

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

DEPARTMENT OF AUDIT
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Comptroller of the Treasury

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

MORGAN COUNTY, TENNESSEE

TABLE OF CONTENTS

	Exhibit	Page(s)
Audit Highlights		1-2
<u>INTRODUCTORY SECTION</u>		3
Morgan County Officials		5
<u>FINANCIAL SECTION</u>		7
Independent Auditor's Report		9-11
BASIC FINANCIAL STATEMENTS:		13
Government-wide Financial Statements:		
Statement of Net Assets	A	15-16
Statement of Activities	B	17-18
Fund Financial Statements:		
Governmental Funds:		
Balance Sheet	C-1	19-20
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	C-2	21
Statement of Revenues, Expenditures, and Changes in Fund Balances	C-3	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	C-4	23
Fiduciary Funds:		
Statement of Fiduciary Assets and Liabilities	D	24
Notes to the Financial Statements		25-52
REQUIRED SUPPLEMENTARY INFORMATION:		53
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Actual (Budgetary Basis) and Budget:		
General Fund	E-1	55-57
Solid Waste/Sanitation Fund	E-2	58
Highway/Public Works Fund	E-3	59
Notes to the Required Supplementary Information		61

	Exhibit	Page(s)
COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES:		63
Nonmajor Governmental Funds:		65
Combining Balance Sheet	F-1	67
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	F-2	68
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Actual (Budgetary Basis) and Budget:		
Drug Control Fund	F-3	69
Major Governmental Fund:		71
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Actual and Budget:		
General Debt Service Fund	G	73
Fiduciary Funds:		75
Combining Statement of Fiduciary Assets and Liabilities	H-1	77
Combining Statement of Changes in Assets and Liabilities – All Agency Funds	H-2	78-79
Component Unit:		
Discretely Presented Morgan County School Department:		81
Balance Sheet – Governmental Funds	I-1	83
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	I-2	84
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	I-3	85
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	I-4	86
Combining Balance Sheet – Nonmajor Governmental Funds	I-5	87
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	I-6	88
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Actual (Budgetary Basis) and Budget:		
General Purpose School Fund	I-7	89-90
School Federal Projects Fund	I-8	91
Central Cafeteria Fund	I-9	92
Miscellaneous Schedules:		93
Schedule of Changes in Long-term Notes, Bonds, and Other Loans	J-1	95
Schedule of Bond and Interest Requirements by Year	J-2	96
Schedule of Transfers – Discretely Presented Morgan County Department	J-3	97
Schedule of Salaries and Official Bonds of Principal Officials – Primary Government and Discretely Presented Morgan County School Department	J-4	98

	Exhibit	Page(s)
Schedule of Detailed Revenues – All Governmental Fund Types	J-5	99-102
Schedule of Detailed Revenues – All Governmental Fund Types – Discretely Presented Morgan County School Department	J-6	103-104
Schedule of Detailed Expenditures – All Governmental Fund Types	J-7	105-123
Schedule of Detailed Expenditures – All Governmental Fund Types – Discretely Presented Morgan County School Department	J-8	124-134
Schedule of Detailed Receipts, Disbursements, and Changes in Cash Balance – City Agency Funds	J-9	135
 <u>SINGLE AUDIT SECTION</u>		 137
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 <u>Government Auditing Standards</u>		139-140
Auditor’s Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With <u>OMB Circular A-133</u>		141-143
Schedule of Expenditures of Federal Awards and State Grants		145-146
Schedule of Audit Findings Not Corrected		147
Schedule of Findings and Questioned Costs		149-153
Auditee Reporting Responsibilities		155

Audit Highlights
Annual Financial Report
Morgan County, Tennessee
For the Year Ended June 30, 2006

Scope

We have audited the basic financial statements of Morgan County as of and for the year ended June 30, 2006.

Results

Our report on the aggregate discretely presented component units is qualified because the financial statements did not include a component unit whose financial statements were not available from other auditors at the date of this report. Our report on the governmental activities, each major fund, and the aggregate remaining fund information is unqualified.

Our audit resulted in four findings and recommendations, which we have reviewed with Morgan County management. Detailed findings and recommendations are included in the Single Audit section of this report.

Findings

The following are summaries of the audit findings:

OFFICE OF COUNTY CLERK

- ◆ A cash shortage of \$14,755.93 existed in the office as of June 30, 2006. The county clerk liquidated the cash shortage on September 7, 2006, by depositing personal funds totaling \$14,755.93 to the office bank account. The clerk resigned from office on December 31, 2006.

OFFICE OF DIRECTOR OF FINANCE

- ◆ General ledger payroll liability accounts and the payroll tax bank clearing account were not reconciled monthly.
 - ◆ General Fund expenditures and encumbrances exceeded total appropriations approved by the County Commission by \$172,457. Expenditures and encumbrances in the General Purpose School, School Federal Projects, and Central Cafeteria Funds exceeded appropriations approved by the County Commission at the major appropriation category level of control (the legal level of control).
-

OTHER FINDING

- ◆ Duties were not segregated adequately among the officials and employees in the Offices of Director of Finance, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff.

INTRODUCTORY SECTION

Morgan County Officials

June 30, 2006

Officials

Rebecca Ruppe, County Executive
C. Roy Smith, Road Superintendent
Mike Davis, Director of Schools
Joyce Northrup, Trustee
Susan Wilson, Assessor of Property
Tim Steelman, County Clerk
Rachel Smith, Circuit and General Sessions Courts Clerk
Angela Anderson, Clerk and Master
Sandy Dalton, Register
Bobby Gibson, Sheriff
Gary Howard, Director of Finance

Board of County Commissioners

Wade Adcock	James Jones
Juanita Armes	Ken Jones
Keith Dagley	Susie Kries
Sue Duncan	Joe Reed
Lucy Freytag	Randy Roberts
David Hennessee	Paul Scarbrough
Mandi Hooper	Fred Snow
Terry Jackson	Ronnie Trout
Kay Johnson	Samuel Williams

Board of Education

Perry Suprling, Chairman	Andy Lowe
Terry Armes	Glen Moore
James Randy Harlan	James Rivers

Financial Management Committee

Rebecca Ruppe, Chairman	Gary Howard
Wade Adcock	Ken Jones
Juanita Armes	Susie Kries
Mike Davis	C. Roy 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
NASHVILLE, TENNESSEE 37243-0269
PHONE (615) 401-7841**

INDEPENDENT AUDITOR'S REPORT

December 7, 2006

Morgan County Executive and
Board of County Commissioners
Morgan County, Tennessee

To the County Executive and Board of County Commissioners:

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Morgan County, Tennessee, as of and for the year ended June 30, 2006, which collectively comprise Morgan County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Morgan County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The financial statements of the Morgan County Emergency Communications District, a component unit requiring discrete presentation, had not been made available by other auditors as of the date of this report. Accordingly, the aggregate discretely presented component units financial statements referred to above do not include amounts for the Morgan County Emergency Communication District which should be included to conform

with accounting principles generally accepted in the United States of America. The effects on the financial statements of the aggregate discretely presented component units are not reasonably determinable.

In our opinion, except for the effects of not including the financial statements of the Morgan County Emergency Communications District as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units of Morgan County, Tennessee, at June 30, 2006, and the results of operations of the aggregate discretely presented component units, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Additionally, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan County, Tennessee, as of June 30, 2006, and the respective changes in financial position 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 December 7, 2006, on our consideration of Morgan County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

As described in Note V.B., Morgan County has adopted the provisions of Governmental Accounting Standards Board Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries.

