug Court Fees	879	0	0	0	0	0	879
Jail Fees	3,395	0	0	0	0	0	3,395
DUI Treatment Fines	1,116	0	0	0	0	0	1,116
Data Entry Fee - General Sessions Court	1,172	0	0	0	0	0	1,172
<u>Chancery Court</u>							
Officers Costs	362	0	0	0	0	0	362
Data Entry Fee - Chancery Court	136	0	0	0	0	0	136
<u>Other Fines, Forfeitures, and Penalties</u>							
Proceeds from Confiscated Property	0	0	0	15,611	0	0	15,611
Total Fines, Forfeitures, and Penalties	\$ 25,042	\$ 0	\$ 0	\$ 32,626	\$ 0	\$ 0	57,668
<u>Charges for Current Services</u>							
<u>General Service Charges</u>							
Solid Waste Disposal Fees	\$ 0	\$ 0	161,694	\$ 0	\$ 0	\$ 0	161,694
Patient Charges	115,005	0	0	0	0	0	115,005
Other General Service Charges	264	0	25	0	0	0	289
<u>Fees</u>							
Recreation Fees	5,736	0	0	0	0	0	5,736
Library Fees	642	0	0	0	0	0	642
Vending Machine Collections	431	0	0	0	0	0	431
Tourism Fees	210	0	0	0	0	0	210
Data Processing Fee - Register	3,028	0	0	0	0	0	3,028
Probation Fees	319	0	0	0	0	0	319
Data Processing Fee - Sheriff	768	0	0	0	0	0	768

(Continued)

Exhibit J-4

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Revenues -
All Governmental Fund Types (Cont.)

	Special Revenue Funds					Debt Service Fund	Total
	General	Urban Services	Solid Waste / Sanitation	Drug Control	Highway / Public Works	General Debt Service	
<u>Charges for Current Services (Cont.)</u>							
<u>Fees (Cont.)</u>							
Sexual Offender Registration Fees - Sheriff	\$ 360	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	360
Total Charges for Current Services	\$ 126,763	\$ 0	\$ 161,719	\$ 0	\$ 0	\$ 0	288,482
<u>Other Local Revenues</u>							
<u>Recurring Items</u>							
Investment Income	\$ 59,767	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	59,767
Lease/Rentals	10,386	0	0	0	0	0	10,386
Commissary Sales	56	0	0	0	0	0	56
Sale of Recycled Materials	0	0	8,189	0	0	0	8,189
Miscellaneous Refunds	5,424	85	0	0	18,857	0	24,366
<u>Nonrecurring Items</u>							
Sale of Property	5,000	0	0	0	0	0	5,000
Contributions & Gifts	9,714	0	0	0	0	0	9,714
Total Other Local Revenues	\$ 90,347	\$ 85	\$ 8,189	\$ 0	\$ 18,857	\$ 0	117,478
<u>Fees Received from County Officials</u>							
<u>Fees-In-Lieu of Salary</u>							
Metropolitan Clerk	\$ 42,592	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	42,592
Circuit Court Clerk	13,393	0	0	0	0	0	13,393
General Sessions Court Clerk	29,620	0	0	0	0	0	29,620
Clerk and Master	16,216	0	0	0	0	0	16,216
Juvenile Court Clerk	1,665	0	0	0	0	0	1,665
Register	38,719	0	0	0	0	0	38,719
Sheriff	2,486	0	0	0	0	0	2,486
Trustee	98,751	0	0	0	0	0	98,751
Total Fees Received from County Officials	\$ 243,442	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	243,442
<u>State of Tennessee</u>							
<u>General Government Grants</u>							
Juvenile Services Program	\$ 9,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	9,000
State Reappraisal Grant	3,803	0	0	0	0	0	3,803
Solid Waste Grants	0	0	3,457	0	0	0	3,457

(Continued)

Exhibit J-4

The Metropolitan Government of Lynchburg, Moore County, Tennessee
 Schedule of Detailed Revenues -
 All Governmental Fund Types (Cont.)

	Special Revenue Funds					Debt Service Fund	Total
	General	Urban Services	Solid Waste / Sanitation	Drug Control	Highway / Public Works	General Debt Service	
<u>State of Tennessee (Cont.)</u>							
<u>Public Safety Grants</u>							
Law Enforcement Training Programs	\$ 6,224	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	6,224
<u>Public Works Grants</u>							
State Aid Program	0	0	0	0	121,033	0	121,033
<u>Other State Revenues</u>							
Income Tax	15,463	0	0	0	0	0	15,463
Beer Tax	21,150	0	0	0	0	0	21,150
Alcoholic Beverage Tax	9,404	0	0	0	0	0	9,404
State Revenue Sharing - T.V.A.	131,598	0	0	0	0	0	131,598
Contracted Prisoner Boarding	139,475	0	0	0	0	0	139,475
Gasoline and Motor Fuel Tax	0	0	0	0	1,173,302	0	1,173,302
Petroleum Special Tax	0	0	0	0	4,618	0	4,618
Registrar's Salary Supplement	16,380	0	0	0	0	0	16,380
State Shared Sales Tax - Cities	30,301	0	0	0	0	0	30,301
Other State Grants	37,047	0	0	0	35,627	0	72,674
Other State Revenues	67,214	0	0	0	0	0	67,214
Total State of Tennessee	\$ 487,059	\$ 0	\$ 3,457	\$ 0	\$ 1,334,580	\$ 0	\$ 1,825,096
<u>Federal Government</u>							
<u>Federal Through State</u>							
Community Development	\$ 242,850	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	242,850
Homeland Security Grants	43,896	0	0	0	0	0	43,896
Total Federal Government	\$ 286,746	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	286,746
<u>Other Governments and Citizens Groups</u>							
<u>Other Governments</u>							
Contributions	\$ 67,829	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	67,829
<u>Citizens Groups</u>							
Donations	16,000	0	0	0	0	0	16,000
Total Other Governments and Citizens Groups	\$ 83,829	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	83,829
Total	\$ 2,864,808	\$ 8,642	\$ 235,470	\$ 32,626	\$ 1,406,733	\$ 334,028	\$ 4,882,307

Exhibit J-5

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Revenues -
All Governmental Fund Types
Discretely Presented Metropolitan School Department
For the Year Ended June 30, 2006