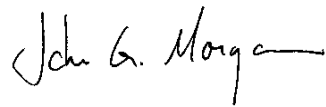
Management did not prepare a management's discussion and analysis. The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America.

The budgetary comparison information on pages 55 through 61 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morgan County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the General Debt Service Fund,

combining and individual fund financial statements of the Morgan County 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 and the General Debt Service Fund, combining and individual fund financial statements of the Morgan County School Department (a discretely presented component unit), and the miscellaneous schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Very truly yours,

A handwritten signature in 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/sb

BASIC FINANCIAL STATEMENTS

Exhibit A

Morgan County, Tennessee
Statement of Net Assets
June 30, 2006

	<u>Primary Government Governmental Activities</u>	<u>Component Unit Morgan County School Department</u>
<u>ASSETS</u>		
Cash	\$ 19,035	\$ 142,065
Equity in Pooled Cash and Investments	6,279,955	1,746,861
Accounts Receivable	315,182	17,496
Allowance for Uncollectible Accounts Receivable	(127,081)	0
Due from Other Governments	666,701	968,992
Property Taxes Receivable	4,665,100	2,691,685
Allowance for Uncollectible Property Taxes	(298,401)	(176,912)
Prepaid Items	65,327	0
Capital Assets:		
Assets Not Depreciated:		
Land	335,634	1,114,029
Construction in Progress	0	25,896
Assets Net of Accumulated Depreciation:		
Buildings and Improvements	2,025,373	27,954,699
Infrastructure	448,189	0
Other Capital Assets	500,486	1,053,080
Total Assets	<u>\$ 14,895,500</u>	<u>\$ 35,537,891</u>
<u>LIABILITIES</u>		
Accounts Payable	\$ 137,199	\$ 105,583
Accrued Payroll	71,012	15,873
Accrued Interest Payable	44,279	0
Payroll Deductions Payable	584	340,179
Contracts Payable	167,890	10,253
Retainage Payable	18,654	0
Due to State of Tennessee	7,559	2,291
Due to Litigant, Heirs, and Others	6,896	0
Deferred Revenue - Property Taxes	4,123,601	2,365,645
Noncurrent Liabilities:		
Due Within One Year	502,584	0
Due in More than One Year	14,743,036	0
Total Liabilities	<u>\$ 19,823,294</u>	<u>\$ 2,839,824</u>

(Continued)

Exhibit A

Morgan County, Tennessee
Statement of Net Assets (Cont.)

	Primary Government Governmental Activities	Component Unit Morgan County School Department
<u>NET ASSETS</u>		
Invested in Capital Assets, net of related debt	\$ 1,632,304	\$ 0
Invested in Capital Assets Restricted for:	0	30,147,704
Highways	2,116,879	0
Debt Service	3,447,489	0
Alcohol and Drug Treatment	39,665	0
Litigation Tax - Jail, Workhouse, or Courthouse	43,296	0
Computer Systems - Constitutional Offices	46,508	0
Solid Waste/Sanitation	272,693	0
Drug Control	39,823	0
Federal and State Educational Programs	0	1,664,742
Other Purposes	15,935	0
Unrestricted	<u>(12,582,386)</u>	<u>885,621</u>
Total Net Assets	<u>\$ (4,927,794)</u>	<u>\$ 32,698,067</u>

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

Exhibit B

Morgan County, Tennessee
Statement of Activities
For the Year Ended June 30, 2006

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 Unit
					Total Governmental Activities	Morgan County School Department
<u>Primary Government:</u>						
Governmental Activities:						
General Government	\$ 1,186,391	\$ 170,408	\$ 145,949	\$ 136,500	\$ (733,534)	\$ 0
Finance	622,653	355,037	29,187	0	(238,429)	0
Administration of Justice	504,581	365,251	9,000	0	(130,330)	0
Public Safety	2,278,268	117,318	0	0	(2,160,950)	0
Public Health and Welfare	1,926,538	921,811	5,187	36,023	(963,517)	0
Social, Cultural, and Recreational Services	66,214	0	0	0	(66,214)	0
Agricultural and Natural Resources	48,951	0	0	0	(48,951)	0
Other Operations	449,717	17,816	0	240,939	(190,962)	0
Highways	2,692,808	321	1,733,719	278,791	(679,977)	0
Debt Service:						
Interest	646,338	0	0	0	(646,338)	0
Other Debt Service	12,387	0	0	0	(12,387)	0
Total Primary Government	<u>\$ 10,434,846</u>	<u>\$ 1,947,962</u>	<u>\$ 1,923,042</u>	<u>\$ 692,253</u>	<u>\$ (5,871,589)</u>	<u>\$ 0</u>
<u>Component Unit:</u>						
Morgan County School Department	\$ 24,052,056	\$ 605,996	\$ 3,447,579	\$ 0	\$ 0	\$ (19,998,481)
Total Component Unit	<u>\$ 24,052,056</u>	<u>\$ 605,996</u>	<u>\$ 3,447,579</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (19,998,481)</u>

(Continued)

Exhibit B

Morgan 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	Component
					Government	Unit
				Total	Morgan County School Department	
General Revenues:						
Property Taxes Levied for General Purposes					\$ 3,892,785	\$ 2,432,707
Property Taxes Levied for General Debt Service					77,904	0
Local Option Sales Taxes					729,342	0
Other Local Taxes					145,596	102,586
Grants and Contributions Not Restricted to Specific Programs					391,778	15,628,219
Unrestricted Investment Income					57,538	163,123
Gain on Sale of Capital Assets					0	18,476
Sale of Non-Capital Assets					0	12,800
Other					16,372	46,063
Total General Revenues					<u>\$ 5,311,315</u>	<u>\$ 18,403,974</u>
Change in Net Assets					\$ (560,274)	\$ (1,594,507)
Net Assets, July 1, 2005					<u>(4,367,520)</u>	<u>34,292,574</u>
Net Assets, June 30, 2006					<u>\$ (4,927,794)</u>	<u>\$ 32,698,067</u>

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

Exhibit C-1

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

	Major Funds				Nonmajor	Total
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Governmental Funds	
<u>ASSETS</u>						
Cash	\$ 0	\$ 0	\$ 0	\$ 0	19,035	\$ 19,035
Equity in Pooled Cash and Investments	779,713	176,953	1,917,214	3,359,356	46,719	6,279,955
Accounts Receivable	273,820	37,846	3,516	0	0	315,182
Allowance for Uncollectibles	(127,081)	0	0	0	0	(127,081)
Due from Other Governments	230,809	15,488	293,405	126,999	0	666,701
Due from Other Funds	1,324	0	64	0	0	1,388
Property Taxes Receivable	3,662,255	746,174	56,666	200,005	0	4,665,100
Allowance for Uncollectible Property Taxes	(235,435)	(49,166)	(3,685)	(10,115)	0	(298,401)
Prepaid Items	52,406	5,688	7,233	0	0	65,327
Total Assets	\$ 4,637,811	\$ 932,983	\$ 2,274,413	\$ 3,676,245	\$ 65,754	\$ 11,587,206
<u>LIABILITIES AND FUND BALANCES</u>						
<u>Liabilities</u>						
Accounts Payable	\$ 60,981	\$ 0	\$ 76,218	\$ 0	\$ 0	\$ 137,199
Accrued Payroll	54,257	4,553	12,202	0	0	71,012
Payroll Deductions Payable	584	0	0	0	0	584
Contracts Payable	167,890	0	0	0	0	167,890
Retainage Payable	18,654	0	0	0	0	18,654
Due to Other Funds	64	74	0	0	1,250	1,388
Due to State of Tennessee	7,308	227	24	0	0	7,559
Due to Litigants, Heirs, and Others	0	0	0	0	6,896	6,896
Deferred Revenue - Current Property Taxes	3,233,771	655,436	49,917	184,477	0	4,123,601
Deferred Revenue - Delinquent Property Taxes	175,576	37,809	2,787	4,923	0	221,095
Other Deferred Revenues	74,361	0	148,865	61,656	0	284,882
Total Liabilities	\$ 3,793,446	\$ 698,099	\$ 290,013	\$ 251,056	\$ 8,146	\$ 5,040,760
<u>Fund Balances</u>						
Reserved for Encumbrances	\$ 247,478	\$ 8,751	\$ 65,478	\$ 0	\$ 100	\$ 321,807
Reserved for Purchase of Electronic Fingerprint Imaging System	0	0	0	0	22,931	22,931
Reserved for Alcohol and Drug Treatment	39,665	0	0	0	0	39,665

(Continued)

Exhibit C-1

Morgan County, Tennessee
Balance Sheet
Governmental Funds (Cont.)

	Major Funds				Nonmajor	Total
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern- mental Funds	
<u>LIABILITIES AND FUND BALANCES (Cont.)</u>						
<u>Fund Balances (Cont.)</u>						
Reserved for Litigation Tax - Jail, Workhouse, or Courthouse	\$ 43,296	\$ 0	\$ 0	\$ 0	\$ 0	\$ 43,296
Reserved for Computer System - Register	31,430	0	0	0	0	31,430
Reserved for Automation Purposes - General Sessions Court	6,188	0	0	0	0	6,188
Reserved for Automation Purposes - Chancery Court	8,890	0	0	0	0	8,890
Reserved for Prepaid Items	52,406	5,688	7,233	0	0	65,327
Reserved for Other General Purposes	15,935	0	0	0	0	15,935
Unreserved, Reported In:						
General Fund	399,077	0	0	0	0	399,077
Special Revenue Funds	0	220,445	1,911,689	0	34,577	2,166,711
Debt Service Funds	0	0	0	3,425,189	0	3,425,189
Total Fund Balances	<u>\$ 844,365</u>	<u>\$ 234,884</u>	<u>\$ 1,984,400</u>	<u>\$ 3,425,189</u>	<u>\$ 57,608</u>	<u>\$ 6,546,446</u>
Total Liabilities and Fund Balances	<u>\$ 4,637,811</u>	<u>\$ 932,983</u>	<u>\$ 2,274,413</u>	<u>\$ 3,676,245</u>	<u>\$ 65,754</u>	<u>\$ 11,587,206</u>

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

Exhibit C-2

Morgan County, Tennessee
Reconciliation of the Governmental Funds Balance Sheet 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)		\$	6,546,446
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Add: land	\$	335,634	
Add: infrastructure net of accumulated depreciation		448,189	
Add: buildings and improvements net of accumulated depreciation		2,025,373	
Add: other capital assets net of accumulated depreciation		<u>500,486</u>	3,309,682
(2) Certain earned amounts are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.			505,977
(3) Interest costs of long-term debt are expensed when due in the governmental funds. Interest costs incurred as of the balance sheet date are accrued in the statement of net assets.			(44,279)
(4) Long-term liabilities, including other loans payable, are not due and payable in the current period and therefore are not reported in the governmental funds.			
Less: Bonds payable	\$	(380,000)	
Less: Notes payable		(40,707)	
Less: Other loans payable		(14,555,000)	
Less: Compensated absences payable		(88,575)	
Less: Landfill postclosure care cost payable		<u>(181,338)</u>	<u>(15,245,620)</u>
Net assets of governmental activities (Exhibit A)			<u>\$ (4,927,794)</u>

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

Exhibit C-3

Morgan 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	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Governmental Funds	
<u>Revenues</u>						
Local Taxes	\$ 3,294,260	\$ 682,632	\$ 110,520	\$ 830,487	\$ 18,901	\$ 4,936,800
Licenses and Permits	47,240	0	0	0	0	47,240
Fines, Forfeitures, and Penalties	105,091	0	0	0	59,645	164,736
Charges for Current Services	717,956	203,436	0	0	100,091	1,021,483
Other Local Revenues	73,566	20,128	54,397	0	1,964	150,055
Fees Received from County Officials	563,788	0	0	0	0	563,788
State of Tennessee	530,212	40,813	2,012,510	0	0	2,583,535
Federal Government	440,397	0	0	0	0	440,397
Other Governments and Citizens Groups	76,657	0	0	0	0	76,657
Total Revenues	\$ 5,849,167	\$ 947,009	\$ 2,177,427	\$ 830,487	\$ 180,601	\$ 9,984,691
<u>Expenditures</u>						
Current:						
General Government	\$ 1,120,818	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,120,818
Finance	525,011	0	0	0	94,486	619,497
Administration of Justice	475,547	0	0	0	26,814	502,361
Public Safety	2,159,054	0	0	0	62,740	2,221,794
Public Health and Welfare	904,047	950,894	0	0	0	1,854,941
Social, Cultural, and Recreational Services	66,214	0	0	0	0	66,214
Agricultural and Natural Resources	48,951	0	0	0	0	48,951
Other Operations	435,009	14,708	0	0	0	449,717
Highways	0	0	3,045,040	0	0	3,045,040
Debt Service:						
Principal on Debt	0	0	0	615,007	0	615,007
Interest on Debt	0	0	0	659,547	0	659,547
Other Debt Service	0	0	0	12,387	0	12,387
Capital Projects	0	0	0	0	9,345	9,345
Total Expenditures	\$ 5,734,651	\$ 965,602	\$ 3,045,040	\$ 1,286,941	\$ 193,385	\$ 11,225,619
Excess (Deficiency) of Revenues Over Expenditures	\$ 114,516	\$ (18,593)	\$ (867,613)	\$ (456,454)	\$ (12,784)	\$ (1,240,928)
Net Change in Fund Balances	\$ 114,516	\$ (18,593)	\$ (867,613)	\$ (456,454)	\$ (12,784)	\$ (1,240,928)
Fund Balance, July 1, 2005	729,849	253,477	2,852,013	3,881,643	70,392	7,787,374
Fund Balance, June 30, 2006	\$ 844,365	\$ 234,884	\$ 1,984,400	\$ 3,425,189	\$ 57,608	\$ 6,546,446

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

Exhibit C-4

Morgan 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)		\$ (1,240,928)
(1) Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these 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 outlays in the current period	\$ 400,623	
Less: current year depreciation	<u>(273,478)</u>	127,145
(2) Governmental funds only report the disposal of capital assets to the extent proceeds are received from the disposal. In the statement of activities, gains or losses are recorded for disposals.		
Less: loss on disposal		(6,044)
(3) Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Less: for the year ended June 30, 2005	\$ (562,589)	
Add: for the year ended June 30, 2006	<u>505,977</u>	(56,612)
(4) The issuance of long-term debt (e.g., notes, 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.		
Add: principal payment on bonds	\$ 40,000	
Add: principal payment on notes	200,007	
Add: principal payment on other loans	<u>375,000</u>	615,007
(5) 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 the governmental funds.		
Add: change in accrued interest payable	\$ 13,209	
Less: change in landfill closure/post-closure care costs payable	(2,287)	
Less: change in compensated absences payable	<u>(9,764)</u>	<u>1,158</u>
Change in net assets of governmental activities (Exhibit B)		<u>\$ (560,274)</u>