	General Purpose School	School Federal Projects	Central Cafeteria	Total
<u>Local Taxes</u>				
<u>County Property Taxes</u>				
Current Property Tax	\$ 1,622,784	\$ 0	\$ 0	\$ 1,622,784
Trustee's Collections - Prior Year	35,334	0	0	35,334
Circuit/Clerk & Master Collections - Prior Years	6,313	0	0	6,313
Interest and Penalty	6,800	0	0	6,800
<u>County Local Option Taxes</u>				
Local Option Sales Tax	265,840	0	0	265,840
<u>Statutory Local Taxes</u>				
Interstate Telecommunications Tax	991	0	0	991
Total Local Taxes	\$ 1,938,062	\$ 0	\$ 0	\$ 1,938,062
<u>Licenses and Permits</u>				
<u>Licenses</u>				
Marriage Licenses	\$ 632	\$ 0	\$ 0	\$ 632
Total Licenses and Permits	\$ 632	\$ 0	\$ 0	\$ 632
<u>Charges for Current Services</u>				
<u>Education Charges</u>				
Lunch Payments - Children	\$ 0	\$ 0	\$ 123,216	\$ 123,216
Lunch Payments - Adults	0	0	13,520	13,520
Income from Breakfast	0	0	14,228	14,228
A la carte Sales	0	0	80,686	80,686
Receipts from Individual Schools	4,147	0	0	4,147
Community Service Fees - Children	26,796	0	0	26,796
TBI Criminal Background Fees	1,200	0	0	1,200
Total Charges for Current Services	\$ 32,143	\$ 0	\$ 231,650	\$ 263,793
<u>Other Local Revenues</u>				
<u>Recurring Items</u>				
Investment Income	\$ 0	\$ 0	\$ 290	\$ 290
Refund of Telecommunication & Internet Fees (E-Rate)	9,792	0	0	9,792
Miscellaneous Refunds	4,240	0	179	4,419
<u>Nonrecurring Items</u>				
Sale of Equipment	9,157	0	0	9,157
Contributions & Gifts	0	0	2,000	2,000
<u>Other Local Revenues</u>				
Other Local Revenues	93	0	0	93
Total Other Local Revenues	\$ 23,282	\$ 0	\$ 2,469	\$ 25,751
<u>State of Tennessee</u>				
<u>State Education Funds</u>				
Basic Education Program	\$ 4,057,145	\$ 0	\$ 0	\$ 4,057,145
School Food Service	0	0	5,587	5,587
Driver Education	5,127	0	0	5,127
Other State Education Funds	6,334	0	0	6,334
Career Ladder Program	58,580	0	0	58,580
Career Ladder - Extended Contract	14,431	0	0	14,431
<u>Other State Revenues</u>				
Beer Tax	38,852	0	0	38,852

(Continued)

Exhibit J-5

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Revenues -
All Governmental Fund Types
Discretely Presented Metropolitan School Department (Cont.)

	General Purpose School	School Federal Projects	Central Cafeteria	Total
<u>State of Tennessee (Cont.)</u>				
<u>Other State Revenues (Cont.)</u>				
Other State Revenues	\$ 6,407	\$ 0	\$ 0	\$ 6,407
Total State of Tennessee	\$ 4,186,876	\$ 0	\$ 5,587	\$ 4,192,463
<u>Federal Government</u>				
<u>Federal Through State</u>				
USDA School Lunch Program	\$ 0	\$ 0	\$ 142,797	\$ 142,797
Breakfast	0	0	42,906	42,906
Vocational Education - Basic Grants to States	0	18,919	0	18,919
Title I Grants to Local Education Agencies	0	119,028	0	119,028
Innovative Education Program Strategies	0	2,729	0	2,729
Special Education - Grants to States	0	188,026	0	188,026
Special Education Preschool Grants	0	13,048	0	13,048
Eisenhower Professional Development State Grants	0	39,796	0	39,796
Other Federal through State	13,009	5,590	0	18,599
Total Federal Government	\$ 13,009	\$ 387,136	\$ 185,703	\$ 585,848
Total	\$ 6,194,004	\$ 387,136	\$ 425,409	\$ 7,006,549

Exhibit J-6

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
For the Year Ended June 30, 2006

General Fund

General Government

Metropolitan Council

Other Per Diem & Fees	\$	3,260	
Audit Services		1,308	
Dues and Memberships		900	
Operating Lease Payments		2,400	
Liability Insurance		48,950	
Trustee's Commission		32,839	
Workers' Compensation Insurance		19,821	
Total Metropolitan Council			\$ 109,478

Metropolitan Executive

County Official/Administrative Officer	\$	51,452	
Accountants/Bookkeepers		22,000	
In-Service Training		354	
Communication		1,741	
Data Processing Services		4,565	
Dues and Memberships		4,504	
Legal Notices, Recording, and Court Costs		661	
Postal Charges		989	
Other Charges		1,250	
Office Equipment		472	
Total Metropolitan Executive			87,988

County Attorney

County Official/Administrative Officer	\$	5,737	
Total County Attorney			5,737

Election Commission

County Official/Administrative Officer	\$	35,638	
Election Commission		500	
Communication		630	
Dues and Memberships		75	
Legal Notices, Recording, and Court Costs		190	
Maintenance & Repair Services - Office Equipment		800	
Postal Charges		184	
Printing, Stationery, and Forms		29	
Travel		1,741	
Other Contracted Services		3,497	
Office Supplies		65	
Total Election Commission			43,349

(Continued)

Exhibit J-6

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)

General Government (Cont.)

Register of Deeds

County Official/Administrative Officer	\$	44,548	
Part-time Personnel		4,174	
Communication		977	
Dues and Memberships		251	
Maintenance Agreements		2,732	
Postal Charges		400	
Printing, Stationery, and Forms		921	
Office Equipment		<u>2,233</u>	
Total Register of Deeds	\$		56,236

Planning

County Official/Administrative Officer	\$	4,188	
Communication		398	
Contracts with Government Agencies		7,000	
Legal Notices, Recording, and Court Costs		153	
Other Charges		<u>64</u>	
Total Planning			11,803

County Buildings

Custodial Personnel	\$	12,300	
Maintenance & Repair Services - Buildings		7,896	
Pest Control		480	
Custodial Supplies		2,437	
Electricity		8,945	
Natural Gas		8,233	
Office Supplies		3,550	
Water and Sewer		2,424	
Other Supplies and Materials		<u>196</u>	
Total County Buildings			46,461

Preservation of Records

Office Supplies	\$	<u>4,345</u>	
Total Preservation of Records			4,345

Finance

Property Assessor's Office

County Official/Administrative Officer	\$	44,548	
Part-time Personnel		9,000	
Other Per Diem & Fees		300	
Communication		366	

(Continued)

Exhibit J-6

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)

Finance (Cont.)

Property Assessor's Office (Cont.)

Data Processing Services	\$	2,559	
Legal Notices, Recording, and Court Costs		34	
Postal Charges		1,027	
Printing, Stationery, and Forms		96	
Travel		613	
Other Contracted Services		4,742	
Office Equipment		59	
Total Property Assessor's Office			\$ 63,344

County Trustee's Office

County Official/Administrative Officer	\$	44,548	
Part-time Personnel		1,136	
In-Service Training		509	
Communication		498	
Data Processing Services		3,941	
Dues and Memberships		210	
Legal Notices, Recording, and Court Costs		269	
Postal Charges		998	
Printing, Stationery, and Forms		573	
Travel		139	
Office Equipment		73	
Total County Trustee's Office			52,894

Metropolitan Clerk's Office

County Official/Administrative Officer	\$	44,548	
Part-time Personnel		6,440	
Communication		397	
Dues and Memberships		75	
Postal Charges		700	
Printing, Stationery, and Forms		431	
Office Equipment		175	
Total Metropolitan Clerk's Office			52,766

Administration of Justice

Circuit Court

County Official/Administrative Officer	\$	44,548	
Part-time Personnel		5,416	
Jury and Witness Fees		1,545	
Communication		369	
Data Processing Services		3,199	

(Continued)

Exhibit J-6

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)

Administration of Justice (Cont.)

Circuit Court (Cont.)