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

Exhibit D

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

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash	\$ 686,665
Due from Other Governments	42,715
Property Taxes Receivable	47,543
Cash Shortage	<u>14,756</u>
Total Assets	<u>\$ 791,679</u>
<u>LIABILITIES</u>	
Due to Component Units	\$ 5,798
Due to Other Taxing Units	90,258
Due to Litigants, Heirs, and Others	<u>695,623</u>
Total Liabilities	<u>\$ 791,679</u>

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Morgan 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 Morgan County:

A. Reporting Entity

Morgan County is a public municipal corporation governed by an elected 18-member board. As required by GAAP, these financial statements present Morgan County (the primary government) and its component units. The component units discussed below are included in the county's reporting entity because of the significance of their operational or financial relationships with the county.

Blended Component Units – There are no legally separate component units of Morgan County 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 county. They are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the county.

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

The Morgan County Emergency Communications District provides a simplified means of securing emergency services through a uniform emergency number for the residents of Morgan County, and the Morgan County Commission appoints its governing body. The district is funded primarily through a service charge levied on telephone services. Before the issuance of most debt instruments, the district must obtain the County Commission's approval. The financial statements of the Morgan County Emergency Communications District were not available from other auditors in time for inclusion in this report.

The Morgan County School Department does not issue separate financial statements from those of the county. Therefore, basic financial statements of the Morgan County School Department are included in this report as listed in the table of contents. Although required by GAAP, the financial statements of the Morgan County Emergency Communications District were not available in time for inclusion, as previously mentioned. Complete financial statements of the Morgan County Emergency Communications District can be obtained from its administrative office at the following address:

Administrative Office:

Morgan County Emergency Communications District
122 Kingston Street
Wartburg, TN 37128

Related Organization – The Morgan County Industrial Development Board is a related organization of Morgan County. The county executive nominates and the Morgan County Commission confirms the board members, but the county’s accountability for the organization does not extend beyond making the appointments.

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. However, where applicable, interfund services provided and used between functions are not eliminated in the process of consolidation in the statement of activities. 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. However, the primary government of Morgan County does not have any business-type activities to report. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The Morgan County 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.

Morgan County issues all debt for the discretely presented Morgan County School Department. However, no debt issues were contributed by the county to the School Department during the year ended June 30, 2006.

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

Separate financial statements are provided for governmental funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All other governmental funds are aggregated into a single column on the fund financial statements. Fiduciary funds in total are 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 county considers revenues other than grants to be available if they are collected within 30 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and the revenues are available. Morgan County considers grants and similar revenues to be available if they are collected within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Principal and interest on long-term debt are recognized as fund liabilities when due or when

amounts have been accumulated in the General Debt Service Fund for payments to be made early in the following year.

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

Fiduciary funds 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.

Morgan County reports the following major governmental funds:

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

Solid Waste/Sanitation Fund – This fund accounts for transactions related to the county garbage collection service.

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

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

Additionally, Morgan County reports the following fund types:

Capital Projects Fund – The General Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Agency Funds – These funds account for amounts collected in an agency capacity by the constitutional officers, local sales taxes received by the state to be forwarded to the various cities in Morgan County, and property taxes collected for the City of Sunbright. 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 Morgan County 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 Morgan County 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 county's own legally issued bonds or notes; the State Treasurer's Investment Pool; and repurchase agreements.

The county trustee maintains a cash and internal investment pool that is used by all funds and the discretely presented Morgan County School Department. 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 and to the discretely presented Morgan County School Department's General Purpose School Fund. Morgan County and the Morgan County School Department have adopted a policy of reporting U.S. Treasury obligations, U.S. agency obligations, and repurchase agreements with maturities of one year or less when purchased on the balance sheet at amortized cost. Certificates of deposit and investments in the State Treasurer's Investment Pool are reported at cost. The State Treasurer's Investment Pool is not

registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows SEC-registered mutual funds to use amortized cost rather than fair value to report net assets to compute share prices if certain conditions are met. State statutes require the state treasurer to administer the pool under the same terms and conditions, including collateral requirements, as prescribed for other funds invested by the state treasurer. All other investments are reported at fair value. 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 and property taxes receivable are shown with an allowance for uncollectibles. The allowance for uncollectibles for the ambulance service receivables reflected in the General Fund consists of various amounts estimated based on the categories of payee (Medicare, Medicaid, insurance companies, and individuals). The allowance for uncollectible property taxes is equal to 3.6 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.

Retainage payable in the General Fund of the primary government represents amounts withheld from payments made on construction contracts pending completion of the projects. This amount is held by the county trustee as Equity in Pooled Cash and Investments.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. These assets are offset by a reserve of fund balance in the governmental funds to indicate that amounts are not available for appropriation.

4. Capital Assets

Governmental funds do not capitalize the cost of capital outlays; therefore, 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), are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets, with an estimated useful life of more than two years and with an initial, individual cost based on the following table. 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.

<u>Type</u>	<u>Amount</u>
Land and Construction in Progress	\$ 1
Vehicles	5,000
Machinery and Equipment	5,000
Furniture and Fixtures	5,000
Land Improvements	25,000
Buildings and Improvements	50,000
Infrastructure (Roads and Bridges)	250,000

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 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	7-40
Other Capital Assets	5-30
Infrastructure	25-50

5. Compensated Absences

It is the primary government's policy to permit employees to accumulate a limited amount of earned but unused vacation and sick pay benefits. The discretely presented School Department's policy allows employees to accumulate sick pay benefits but not vacation benefits. There is no liability for unpaid accumulated sick leave since there is no policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements for the primary 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.

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 bonds payable, is recognized as a liability and expenditure in the governmental fund financial statements. Liabilities and expenditures for other long-term obligations, including compensated absences and landfill closure/postclosure care costs, are recognized to the extent that the liabilities have matured (come due for payment) each period.

The county has entered into an interest rate swap agreement to modify interest rates on outstanding debt. Other than the net interest expenditure resulting from the agreement, no amounts are recorded in the financial statements. See Note IV.E., for details of the swap agreement.

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, Morgan County had \$13,298,329 in outstanding debt for capital purposes for the discretely presented Morgan County School Department. The debt is a liability of Morgan County, but the capital assets acquired are reported in the financial statements of the Morgan County School Department. Therefore, Morgan County has incurred a liability significantly decreasing its unrestricted net assets with no corresponding increase in the county'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:	
Matching Share of ARC Grant	\$ 17,168
Matching Share of CDBG Grant	7,000
Contribution to Visitor Center	69,000
Contribution to Tri County Project	11,320
Contribution to Drug Task Force	7,000
Solid Waste/Sanitation:	
Capital Outlay - Equipment	3,650

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 the governmental funds with the government-wide statement of net assets.