Dues and Memberships	\$	236	
Legal Notices, Recording, and Court Costs		159	
Postal Charges		592	
Printing, Stationery, and Forms		415	
Other Contracted Services		272	
Office Equipment		1,583	
Total Circuit Court			\$ 58,334

General Sessions Court

Judge(s)	\$	42,619	
Travel		700	
Office Equipment		814	
Total General Sessions Court			44,133

Chancery Court

County Official/Administrative Officer	\$	44,548	
Part-time Personnel		1,168	
Communication		368	
Dues and Memberships		85	
Postal Charges		352	
Printing, Stationery, and Forms		734	
Travel		34	
Periodicals		473	
Office Equipment		1,710	
Total Chancery Court			49,472

Juvenile Court

Supervisor/Director	\$	9,000	
Total Juvenile Court			9,000

Judicial Commissioners

County Official/Administrative Officer	\$	6,887	
Communication		645	
Total Judicial Commissioners			7,532

Public Safety

Sheriff's Department

County Official/Administrative Officer	\$	49,002	
Supervisor/Director		30,977	
Deputy(ies)		200,064	

(Continued)

Exhibit J-6

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)

Public Safety (Cont.)

Sheriff's Department (Cont.)

Sergeant(s)	\$	28,514	
Foremen		21,788	
Dispatchers/Radio Operators		104,996	
Longevity Pay		18,000	
Overtime Pay		408	
Other Salaries & Wages		16,223	
In-Service Training		715	
Communication		4,403	
Contracts with Private Agencies		690	
Dues and Memberships		935	
Maintenance & Repair Services - Equipment		799	
Maintenance & Repair Services - Vehicles		8,117	
Medical and Dental Services		65	
Postal Charges		830	
Printing, Stationery, and Forms		1,274	
Travel		2,902	
Other Contracted Services		1,853	
Drugs and Medical Supplies		415	
Gasoline		21,996	
Office Supplies		2,293	
Uniforms		739	
Other Charges		51,640	
Data Processing Equipment		370	
Law Enforcement Equipment		5,919	
Motor Vehicles		9,489	
Total Sheriff's Department			\$ 585,416

Administration of the Sexual Offender Registry

Law Enforcement Equipment	\$	347	
Total Administration of the Sexual Offender Registry			347

Jail

Guards	\$	89,044	
Secretary(ies)		20,345	
Longevity Pay		1,000	
Other Salaries & Wages		2,274	
Maintenance & Repair Services - Buildings		1,904	
Maintenance & Repair Services - Equipment		766	
Medical and Dental Services		6,745	
Pest Control		240	

(Continued)

Exhibit J-6

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)

Public Safety (Cont.)

Jail (Cont.)

Custodial Supplies	\$	1,936	
Drugs and Medical Supplies		12,149	
Electricity		12,614	
Food Preparation Supplies		435	
Food Supplies		17,377	
Natural Gas		3,762	
Prisoners Clothing		688	
Uniforms		427	
Water and Sewer		8,936	
Total Jail			\$ 180,642

Fire Prevention and Control

Part-time Personnel	\$	10,300	
In-Service Training		400	
Communication		1,037	
Maintenance Agreements		659	
Maintenance & Repair Services - Buildings		1,568	
Maintenance & Repair Services - Vehicles		5,463	
Pest Control		240	
Rentals		182	
Electricity		2,500	
Gasoline		3,771	
Natural Gas		4,262	
Water and Sewer		632	
Excess Risk Insurance		1,469	
Motor Vehicles		195,241	
Other Equipment		24,727	
Total Fire Prevention and Control			252,451

Public Health and Welfare

Local Health Center

Communication	\$	1,781	
Contracts with Government Agencies		14,000	
Contracts with Private Agencies		4,786	
Maintenance & Repair Services - Buildings		738	
Pest Control		240	
Postal Charges		28	
Other Contracted Services		103	
Custodial Supplies		191	
Drugs and Medical Supplies		3	

(Continued)

Exhibit J-6

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)

Public Health and Welfare (Cont.)

Local Health Center (Cont.)

Utilities	\$	6,968	
Other Supplies and Materials		199	
Total Local Health Center			\$ 29,037

Rabies and Animal Control

Other Supplies and Materials	\$	595	
Total Rabies and Animal Control			595

Ambulance/Emergency Medical Services

Paraprofessionals	\$	134,187	
Part-time Personnel		23,541	
Longevity Pay		6,000	
Overtime Pay		28,698	
In-Service Training		700	
Communication		2,111	
Data Processing Services		1,288	
Dues and Memberships		710	
Maintenance & Repair Services - Buildings		570	
Maintenance & Repair Services - Equipment		2,140	
Maintenance & Repair Services - Vehicles		4,220	
Pest Control		240	
Postal Charges		98	
Travel		754	
Drugs and Medical Supplies		4,069	
Electricity		2,326	
Gasoline		3,255	
Natural Gas		3,547	
Office Supplies		503	
Uniforms		1,216	
Water and Sewer		1,056	
Other Supplies and Materials		484	
Refunds		107	
Total Ambulance/Emergency Medical Services			221,820

Alcohol and Drug Programs

Drug Treatment	\$	902	
Other Supplies and Materials		1,188	
Data Processing Equipment		2,180	
Total Alcohol and Drug Programs			4,270

(Continued)

Exhibit J-6

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)

Public Health and Welfare (Cont.)

Regional Mental Health Center

Contracts with Other Public Agencies	\$ 2,000	
Total Regional Mental Health Center		\$ 2,000

Social, Cultural, and Recreational Services

Senior Citizens Assistance

Contributions	\$ 5,880	
Total Senior Citizens Assistance		5,880

Libraries

Assistant(s)	\$ 12,980	
Supervisor/Director	18,902	
Part-time Personnel	6,720	
Longevity Pay	1,000	
In-Service Training	510	
Communication	1,547	
Data Processing Services	1,873	
Maintenance & Repair Services - Buildings	2,795	
Pest Control	240	
Postal Charges	500	
Printing, Stationery, and Forms	15	
Custodial Supplies	352	
Electricity	2,840	
Instructional Supplies and Materials	168	
Library Books/Media	3,903	
Natural Gas	3,303	
Office Supplies	1,621	
Periodicals	347	
Water and Sewer	786	
Office Equipment	840	
Total Libraries		61,242

Parks and Fair Boards

Assistant(s)	\$ 608
Supervisor/Director	8,445
Attendants	6,493
Dues and Memberships	340
Maintenance & Repair Services - Buildings	2,659
Maintenance & Repair Services - Equipment	6,677
Rentals	620
Electricity	5,849

(Continued)

Exhibit J-6

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)

Social, Cultural, and Recreational Services (Cont.)

Parks and Fair Boards (Cont.)

Water and Sewer	\$	2,496	
Chemicals		1,683	
Total Parks and Fair Boards			\$ 35,870

Other Social, Cultural, and Recreational

Other Contracted Services	\$	5,512	
Total Other Social, Cultural, and Recreational			5,512

Agriculture & Natural Resources

Agriculture Extension Service

Salary Supplements	\$	25,058	
Part-time Personnel		13,773	
Communication		1,222	
Travel		481	
Other Charges		500	
Total Agriculture Extension Service			41,034

Forest Service

Contracts with Government Agencies	\$	350	
Total Forest Service			350

Soil Conservation

Communication	\$	642	
Matching Share		5,115	
Total Soil Conservation			5,757

Other Operations

Tourism

Dues and Memberships	\$	1,095	
Maintenance & Repair Services - Buildings		411	
Electricity		810	
Natural Gas		706	
Water and Sewer		567	
Other Supplies and Materials		200	
Total Tourism			3,789

Other Economic and Community Development

Other Charges	\$	310,679	
Total Other Economic and Community Development			310,679

(Continued)

Exhibit J-6

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)

Other Operations (Cont.)

Employee Benefits

Social Security	\$	95,806	
State Retirement		20,314	
Employee and Dependent Insurance		246,718	
Unemployment Compensation		1,403	
Local Retirement		11,528	
Total Employee Benefits			\$ 375,769

Capital Projects

Social, Cultural, and Recreation Projects

Land	\$	225,000	
Total Social, Cultural, and Recreation Projects			225,000

Total General Fund \$ 3,050,332

Urban Services Fund

General Government

Other General Administration

Electricity	\$	12,737	
Trustee's Commission		142	
Other Charges		60	
Total Other General Administration			\$ 12,939

Total Urban Services Fund 12,939

Solid Waste/Sanitation Fund

Public Health and Welfare

Recycling Center

County Official/Administrative Officer	\$	11,817	
Assistant(s)		2,400	
Laborers		79,823	
Longevity Pay		2,000	
Other Salaries & Wages		225	
Social Security		7,193	
Medical Insurance		15,850	
Unemployment Compensation		174	
Advertising		27	
Communication		1,150	
Contracts with Private Agencies		68,094	
Maintenance & Repair Services - Vehicles		21,236	
Postal Charges		37	

(Continued)

Exhibit J-6

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

Solid Waste/Sanitation Fund (Cont.)

Public Health and Welfare (Cont.)

Recycling Center (Cont.)

Other Contracted Services	\$	3,457	
Diesel Fuel		13,012	
Office Supplies		46	
Tires and Tubes		2,101	
Utilities		1,691	
Trustee's Commission		2,797	
Vehicle and Equipment Insurance		8,810	
Workers' Compensation Insurance		4,450	
Solid Waste Equipment		1,722	
Total Recycling Center			\$ 248,112

Total Solid Waste/Sanitation Fund \$ 248,112

Drug Control Fund

Public Safety

Drug Enforcement

In-Service Training	\$	337	
Communication		3,777	
Maintenance & Repair Services - Vehicles		230	
Law Enforcement Supplies		2,354	
Uniforms		761	
Other Charges		2,045	
Motor Vehicles		10,000	
Other Equipment		13	
Total Drug Enforcement			\$ 19,517

Total Drug Control Fund 19,517

Highway/Public Works Fund

Highways

Administration

County Official/Administrative Officer	\$	51,452	
Assistant(s)		37,038	
Legal Notices, Recording, and Court Costs		426	
Pest Control		110	
Postal Charges		118	
Printing, Stationery, and Forms		1,033	
Office Supplies		1,078	
Other Charges		2,789	
Total Administration			\$ 94,044

(Continued)

Exhibit J-6

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Highway and Bridge Maintenance

Foremen	\$	24,488	
Equipment Operators		154,064	
Truck Drivers		98,719	
Laborers		58,055	
Contracts with Private Agencies		16,722	
Dues and Memberships		1,730	
Asphalt - Hot Mix		207,933	
Asphalt - Liquid		7,694	
Crushed Stone		38,930	
Pipe		18,756	
Road Signs		3,286	
Other Charges		167	
Total Highway and Bridge Maintenance			\$ 630,544

Operation and Maintenance of Equipment

Mechanic(s)	\$	103,974	
Diesel Fuel		36,443	
Equipment and Machinery Parts		42,968	
Garage Supplies		8,682	
Gasoline		12,281	
Lubricants		5,312	
Tires and Tubes		9,342	
Other Charges		3,500	
Total Operation and Maintenance of Equipment			222,502

Litter and Trash Collection

Other Salaries & Wages	\$	26,530	
Other Contracted Services		4,200	
Total Litter and Trash Collection			30,730

Other Charges

Communication	\$	1,641	
Electricity		2,138	
Water and Sewer		181	
Liability Insurance		13,706	
Premiums on Corporate Surety Bonds		350	
Trustee's Commission		12,592	
Vehicle and Equipment Insurance		13,706	
Total Other Charges			44,314

(Continued)

Exhibit J-6

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

<u>Highway/Public Works Fund (Cont.)</u>		
<u>Highways (Cont.)</u>		
<u>Employee Benefits</u>		
Social Security	\$ 48,830	
State Retirement	10,379	
Medical Insurance	115,016	
Unemployment Compensation	3,315	
Workers' Compensation Insurance	28,414	
Total Employee Benefits		\$ 205,954
 <u>Capital Outlay</u>		
Contracts with Private Agencies	\$ 33,446	
Engineering Services	17,714	
Bridge Construction	58,842	
Highway Equipment	28,750	
State Aid Projects	128,722	
Total Capital Outlay		<u>267,474</u>
Total Highway/Public Works Fund		\$ 1,495,562
 <u>General Debt Service Fund</u>		
<u>Principal on Debt</u>		
<u>General Government</u>		
Principal on Notes	\$ 66,854	
Total General Government		\$ 66,854
 <u>Education</u>		
Principal on Notes	\$ 152,754	
Total Education		152,754
 <u>Interest on Debt</u>		
<u>General Government</u>		
Interest on Notes	\$ 5,515	
Total General Government		5,515
 <u>Education</u>		
Interest on Notes	\$ 15,973	
Total Education		15,973
 <u>Other Debt Service</u>		
<u>General Government</u>		
Trustee's Commission	\$ 3,643	
Total General Government		<u>3,643</u>
Total General Debt Service Fund		<u>244,739</u>
Total Governmental Funds - Primary Government		<u>\$ 5,071,201</u>

Exhibit J-7

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Discretely Presented Metropolitan School Department
For the Year Ended June 30, 2006

General Purpose School Fund

Instruction

Regular Instruction Program

Teachers	\$	2,028,646	
Career Ladder Program		34,952	
Career Ladder Extended Contracts		29,319	
Educational Assistants		85,936	
Other Salaries & Wages		2,262	
Certified Substitute Teachers		1,125	
Non-certified Substitute Teachers		38,698	
Social Security		132,082	
State Retirement		116,909	
Medical Insurance		326,913	
Unemployment Compensation		1,424	
Employer Medicare		30,890	
Maintenance & Repair Services - Equipment		913	
Instructional Supplies and Materials		40,416	
Textbooks		82,216	
Other Supplies and Materials		849	
Other Charges		3,896	
Regular Instruction Equipment		26,821	
Total Regular Instruction Program			\$ 2,984,267

Alternative Instruction Program

Teachers	\$	43,390	
Educational Assistants		13,689	
Social Security		3,539	
State Retirement		2,677	
Unemployment Compensation		43	
Employer Medicare		828	
Total Alternative Instruction Program			64,166

Special Education Program

Teachers	\$	212,753	
Career Ladder Program		5,000	
Homebound Teachers		2,766	
Educational Assistants		54,907	
Social Security		16,127	
State Retirement		13,273	
Medical Insurance		53,507	
Unemployment Compensation		213	
Employer Medicare		3,772	

(Continued)

Exhibit J-7

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Discretely Presented Metropolitan School Department (Cont.)