Discretely Presented Morgan County School Department

Exhibit I-2 includes explanations of the nature of individual elements of items required to reconcile the balance sheet of the 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 Morgan County School Department

Exhibit I-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 statements 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 (a special revenue fund) which is not budgeted, and the General Capital Projects Fund which adopts project length budgets. All annual appropriations lapse at fiscal year end.

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

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

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

B. Cash Shortage

A cash shortage of \$14,755.93 existed in the Office of County Clerk as of June 30, 2006. On September 7, 2006, the county clerk liquidated this shortage by depositing personal funds into the official bank account. Details of the shortage are presented in the auditor's Schedule of Findings and Questioned Costs in the Single Audit section of this report.

C. Criminal Indictment

It was reported in the prior year's annual financial report that a former librarian for the Coalfield Library was indicted by a Morgan County grand jury on charges of theft of property relating to funds channeled through a bank account maintained for the library. Details regarding the bank account were presented in the auditor's Schedule of Findings and Questioned Costs in

the 2003-04 annual financial report. The individual entered a plea of guilty to theft of property on June 27, 2006. On September 25, 2006, the court ordered restitution of \$3,926.11. The individual has appealed the amount of restitution ordered.

D. Expenditures and Encumbrances Exceeded Appropriations

Total expenditures and encumbrances exceeded total appropriations approved by the County Commission in the General Fund by \$172,457 due to failing to properly budget for transactions of two federal grants channeled through the General Fund.

For the discretely presented Morgan County School Department, expenditures and encumbrances exceeded appropriations approved by the County Commission in the following major appropriation categories (the legal level of control).

<u>Fund/Categories</u>	<u>Amount</u>
General Purpose School:	
Other Student Support	\$ 3,038
Board of Education	7,046
Office of the Principal	30,468
Transportation	4,962
School Federal Projects:	
Instruction Special Education Program	53,358
Support Services Regular Instruction Program	6,470
Support Services Special Education Program	11,488
Central Cafeteria:	
Support Services Board of Education	75

Such overexpenditures are a violation of state statutes. These overexpenditures were funded by available fund balance or by greater than anticipated revenues.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Morgan County and the Morgan County School Department participate in an internal cash and investment pool through the Office of Trustee. The county trustee is the treasurer of the county and in this capacity is responsible for receiving, disbursing, and investing most county 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 represent nonpooled amounts held separately by individual funds.

Deposits

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

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

Investments

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

The county had no pooled 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	\$ 335,634	\$ 0	\$ 0	\$ 335,634
Construction in Progress	20,496	0	(20,496)	0
Total Capital Assets Not Depreciated	<u>\$ 356,130</u>	<u>\$ 0</u>	<u>\$ (20,496)</u>	<u>\$ 335,634</u>
Capital Assets Depreciated:				
Buildings and Improvements	\$ 2,764,779	\$ 0	\$ 0	\$ 2,764,779
Roads and Bridges	153,874	305,183	0	459,057
Other Capital Assets	3,406,996	115,936	(11,800)	3,511,132
Total Capital Assets Depreciated	<u>\$ 6,325,649</u>	<u>\$ 421,119</u>	<u>\$ (11,800)</u>	<u>\$ 6,734,968</u>
Less Accumulated Depreciation For:				
Buildings and Improvements	\$ 677,407	\$ 61,999	\$ 0	\$ 739,406
Roads and Bridges	3,206	7,662	0	10,868
Other Capital Assets	2,812,585	203,817	(5,756)	3,010,646
Total Accumulated Depreciation	<u>\$ 3,493,198</u>	<u>\$ 273,478</u>	<u>\$ (5,756)</u>	<u>\$ 3,760,920</u>
Total Capital Assets Depreciated, Net	<u>\$ 2,832,451</u>	<u>\$ 147,641</u>	<u>\$ (6,044)</u>	<u>\$ 2,974,048</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,188,581</u>	<u>\$ 147,641</u>	<u>\$ (26,540)</u>	<u>\$ 3,309,682</u>

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

Governmental Activities:

General Government	\$ 59,177
Public Safety	47,703
Public Health and Welfare	111,758
Highway/Public Works	<u>54,840</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 273,478</u>

Discretely Presented Morgan County School Department

Governmental Activities:

	Balance 7-1-05	Increases	Decreases	Balance 6-30-06
Capital Assets Not Depreciated:				
Land	\$ 1,150,754	\$ 0	\$ (36,725)	\$ 1,114,029
Construction in Progress	0	25,896	0	25,896
Total Capital Assets Not Depreciated	\$ 1,150,754	\$ 25,896	\$ (36,725)	\$ 1,139,925
Capital Assets Depreciated:				
Buildings and Improvements	\$ 47,031,069	\$ 0	\$ 0	\$ 47,031,069
Other Capital Assets	3,456,791	234,777	(33,145)	3,658,423
Total Capital Assets Depreciated	\$ 50,487,860	\$ 234,777	\$ (33,145)	\$ 50,689,492
Less Accumulated Depreciation For:				
Buildings and Improvements	\$ 17,838,112	\$ 1,238,258	\$ 0	\$ 19,076,370
Other Capital Assets	2,399,227	239,261	(33,145)	2,605,343
Total Accumulated Depreciation	\$ 20,237,339	\$ 1,477,519	\$ (33,145)	\$ 21,681,713
Total Capital Assets Depreciated, Net	\$ 30,250,521	\$ (1,242,742)	\$ 0	\$ 29,007,779
Governmental Activities Capital Assets, Net	\$ 31,401,275	\$ (1,216,846)	\$ (36,725)	\$ 30,147,704

Depreciation expense of \$1,477,519 was charged to the discretely presented Morgan County School Department.

C. Construction Commitments

Primary Government

At June 30, 2006, Morgan County had an uncompleted construction contract of \$212,010 in the General Fund. Funding for these future expenditures is being provided through a federal grant (Community Development Block Grant), as well as contributions from a local utility district and county funding.

D. 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	Solid Waste/Sanitation	\$ 74
General	Nonmajor governmental	1,250
Highway/Public Works	General	64
Discretely Presented School Department:		
General Purpose School	Nonmajor governmental	260,290
Nonmajor governmental	General Purpose School	19,034

These balances resulted from the time lag between the dates that interfund goods and services are provided, reimbursable expenditures occur and payments between funds are made, or the correction of errors in posting of revenue among funds.

Due to/from primary government and component units:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Component unit: School Department	Primary Government: Agency	\$ 5,798

Interfund Transfer:

An interfund transfer for the year ended June 30, 2006, consisted of the following amount:

Discretely Presented Morgan County School Department

<u>Transfer Out</u>	<u>Transfer In</u> Nonmajor Governmental Fund
General Purpose School Fund	\$ 36,874
Total	<u>\$ 36,874</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 Purpose School Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Long-term Debt

Primary Government

General Obligation Bonds, Notes, and Other Loans

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

General obligation bonds, capital outlay notes, and other loans are direct obligations and pledge the full faith and credit of the government. General obligation bonds, capital outlay notes, and other loans outstanding were issued for original terms of up to 11 years for bonds, up to three years for notes, and up to 25 years for other loans. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All bonds, notes, and other loans included in long-term debt as of June 30, 2006, will be retired from the General Debt Service Fund.