General Purpose School Fund (Cont.)

Instruction (Cont.)

Special Education Program (Cont.)

Contracts with Private Agencies	\$	435	
Instructional Supplies and Materials		552	
Total Special Education Program			\$ 363,305

Vocational Education Program

Teachers	\$	173,355	
Career Ladder Program		2,000	
Social Security		10,444	
State Retirement		9,644	
Medical Insurance		23,385	
Unemployment Compensation		86	
Employer Medicare		2,443	
Instructional Supplies and Materials		2,188	
Other Charges		445	
Total Vocational Education Program			223,990

Support Services

Attendance

Supervisor/Director	\$	5,400	
Social Security		319	
State Retirement		297	
Medical Insurance		916	
Unemployment Compensation		2	
Employer Medicare		74	
Total Attendance			7,008

Health Services

Medical Personnel	\$	38,730	
Social Security		2,228	
State Retirement		2,131	
Medical Insurance		10,360	
Unemployment Compensation		44	
Employer Medicare		521	
Travel		61	
Other Supplies and Materials		3,176	
Other Charges		257	
Total Health Services			57,508

(Continued)

Exhibit J-7

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Discretely Presented Metropolitan School Department (Cont.)

General Purpose School Fund (Cont.)

Support Services (Cont.)

Other Student Support

Career Ladder Program	\$	1,000	
Guidance Personnel		119,929	
Social Security		7,186	
State Retirement		6,651	
Medical Insurance		18,669	
Unemployment Compensation		65	
Employer Medicare		1,681	
Contracts with Government Agencies		27,667	
Evaluation and Testing		6,182	
Other Contracted Services		16,000	
Other Charges		6,643	
Total Other Student Support	\$		211,673

Regular Instruction Program

Supervisor/Director	\$	48,594	
Career Ladder Program		2,800	
Librarians		87,629	
Instructional Computer Personnel		47,565	
Educational Assistants		21,472	
Other Salaries & Wages		49,317	
Social Security		12,281	
State Retirement		13,430	
Medical Insurance		36,297	
Unemployment Compensation		156	
Employer Medicare		2,872	
Travel		541	
Library Books/Media		5,857	
Other Supplies and Materials		1,759	
In Service/Staff Development		1,522	
Other Equipment		2,692	
Total Regular Instruction Program			334,784

Special Education Program

Clerical Personnel	\$	2,000	
Social Security		122	
State Retirement		42	
Medical Insurance		82	
Employer Medicare		29	
Travel		323	
Total Special Education Program			2,598

(Continued)

Exhibit J-7

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Discretely Presented Metropolitan School Department (Cont.)

General Purpose School Fund (Cont.)

Support Services (Cont.)

Vocational Education Program

Supervisor/Director	\$	27,034	
Career Ladder Program		500	
Social Security		1,707	
Medical Insurance		2,672	
Unemployment Compensation		22	
Employer Medicare		399	
Total Vocational Education Program			\$ 32,334

Board of Education

Board and Committee Members Fees	\$	1,825	
Social Security		113	
Employer Medicare		26	
Audit Services		3,100	
Dues and Memberships		5,068	
Travel		2,683	
Liability Insurance		11,610	
Premiums on Corporate Surety Bonds		175	
Trustee's Commission		46,738	
Workers' Compensation Insurance		69,219	
Criminal Investigation of Applicants - TBI		1,248	
Refund to Applicant for Criminal Investigation		1,152	
Other Charges		11,467	
Total Board of Education			154,424

Director of Schools

County Official/Administrative Officer	\$	51,076	
Career Ladder Program		900	
Social Security		3,182	
State Retirement		1,898	
Medical Insurance		2,632	
Employer Medicare		744	
Communication		16,778	
Travel		2,426	
Office Supplies		4,458	
Other Charges		7,450	
Administration Equipment		5,644	
Total Director of Schools			97,188

(Continued)

Exhibit J-7

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Discretely Presented Metropolitan School Department (Cont.)

General Purpose School Fund (Cont.)

Support Services (Cont.)

Office of the Principal

Principals	\$	112,173	
Career Ladder Program		4,000	
Assistant Principals		144,208	
Secretary(ies)		70,979	
Clerical Personnel		30,835	
Social Security		21,690	
State Retirement		16,479	
Medical Insurance		45,081	
Unemployment Compensation		239	
Employer Medicare		5,073	
Communication		810	
Other Charges		280	
Total Office of the Principal			\$ 451,847

Fiscal Services

Supervisor/Director	\$	33,362	
Accountants/Bookkeepers		26,672	
Social Security		3,615	
State Retirement		1,273	
Medical Insurance		3,821	
Unemployment Compensation		43	
Employer Medicare		845	
Total Fiscal Services			69,631

Operation of Plant

Custodial Personnel	\$	220,487	
Social Security		13,182	
State Retirement		3,555	
Medical Insurance		25,277	
Unemployment Compensation		272	
Employer Medicare		3,083	
Electricity		193,197	
Natural Gas		84,740	
Water and Sewer		54,522	
Other Supplies and Materials		33,007	
Building and Contents Insurance		33,883	
Total Operation of Plant			665,205

(Continued)

Exhibit J-7

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Discretely Presented Metropolitan School Department (Cont.)

General Purpose School Fund (Cont.)

Support Services (Cont.)

Maintenance of Plant

Maintenance & Repair Services - Buildings	\$	9,343	
Maintenance & Repair Services - Equipment		25,286	
Other Contracted Services		4,110	
Other Supplies and Materials		31,784	
Other Charges		9,539	
Maintenance Equipment		9,637	
Total Maintenance of Plant			\$ 89,699

Transportation

Mechanic(s)	\$	36,608	
Bus Drivers		160,281	
Social Security		12,125	
State Retirement		4,083	
Medical Insurance		3,903	
Unemployment Compensation		297	
Employer Medicare		2,836	
Communication		236	
Medical and Dental Services		1,717	
Gasoline		51,159	
Tires and Tubes		8,872	
Vehicle Parts		24,778	
Other Supplies and Materials		685	
Vehicle and Equipment Insurance		9,917	
Other Charges		1,323	
Total Transportation			318,820

Operation of Non-Instructional Services

Food Service

Food Service Equipment	\$	5,200	
Total Food Service			5,200

Community Services

Other Salaries & Wages	\$	21,211	
Social Security		1,274	
State Retirement		285	
Medical Insurance		2,327	
Unemployment Compensation		45	
Employer Medicare		298	
Other Supplies and Materials		4,788	
Total Community Services			30,228

(Continued)

Exhibit J-7

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Discretely Presented Metropolitan School Department (Cont.)

General Purpose School Fund (Cont.)

Capital Outlay

Regular Capital Outlay

Building Improvements	\$ 118,964	
Total Regular Capital Outlay		\$ 118,964

Total General Purpose School Fund \$ 6,282,839

School Federal Projects Fund

Instruction

Regular Instruction Program

Teachers	\$ 72,318	
Certified Substitute Teachers	2,099	
Non-certified Substitute Teachers	1,600	
Social Security	4,709	
State Retirement	3,366	
Unemployment Compensation	71	
Employer Medicare	1,101	
Maintenance & Repair Services - Equipment	960	
Travel	722	
Other Contracted Services	3,000	
Instructional Supplies and Materials	301	
Regular Instruction Equipment	18,229	
Total Regular Instruction Program		\$ 108,476

Special Education Program

Teachers	\$ 42,172	
Educational Assistants	69,896	
Non-certified Substitute Teachers	3,231	
Social Security	6,761	
State Retirement	3,573	
Medical Insurance	19,730	
Unemployment Compensation	158	
Employer Medicare	1,581	
Contracts with Private Agencies	8,448	
Maintenance & Repair Services - Equipment	104	
Other Contracted Services	5,663	
Instructional Supplies and Materials	3,966	
Other Supplies and Materials	13	
Total Special Education Program		165,296

(Continued)

Exhibit J-7

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Discretely Presented Metropolitan School Department (Cont.)

School Federal Projects Fund (Cont.)

Instruction (Cont.)

Vocational Education Program

Travel	\$	1,815	
Instructional Supplies and Materials		4,699	
Vocational Instruction Equipment		11,472	
Total Vocational Education Program			\$ 17,986

Support Services

Health Services

Medical Personnel	\$	7,337	
Social Security		455	
State Retirement		376	
Unemployment Compensation		13	
Employer Medicare		106	
Other Supplies and Materials		203	
Health Equipment		5,655	
Total Health Services			14,145

Other Student Support

In Service/Staff Development	\$	938	
Other Charges		636	
Total Other Student Support			1,574

Regular Instruction Program

Supervisor/Director	\$	4,863	
Other Salaries & Wages		21,132	
Social Security		1,543	
State Retirement		1,430	
Medical Insurance		4,422	
Employer Medicare		361	
Library Books/Media		2,782	
In Service/Staff Development		36,539	
Total Regular Instruction Program			73,072

Special Education Program

Supervisor/Director	\$	5,000	
Clerical Personnel		2,000	
Social Security		434	
State Retirement		317	
Employer Medicare		102	
Total Special Education Program			7,853

Total School Federal Projects Fund \$ 388,402

(Continued)

Exhibit J-7

The Metropolitan Government of Lynchburg, Moore County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Discretely Presented Metropolitan School Department (Cont.)

Central Cafeteria Fund

Operation of Non-Instructional Services

Food Service

Cafeteria Personnel	\$	165,140	
Social Security		9,407	
State Retirement		3,290	
Medical Insurance		46,229	
Unemployment Compensation		281	
Employer Medicare		2,200	
Maintenance & Repair Services - Equipment		13,557	
Transportation - Other than Students		4,254	
Travel		3,935	
Food Supplies		158,719	
Office Supplies		791	
Other Supplies and Materials		13,895	
Other Charges		2,190	
Food Service Equipment		2,617	
Total Food Service			\$ <u>426,505</u>

Total Central Cafeteria Fund \$ 426,505

Total Governmental Funds - School Department \$ 7,097,746

SINGLE AUDIT 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

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

March 27, 2007

Metropolitan Executive and
Metropolitan Council
Lynchburg, Moore County, Tennessee

To the Metropolitan Executive and Metropolitan Council:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Metropolitan Government of Lynchburg, Moore County, Tennessee, as of and for the year ended June 30, 2006, which collectively comprise the metropolitan government's basic financial statements and have issued our report thereon dated March 27, 2007. 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 the metropolitan government'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 the metropolitan government'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 06.01, 06.03, 06.04, 06.05, 06.06, 06.07, 06.10, 06.11, and 06.12.

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 the metropolitan government'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 06.02, 06.08, and 06.09.

We also noted certain other matters that we reported to the management of the metropolitan government in separate communications.

This report is intended solely for the information and use of the Metropolitan Council, 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
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0269
PHONE (615) 401-7841

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

March 27, 2007

Metropolitan Executive and
Metropolitan Council
Lynchburg, Moore County, Tennessee

To the Metropolitan Executive and Metropolitan Council:

Compliance

We have audited the compliance of the Metropolitan Government of Lynchburg, Moore County, Tennessee, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The metropolitan government'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 its major federal programs is the responsibility of the metropolitan government's management. Our responsibility is to express an opinion on the metropolitan government'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 the metropolitan government'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 the metropolitan government's compliance with those requirements.

In our opinion, the Metropolitan Government of Lynchburg, Moore County, Tennessee, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the metropolitan government is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the metropolitan government'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.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the metropolitan government's ability to administer major federal programs in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06.07, 06.11, 06.13, and 06.14.

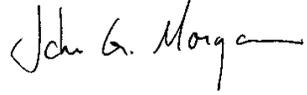
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants would be material in relation 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. Our consideration of the internal control over compliance 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 none of the reportable conditions described above is a material weakness.

Schedule of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Metropolitan Government of Lynchburg, Moore County, Tennessee, as of and for the year ended June 30, 2006, and have issued our report thereon dated March 27, 2007. 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 Metropolitan Council, 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

OTHER AUDITOR'S 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

For the Metropolitan Lynchburg – Moore County Water and Sewer Department

Members of the Utility Board
Metropolitan Lynchburg – Moore County
Water and Sewer Department
Lynchburg, Tennessee

We have audited the financial statements of the Metropolitan Lynchburg – Moore County Water and Sewer Department as of and for the year ended June 30, 2006, and have issued our report thereon. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Utility Board, management, Metropolitan Council, and oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

OTHER AUDITOR'S 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

For the Moore County Emergency Communications District

To the Board of Directors
Moore County Emergency Communications District
Lynchburg, Tennessee

I have audited the financial statements of the Moore County Emergency Communications District as of and for the year ended June 30, 2006, and have issued our report thereon. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Moore County Emergency Communications District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the district'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 Audit Findings and Recommendations as item 06-01.

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. My 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 material weaknesses. However, I believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Moore County Emergency Communications District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, which are described in the accompanying Schedule of Audit Findings and Recommendations as item 06-01.

This report is intended solely for the information of the management of Moore County Emergency Communications District and the State of Tennessee Comptroller of the Treasury and is not intended to be used and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

MOORE COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
AUDIT FINDINGS AND RECOMMENDATIONS
June 30, 2006

Finding 06-01

Some expense items exceeded the adopted budget amounts. This is in violation of Tennessee Code Annotated, Section 7-86-120.

Recommendation

When it is apparent that an expense item will exceed the budget, the budget should be amended to cover the additional expense. Management should review end of the year invoices for any items that may be accounts payable and include those amounts in the amended budget.

Management's Comment

Management will review and take under advisement.

This finding was brought to management's attention in last year's report.