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

Type	Interest Rate	Original Amount of Issue	Balance 6-30-06
General Obligation Bonds	2.8 %	\$ 500,000	\$ 380,000
Capital Outlay Notes	2.95 to 3.85	159,000	40,707
Other Loans - Fixed by Swap	4.51	10,000,000	10,000,000
Other Loans - Variable	Variable	5,500,000	4,555,000

In prior years, Morgan County entered into two loan agreements, one each with the Public Building Authority of Blount County, Tennessee, and the Public Building Authority of Sevier County, Tennessee. Under these loan agreements, the authorities loaned \$10,000,000 and \$5,500,000, respectively, to Morgan County for various renovation and construction projects. One loan is repayable at an interest rate that is a tax-exempt variable rate determined by the remarketing agent weekly. In addition, the county pays various other fees (liquidity, remarketing, and administration) in connection with this loan. An interest rate swap agreement was entered into for the remaining loan in order to obtain a synthetic fixed rate on that debt. The following table summarizes loan agreements outstanding at June 30, 2006:

Description	Original Amount of Loan Agreement	Outstanding Principal 6-30-06	Interest Type	Interest Rates as of 6-30-06	Other Fees on Variable Rate Debt
<u>Blount County Public Building Authority</u>					
Various (Series A-2-D)	\$ 10,000,000	\$ 10,000,000	Synthetic Fixed by Swap	4.51 %	0.48 %
<u>Sevier County Public Building Authority</u>					
Various (Series IV-I-3)	5,500,000	<u>4,555,000</u>	Variable	3.91	0.44
Total Other Loans Payable		<u>\$ 14,555,000</u>			

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

Year Ending June 30	Bonds		Notes	
	Principal	Interest	Principal	Interest
2007	\$ 40,000	\$ 10,640	\$ 40,707	\$ 666
2008	45,000	9,520	0	0
2009	45,000	8,260	0	0
2010	45,000	7,000	0	0
2011	50,000	5,740	0	0
2012-2014	155,000	8,820	0	0
Total	<u>\$ 380,000</u>	<u>\$ 49,980</u>	<u>\$ 40,707</u>	<u>\$ 666</u>

Year Ending June 30	Other Loan (\$10,000,000)			Total
	Principal	Interest	Other Fees	
2007	\$ 0	\$ 451,000	\$ 48,000	\$ 499,000
2008	0	451,000	48,000	499,000
2009	0	451,000	48,000	499,000
2010	0	451,000	48,000	499,000
2011	0	451,000	48,000	499,000
2012-2016	660,000	2,255,000	240,000	3,155,000
2017-2021	3,995,000	1,766,793	188,040	5,949,833
2022-2026	5,345,000	750,915	79,920	6,175,835
Total	<u>\$ 10,000,000</u>	<u>\$ 7,027,708</u>	<u>\$ 747,960</u>	<u>\$ 17,775,668</u>

Year Ending June 30	Other Loan (\$5,500,000)			
	Principal	Interest	Other Fees	Total
2007	\$ 395,000	\$ 178,101	\$ 20,042	\$ 593,143
2008	420,000	162,656	18,304	600,960
2009	450,000	146,234	16,456	612,690
2010	470,000	128,639	14,476	613,115
2011	500,000	110,262	12,408	622,670
2012-2015	2,320,000	233,427	26,268	2,579,695
Total	\$ 4,555,000	\$ 959,319	\$ 107,954	\$ 5,622,273

There is \$3,425,189 available in the General Debt Service Fund to service long-term debt. Bonded debt per capita totaled \$19, based on the 2000 federal census. Debt per capita, including bonds, notes, and other loans, totaled \$758, based on the 2000 federal census.

Under its loan agreement, the Public Building Authority of Blount County, at the request of the county, has entered into an interest rate swap agreement for all of the outstanding Local Government Improvement Bonds, Series A-2-D.

Objective of the interest rate swap. In order to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the county requested the authority, on its behalf, to enter into an interest rate swap in connection with its \$10 million, Series A-2-D variable-rate bonds. The intention of the swap was to effectively change the county's variable interest rate on the bonds to a synthetic fixed rate.

Terms. Under the swap, the authority pays the counterparty a fixed payment of 4.33 percent and receives a variable payment computed as 70 percent of the three-month London Interbank Offered Rate (LIBOR). The swap has a notional amount of \$10 million, and the associated variable-rate bond has a \$10 million principal amount. The interest rate swap agreement is based on the same amortization schedule as the outstanding principal of the Series A-2-D Bonds. The bonds' variable-rates have historically approximated the Bond Market Association Municipal Index™ (BMA). The bonds and the related swap agreement mature on June 1, 2026. As of June 30, 2006, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest rate swap:		
Fixed payment to counterparty	Fixed	4.33 %
Variable payment from counterparty	70% of LIBOR	<u>-3.73</u>
Net interest rate swap payments		0.60 %
Variable-rate bond coupon payments		<u>3.91</u>
Synthetic interest rate on bonds		<u><u>4.51 %</u></u>

Fair value. As of June 30, 2006, the swap had a negative fair value of \$321,153. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bonds, creating lower synthetic rates. Because the rates on the government’s variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates and then discounts those cash flows at their present value.

Credit risk. As of June 30, 2006, the county was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the county would be exposed to credit risk in the amount of the derivative’s fair value. The swap counterparty was unrated at the time of the swap. In order to mitigate the potential for credit risk, the authority, on behalf of the county, received a Financial Guarantee Insurance Policy for the swap agreement from Ambac Assurance Corporation, which was rated AAA by Standard and Poor’s, and Fitch and Aaa by Moody’s Investor Service as of June 30, 2006. If Ambac’s credit rating is downgraded, the counterparty is required to post collateral with a third-party custodian.

Basis risk. As noted above, the swap exposes the county to basis risk should BMA increase to above 70 percent of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the BMA to be below 70 percent of LIBOR, then the synthetic rate on the bonds will decrease.

Termination risk. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an “additional termination provision.” The authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the authority would be liable to the counterparty for a payment equal to the swap’s fair value. Likewise, if the swap has a positive fair value at termination, the counterparty would be liable to the authority for a payment equal to the swap’s fair value.

Swap payments and associated debt. As of June 30, 2006, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	Variable Rate Bonds		Net Interest Rate Swap	Total
	Principal	Interest		
2007	\$ 0	\$ 391,000	\$ 60,000	\$ 451,000
2008	0	391,000	60,000	451,000
2009	0	391,000	60,000	451,000
2010	0	391,000	60,000	451,000
2011	0	391,000	60,000	451,000
2012-2016	660,000	1,955,000	300,000	2,915,000
2017-2021	3,995,000	1,531,743	235,050	5,761,793
2022-2026	5,345,000	651,015	99,900	6,095,915
Total	\$ 10,000,000	\$ 6,092,758	\$ 934,950	\$ 17,027,708

Changes in Long-term Liabilities

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

Governmental Activities:

	Bonds	Notes	Other Loans
Balance, July 1, 2005	\$ 420,000	\$ 240,714	\$ 14,930,000
Deductions	(40,000)	(200,007)	(375,000)
Balance, June 30, 2006	\$ 380,000	\$ 40,707	\$ 14,555,000
Balance Due Within One Year	\$ 40,000	\$ 40,707	\$ 395,000

	Compensated Absences	Landfill Closure/ Postclosure Care Costs
Balance, July 1, 2005	\$ 78,811	\$ 179,051
Additions	85,441	10,922
Deductions	(75,677)	(8,635)
Balance, June 30, 2006	\$ 88,575	\$ 181,338
Balance Due Within One Year	\$ 17,715	\$ 9,162

Analysis of Noncurrent Liabilities Presented on Exhibit A:

Total Noncurrent Liabilities, June 30, 2006	\$ 15,245,620
Less: Balance Due Within One Year	<u>(502,584)</u>
Noncurrent Liabilities - Due In More Than One Year - Exhibit A	<u>\$ 14,743,036</u>

Compensated absences payable will be paid from the employing funds. Landfill closure/postclosure care costs will be paid from the Solid Waste/Sanitation Fund.