The Metropolitan Government of Lynchburg, Moore County, Tennessee
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	\$ 33,338
Passed-through State Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	42,906
National School Lunch Program	10.555	N/A	142,797
Total U.S. Department of Agriculture			<u>\$ 219,041</u>
U.S. Department of Housing and Urban Development:			
Passed-through State Department of Economic and Community Development:			
Community Development Block Grants/State's Program	14.228	CG-05-11685-00	\$ 242,850
Total U.S. Department of Housing and Urban Development			<u>\$ 242,850</u>
U.S. Department of Education:			
Passed-through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	N/A	\$ 119,326
Special Education Cluster:			
Special Education - Grants to States	84.027	N/A	176,162
Special Education - Preschool Grants	84.173	N/A	11,133
Vocational Education - Basic Grants to States	84.048	N/A	18,923
Safe and Drug Free Schools and Communities - State Grants	84.186	(2)	4,690
State Grants for Innovative Programs	84.298	N/A	2,783
Education Technology State Grants	84.318	N/A	24,306
Improving Teacher Quality State Grants	84.367	N/A	31,078
Hurricane Education Recovery	84.938	N/A	13,009
Total U.S. Department of Education			<u>\$ 401,410</u>
U.S. Department of Homeland Security:			
Passed-through State Department of Military:			
State Domestic Preparedness Equipment Support Program	97.004	Z-04-022478-00	\$ 43,869
Total U.S. Department of Homeland Security			<u>\$ 43,869</u>
Total Expenditures of Federal Grants			<u>\$ 907,170</u>
<u>State Grants</u>		<u>Contract Number</u>	
State Reappraisal Program - Comptroller of the Treasury	N/A	(2)	\$ 3,803
Archives Grant - State Library and Archives	N/A	Z-06-029368-00	4,345
Rural Dispatcher Grant - State Department of Commerce and Insurance	N/A	DG-04-01861-01	30,000
Volunteer Fire Assistance Program - State Department of Agriculture	N/A	Z-06-002468-00	2,702
Waste Tire Grant - State Department of Environment and Conservation	N/A	(2)	3,457
Juvenile Justice and Delinquency Prevention - State Commission on Children and Youth	N/A	Z-06-002630-00	9,000
Safe Schools Act - State Department of Education	N/A	(2)	6,334
Total State Grants			<u>\$ 59,641</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.

The Metropolitan Government of Lynchburg, Moore County, Tennessee
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 the Metropolitan Government of Lynchburg, Moore County, Tennessee, for the year ended June 30, 2005, which have not been corrected.

OFFICE OF METROPOLITAN EXECUTIVE

Finding Number	Page Number	Subject
05.01 (A)	156	Purchase orders were not always issued

OFFICE OF HIGHWAY SUPERINTENDENT

Finding Number	Page Number	Subject
05.02 (A,B)	156	Purchase orders were not always issued and invoices were paid without documentation that goods had been received or services had been rendered
05.03 (A)	157	Leave records did not properly distinguish sick and annual leave
05.04	158	Litter grant expenditures were not adequately supported

OFFICE OF SHERIFF

Finding Number	Page Number	Subject
05.09 (A,D)	160	The annual report of county activities was not filed with the district attorney general, and the quarterly report of confidential funds was not filed with the metropolitan clerk
05.11	162	The office did not file an accurate annual financial report

OTHER FINDINGS

Finding Number	Page Number	Subject
05.12	162	Duties were not segregated adequately in the Offices of Highway Superintendent; Trustee; Metropolitan Clerk; Circuit, General Sessions, and Juvenile Courts Clerk; Clerk and Master; Register; and Sheriff
05.13	162	A central system of accounting and budgeting had not been adopted

**THE METROPOLITAN GOVERNMENT OF
LYNCHBURG, MOORE COUNTY, TENNESSEE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2006

PART I, SUMMARY OF AUDITOR'S RESULTS

1. Our report on the financial statements of the Metropolitan Government of Lynchburg, Moore County, Tennessee, is unqualified.
2. The audit of the financial statements of the Metropolitan Government of Lynchburg, Moore County, Tennessee, disclosed reportable conditions in internal control. None of these conditions was considered to be a material weakness.
3. The audit disclosed no instances of noncompliance which are material to the financial statements of the Metropolitan Government of Lynchburg, Moore County, Tennessee.
4. The audit disclosed two reportable conditions in internal control over major programs.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit revealed two 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 Community Development Block Grant (CFDA No. 14.228), and the Special Education Cluster: Special Education - Grants to States and Special Education - Preschool Grants (CFDA Nos. 84.027 and 84.173) were determined to be major programs.
8. A threshold of \$300,000 was used to distinguish between Type A and Type B federal programs.
9. The Metropolitan Government of Lynchburg, Moore County, Tennessee, did not qualify as a low-risk auditee.

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. The written responses of the metropolitan executive and the current director of schools are quoted in this report. Other officials offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

OFFICE OF METROPOLITAN EXECUTIVE

FINDING 06.01 **PURCHASE ORDERS WERE NOT ALWAYS ISSUED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The office did not issue purchase orders for some purchases. Purchase orders are necessary to control who has purchasing authority and to document purchasing commitments.

RECOMMENDATION

The office should issue purchase orders for all applicable purchases.

FINDING 06.02 **EXPENDITURES EXCEEDED APPROPRIATIONS IN THE SOLID WASTE/SANITATION FUND**
(Noncompliance Under Government Auditing Standards)

Expenditures exceeded total appropriations approved by the Metropolitan Council in the Solid Waste/Sanitation Fund by \$23,799. Section 5-9-401, Tennessee Code Annotated, states that “All funds from whatever source derived, including, but not limited to, taxes, county aid funds, federal funds, and fines, that are used in the operation and respective programs of the various departments, commissions, institutions, boards, offices, and agencies of county governments shall be appropriated to such use by the county legislative bodies.”

RECOMMENDATION

Expenditures should be held within appropriations approved by the Metropolitan Council.

FINDING 06.03 THE SOLID WASTE/SANITATION FUND HAD A CASH OVERDRAFT
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Solid Waste/Sanitation Fund had a cash overdraft of \$3,401 at June 30, 2006. This cash overdraft resulted from issuing warrants that exceeded funds on deposit with the county trustee.

RECOMMENDATION

The office should not issue warrants that exceed cash on deposit with the county trustee.

OFFICE OF HIGHWAY SUPERINTENDENT

FINDING 06.04 THE OFFICE HAD PURCHASING DEFICIENCIES
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following purchasing deficiencies:

- A. The office did not issue purchase orders for some purchases. Purchase orders are necessary to control who has purchasing authority and to document purchasing commitments.

- B. In several instances, invoices were paid without documentation that goods had been received or services had been rendered. However, our audit indicated that these goods had been received and services had been rendered.

RECOMMENDATION

The office should issue purchase orders for all applicable purchases and should document that goods have been received or services have been rendered prior to payment.

FINDING 06.05 THE OFFICE HAD DEFICIENCIES IN LEAVE AND PAYROLL RECORDS
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following deficiencies in leave and payroll records:

- A. Records did not always properly distinguish between sick leave and annual leave. There were several instances noted where employee timesheets clearly

indicated sick leave was used; however, the official leave records indicated annual leave was used.

- B. Supervisors did not sign time sheets as evidence of review and approval. These records are necessary to support payroll disbursements.

RECOMMENDATION

Official leave records should accurately reflect the leave reported and should be supported by employees' timesheets. Supervisors should sign employees' time sheets as evidence of supervisory review and approval.

FINDING 06.06 THE OFFICE DID NOT FILE CLAIMS FOR REIMBURSEMENT OF LITTER GRANT EXPENDITURES, AND EXPENDITURES WERE NOT ADEQUATELY DOCUMENTED
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Highway Department qualified for participation in the litter grant program sponsored by the Tennessee Department of Transportation. However, officials at the Tennessee Department of Transportation, advised us that the Highway Department did not file any claims for reimbursement with the state. The Highway Department posted expenditures of \$30,730 to the Litter and Trash Collection major appropriation category of the Highway/Public Works Fund. Of these expenditures, \$26,530 was for salaries and \$4,200 was for elementary school educational programs. The Highway Department was not able to provide us with documentation of the days and/or hours worked on litter and trash collection; therefore, we were unable to determine if the salary expenditures were reimbursable through the state litter grant program.

RECOMMENDATION

Requests for reimbursements should be timely submitted to the Tennessee Department of Transportation for allowable litter grant expenditures, and these expenditures should be supported by adequate documentation.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 06.07 PURCHASE ORDERS WERE NOT ISSUED PROPERLY
(Internal Control – Reportable Condition Under Government Auditing Standards and OMB Circular A-133)

In several instances, purchase orders were issued after purchases were made. This practice defeats the purpose of issuing a purchase order and makes the purchase order an approval for payment, rather than an approval for the purchase.

RECOMMENDATION

The School Department should improve purchasing procedures by issuing purchase orders before purchases are made.

MANAGEMENT'S RESPONSE – CURRENT DIRECTOR OF SCHOOLS (DIRECT QUOTE)

In order to prevent these deficiencies, a letter explaining the process for securing purchase orders will be drafted and delivered to all appropriate personnel.

FINDING 06.08 **EXTENDED SCHOOL PROGRAM COLLECTIONS WERE NOT DEPOSITED WITHIN THREE DAYS**
(Noncompliance Under Government Auditing Standards)

Extended school program collections were not deposited with the trustee within three days of collection as required by Section 5-8-207, Tennessee Code Annotated.

RECOMMENDATION

All collections should be deposited with the trustee within three days of collection as required by state statute.

OFFICE OF SHERIFF

FINDING 06.09 **THE OFFICE HAD DEFICIENCIES IN THE ADMINISTRATION OF DRUG CONTROL FUNDS**
(Noncompliance Under Government Auditing Standards)

The following deficiencies were noted in the administration of drug control funds:

- A. The Annual Report of Drug Fund Activities was not filed with the district attorney general by August 15th as provided by procedures and guidelines established by the Comptroller of the Treasury as authorized under Section 39-17-420, Tennessee Code Annotated.
- B. The Quarterly Report of Confidential Funds was not filed with the metropolitan clerk within 30 days after the end of the months of September and December 2005 and March and June 2006.

RECOMMENDATION

The sheriff should ensure that all reports required to document drug control transactions are properly filed.

FINDING 06.10 THE OFFICE DID NOT FILE AN ACCURATE ANNUAL FINANCIAL REPORT
(Internal Control – Reportable Condition Under Government Auditing Standards)

The office prepared and filed an annual financial report with the metropolitan executive and metropolitan clerk; however, the report did not include the commissary operations, drug control activity, or the DARE account.

RECOMMENDATION

The Sheriff's Office should prepare an accurate annual financial report that includes all financial operations of the office.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 06.11 DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF METROPOLITAN EXECUTIVE; HIGHWAY SUPERINTENDENT; DIRECTOR OF SCHOOLS; TRUSTEE; METROPOLITAN CLERK; CIRCUIT, GENERAL SESSIONS, AND JUVENILE COURTS CLERK; CLERK AND MASTER; REGISTER; AND SHERIFF
(Internal Control – Reportable Condition Under Government Auditing Standards and OMB Circular A-133)

Duties were not segregated adequately among officials and employees in the Offices of Metropolitan Executive; Highway Superintendent; Director of Schools; Trustee; Metropolitan Clerk; Circuit, General Sessions, and Juvenile Courts Clerk; Clerk and Master; Register; and Sheriff. Officials and employees responsible for maintaining accounting records were also involved in receipting, depositing, and/or disbursing funds. 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.

MANAGEMENT'S RESPONSE – METROPOLITAN EXECUTIVE (DIRECT QUOTE)

Due to budget constraints and the personnel available, it is impossible for the duties to be segregated – one person must do all jobs necessary.

MANAGEMENT'S RESPONSE – CURRENT DIRECTOR OF SCHOOLS (DIRECT QUOTE)

The limited number of office staff employed makes the segregation of duties mentioned in this finding difficult to achieve. Every effort will be made to segregate the duties as the number of employees allows.

FINDING 06.12 **A CENTRAL SYSTEM OF ACCOUNTING AND BUDGETING
HAD NOT BEEN ADOPTED**
(Internal Control – Reportable Condition Under Government Auditing
Standards)

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

RECOMMENDATION

Metropolitan officials should consider adopting ordinances that would provide for a central system of accounting and budgeting covering all departments.

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

Federal/Pass-through Agencies	Finding Number	Federal CFDA Number	Criteria	Explanation	Amount Questioned
U.S. Department of Agriculture:					
Passed-through State Department of Education:					
Child Nutrition Cluster:					
School Breakfast Program	06.13	10.553	Circular A-133,	Reportable Condition in Internal Control	\$ 0
School Lunch Program		10.555	Section 500 (c)(3)	See Finding 06.07 - Purchase orders were not issued properly in the Office of Director of Schools	
U.S. Department of Education:					
Passed-through State Department of Education:					
Special Education Cluster:					
Special Education - Grants to States		84.027			
Special Education - Preschool Grants		84.173			
U.S. Department of Agriculture:					
Passed-through State Department of Education:					
Child Nutrition Cluster:					
School Breakfast Program	06.14	10.553	Circular A-133,	Reportable Condition in Internal Control	0
School Lunch Program		10.555	Section 500 (c)(3)	See Finding 06.11 - Duties were not adequately segregated in the Office of Director of Schools	
U.S. Department of Education:					
Passed-through State Department of Education:					
Special Education Cluster:					
Special Education - Grants to States		84.027			
Special Education - Preschool Grants		84.173			
U.S. Department of Housing and Urban Development:					
Passed-through State Department of Economic and Community Development:					
Community Development Block Grants/ State's Program		14.228		Reportable Condition in Internal Control See Finding 06.11 - Duties were not adequately segregated in the Office of Metropolitan Executive	

**THE METROPOLITAN GOVERNMENT OF
LYNCHBURG, MOORE COUNTY, TENNESSEE
AUDITEE REPORTING RESPONSIBILITIES
For the Year Ended June 30, 2006**

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

Director of Schools – Corrective Action Plan for Current Year's Findings

FINDINGS 06.07 and 06.13

Contact person: Chad Moorehead, Current Director of Schools

Corrective action planned: To prevent these deficiencies, a letter explaining the process for securing purchase orders will be drafted and delivered to all appropriate personnel.

Anticipated completion date: June 30, 2007

FINDINGS 06.11 and 06.14

Contact person: Chad Moorehead, Current Director of Schools

Corrective action planned: The limited number of office staff employed makes the segregation of duties mentioned in this finding difficult to achieve. Every effort will be made to segregate the duties as the number of employees allows.

Anticipated completion date: None

Metropolitan Executive – Corrective Action Plan for Current Year's Finding

FINDINGS 06.11 AND 06.14

Contact person: Peggy Gattis, Metropolitan Executive

Corrective action planned: Due to budget constraints and the personnel available, it is impossible for the duties to be segregated – one person must do all jobs necessary.

Anticipated completion date: None