F. Short-term Debt

Morgan County 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 meet obligations coming due 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	\$ 900,000	\$ (900,000)	\$ 0

V. OTHER INFORMATION

A. Risk Management

The county and the discretely presented Morgan County School Department have joined 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 this fund. The state statute provides for the LGGIF to be self-sustaining through member premiums.

The discretely presented Morgan County School Department joined the Tennessee School Boards Risk Management Trust (TSB-RMT), which is a public entity risk pool established by the Tennessee School Boards Association, an association of member school districts. The School Department 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 primary government continues to carry commercial insurance for all other risks of loss, including general liability, property, casualty, workers' compensation, and environmental. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Accounting Changes

For the year ended June 30, 2006, Morgan County has adopted the provisions of GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. 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.

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 Morgan County is not presenting a comprehensive annual financial report, it has elected not to prepare a statistical section. A limited statistical section was presented in the prior year's report. GASB Statement No. 44 amends guidance related to the preparation of the statistical section. This statement improves the understandability and usefulness of statistical information by addressing the comparability problems that have developed in practice and by adding information from the new financial reporting model for state and local governments required by GASB Statement No. 34. GASB Statement No. 44 establishes the objectives of the statistical section and the five categories it contains: financial trends, revenue capacity, debt capacity, demographic and economic, and operating. It is reasonably expected that Morgan County will prepare and present a statistical section in subsequent years that follows the requirements of GASB Statement No. 44.

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

Morgan County had no net assets restricted by enabling legislation to disclose as of June 30, 2006. It is reasonably expected that Morgan County will be required to disclose net assets restricted by enabling legislation in subsequent years.

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

C. Subsequent Events

Subsequent to June 30, 2006, Morgan County issued an interfund loan in the form of a revenue anticipation note from the General Debt Service Fund to the General Fund for \$1,200,000. Morgan County also issued capital outlay notes for \$160,000 for the purchases of police vehicles and an ambulance.

Susan Kittrell Wilson, assessor of property, died on July 27, 2006. The County Commission appointed Everett Kittrell to serve as assessor of property until the next general election for the county.

On August 31, 2006, Rachel Smith left the Office of Circuit and General Sessions Courts Clerk and was succeeded by Pam Lively, and Bobby Gibson left the Office of the Sheriff and was succeeded by Dennis Ledbetter.

Tim Steelman resigned as county clerk effective December 31, 2006. He was succeeded by R. B. Human.

D. Contingent Liabilities

There are several pending lawsuits in which the county and the discretely presented School Department are involved. Management, based on information from attorneys for the county and the discretely presented School Department, estimates that the potential claims not covered by insurance resulting from such litigation would not materially affect the financial statements of the county and the discretely presented School Department.

E. Change in Administration

David Freels, director of schools, left office on June 30, 2005, and was succeeded by Mike Davis effective July 1, 2005.

F. Landfill Closure/Postclosure Care Costs

State and federal laws and regulations require the county to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Morgan County's landfill was closed during the 1997-98 fiscal year. The \$181,338 reported as landfill postclosure care liability at June 30, 2006, represents the estimated postclosure care cost for the next 21 years. The postclosure care cost is based on what it would cost to perform all postclosure care in 2006. Therefore, actual costs may be higher due to inflation, changes in technology, or changes in regulations.

G. Joint Ventures

The Ninth Judicial District Drug Task Force (DTF) is a joint venture formed by an interlocal agreement between district attorney general of the Ninth Judicial District; Meigs and Morgan Counties; and various cities within this district. The purpose of the DTF is to provide multi-jurisdictional law enforcement to promote the investigation and prosecution of drug-related activities. Funds for the operations of the DTF come primarily from federal grants, drug fines, and the forfeiture of drug-related assets to the DTF. The DTF is overseen by the district attorney general and is governed by a board of directors including the district attorney general, sheriffs, and police chiefs of participating law enforcement agencies within each judicial district. Morgan County made no contributions to the DTF for the year ended June 30, 2006, and does not have any equity interest in this joint venture. Complete financial statements for the DTF can be obtained from its administrative office at the following address:

Administrative Office:

Office of District Attorney General
Ninth Judicial District
P.O. Box 703
Kingston, TN 37763

H. Retirement Commitments

Plan Description

Employees of Morgan County are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the

age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service, and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Morgan County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

Funding Policy

Morgan County requires employees to contribute five percent of earnable compensation. The county is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2006, was 4.19 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Morgan County is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2006, Morgan County's annual pension cost of \$227,330 to TCRS was equal to the county's required and actual contributions. The required contribution was determined as part of the July 1, 2003, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (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. Morgan County's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at

July 1, 2005, was ten years. An actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 2006.

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6-30-06	\$227,330	100%	\$0
6-30-05	213,553	100	0
6-30-04	105,980	100	0

Schedule of Funding Progress for Morgan County

(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	\$8,818	\$8,818	\$0	100%	\$4,914	0%
6-30-03	8,091	8,091	0	100	3,940	0
6-30-01	7,608	7,608	0	100	3,354	0

SCHOOL TEACHERS

Plan Description

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

by the Tennessee General Assembly. A cost of living adjustment (COLA) is provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEPP. 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 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 \$622,656, \$594,199, and \$328,411, respectively, equal to the required contributions for each year.

I. Office of Central Accounting and Budgeting

Morgan County operates under the provisions of the County Financial Management System of 1981. This act provides for a central system of accounting, budgeting, and purchasing for all county departments. The act also provides for the creation of a Finance Department operated under the direction of the finance director.

J. Purchasing Laws

Purchasing procedures are governed by provisions of the County Financial Management System of 1981. This act provides for purchases to be made by the Financial Management Committee. The committee established a policy that purchases exceeding \$5,000 are to be made on a competitive bid basis, except for the Highway Department, where the Uniform Road Law, Section 54-7-113, Tennessee Code Annotated, requires competitive bids for purchases exceeding \$10,000.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit E-1

Morgan 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	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	\$ 3,294,260	\$ 0	\$ 0	\$ 3,294,260	\$ 3,250,741	\$ 3,250,741	\$ 43,519
Licenses and Permits	47,240	0	0	47,240	47,600	47,600	(360)
Fines, Forfeitures, and Penalties	105,091	0	0	105,091	93,200	93,200	11,891
Charges for Current Services	717,956	0	0	717,956	746,850	746,850	(28,894)
Other Local Revenues	73,566	0	0	73,566	35,300	35,300	38,266
Fees Received from County Officials	563,788	0	0	563,788	670,000	681,775	(117,987)
State of Tennessee	530,212	0	0	530,212	558,202	558,202	(27,990)
Federal Government	440,397	0	0	440,397	0	260,497	179,900
Other Governments and Citizens Groups	76,657	0	0	76,657	21,000	53,000	23,657
Total Revenues	\$ 5,849,167	\$ 0	\$ 0	\$ 5,849,167	\$ 5,422,893	\$ 5,727,165	\$ 122,002
<u>Expenditures</u>							
<u>General Government</u>							
County Commission	\$ 82,834	\$ 0	\$ 0	\$ 82,834	\$ 72,249	\$ 84,110	\$ 1,276
County Mayor/Executive	137,488	0	155	137,643	138,403	138,403	760
County Attorney	19,181	0	0	19,181	10,500	19,181	0
Election Commission	232,624	(2,505)	1,822	231,941	103,429	239,929	7,988
Register of Deeds	98,628	0	0	98,628	104,764	104,764	6,136
County Buildings	550,063	(3,600)	500	546,963	527,574	550,239	3,276
<u>Finance</u>							
Accounting and Budgeting	203,289	(1,019)	6,085	208,355	210,808	212,008	3,653
Property Assessor's Office	115,845	0	67	115,912	133,522	121,522	5,610
Reappraisal Program	44,749	0	0	44,749	48,739	54,139	9,390
County Trustee's Office	17,734	0	0	17,734	91,406	96,406	78,672
County Clerk's Office	143,394	0	0	143,394	130,666	146,941	3,547
<u>Administration of Justice</u>							
Circuit Court	165,730	(2,881)	1,195	164,044	176,599	169,599	5,555

(Continued)

Exhibit E-1

Morgan 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	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>Administration of Justice (Cont.)</u>							
Criminal Court	\$ 38,992	\$ 0	\$ 125	\$ 39,117	\$ 47,372	\$ 47,372	\$ 8,255
General Sessions Court	19,210	0	320	19,530	20,119	20,119	589
General Sessions Judge	98,967	0	0	98,967	99,331	99,331	364
Chancery Court	132,409	0	0	132,409	126,123	132,901	492
Juvenile Court	20,239	0	0	20,239	20,483	21,983	1,744
<u>Public Safety</u>							
Sheriff's Department	840,010	(8,350)	6,440	838,100	792,851	842,856	4,756
Jail	1,127,794	(7,870)	6,175	1,126,099	1,145,614	1,127,709	1,610
Juvenile Services	2,015	0	0	2,015	7,000	7,000	4,985
Fire Prevention and Control	73,993	(5,000)	450	69,443	67,867	71,944	2,501
Civil Defense	92,762	(100)	2,045	94,707	12,173	94,803	96
Rescue Squad	2,500	0	0	2,500	2,500	2,500	0
County Coroner/Medical Examiner	19,980	0	0	19,980	21,600	21,600	1,620
<u>Public Health and Welfare</u>							
Local Health Center	49,889	(356)	0	49,533	51,460	51,461	1,928
Ambulance/Emergency Medical Services	727,312	(2,004)	1,750	727,058	731,758	728,657	1,599
Crippled Children Services	5,937	0	0	5,937	5,937	5,937	0
Other Local Health Services	120,909	0	21	120,930	203,300	203,300	82,370
<u>Social, Cultural, and Recreational Services</u>							
Senior Citizens Assistance	8,678	(400)	0	8,278	3,600	8,283	5
Libraries	53,722	(200)	351	53,873	54,147	54,147	274
Parks and Fair Boards	3,814	(2,364)	275	1,725	2,500	2,500	775
<u>Agriculture & Natural Resources</u>							
Agriculture Extension Service	47,151	0	1,185	48,336	48,360	48,361	25
Soil Conservation	1,800	0	0	1,800	1,800	1,800	0

(Continued)

Exhibit E-1

Morgan 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	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>Other Operations</u>							
Tourism	\$ 1,000	\$ 0	\$ 0	\$ 1,000	\$ 1,000	\$ 1,000	\$ 0
Industrial Development	98,398	0	2,529	100,927	75,000	75,000	(25,927)
Other Economic and Community Development	249,116	(700)	215,988	464,404	40,000	76,352	(388,052)
Veterans' Services	926	0	0	926	1,666	1,666	740
Miscellaneous	85,569	0	0	85,569	85,000	86,500	931
Total Expenditures	\$ 5,734,651	\$ (37,349)	\$ 247,478	\$ 5,944,780	\$ 5,417,220	\$ 5,772,323	\$ (172,457)
Excess (Deficiency) of Revenues Over Expenditures	\$ 114,516	\$ 37,349	\$ (247,478)	\$ (95,613)	\$ 5,673	\$ (45,158)	\$ (50,455)
Net Change in Fund Balance	\$ 114,516	\$ 37,349	\$ (247,478)	\$ (95,613)	\$ 5,673	\$ (45,158)	\$ (50,455)
Fund Balance, July 1, 2005	729,849	(37,349)	0	692,500	743,601	743,601	(51,101)
Fund Balance, June 30, 2006	\$ 844,365	\$ 0	\$ (247,478)	\$ 596,887	\$ 749,274	\$ 698,443	\$ (101,556)

Exhibit E-2

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	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	\$ 682,632	\$ 0	\$ 0	\$ 682,632	\$ 690,363	\$ 690,363	\$ (7,731)
Charges for Current Services	203,436	0	0	203,436	100,000	145,000	58,436
Other Local Revenues	20,128	0	0	20,128	15,000	15,000	5,128
State of Tennessee	40,813	0	0	40,813	2,000	28,699	12,114
Total Revenues	\$ 947,009	\$ 0	\$ 0	\$ 947,009	\$ 807,363	\$ 879,062	\$ 67,947
<u>Expenditures</u>							
<u>Public Health and Welfare</u>							
Sanitation Management	\$ 74,092	\$ 0	\$ 0	\$ 74,092	\$ 72,699	\$ 75,779	\$ 1,687
Sanitation Education/Information	28,129	(250)	200	28,079	29,237	29,237	1,158
Waste Pickup	459,856	(13,618)	3,500	449,738	466,512	514,512	64,774
Convenience Centers	209,337	(8,204)	0	201,133	224,076	220,996	19,863
Recycling Center	90,796	(410)	410	90,796	67,556	94,255	3,459
Landfill Operation and Maintenance	88,684	(23,957)	4,641	69,368	98,833	95,833	26,465
<u>Other Operations</u>							
Other Charges	13,605	0	0	13,605	14,000	14,000	395
Miscellaneous	1,103	0	0	1,103	2,500	2,500	1,397
Total Expenditures	\$ 965,602	\$ (46,439)	\$ 8,751	\$ 927,914	\$ 975,413	\$ 1,047,112	\$ 119,198
Excess (Deficiency) of Revenues Over Expenditures	\$ (18,593)	\$ 46,439	\$ (8,751)	\$ 19,095	\$ (168,050)	\$ (168,050)	\$ 187,145
Net Change in Fund Balance	\$ (18,593)	\$ 46,439	\$ (8,751)	\$ 19,095	\$ (168,050)	\$ (168,050)	\$ 187,145
Fund Balance, July 1, 2005	253,477	(46,439)	0	207,038	206,282	206,282	756
Fund Balance, June 30, 2006	\$ 234,884	\$ 0	\$ (8,751)	\$ 226,133	\$ 38,232	\$ 38,232	\$ 187,901

Exhibit E-3

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	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	\$ 110,520	\$ 0	\$ 0	\$ 110,520	\$ 75,833	\$ 75,833	\$ 34,687
Other Local Revenues	54,397	0	0	54,397	25,500	25,500	28,897
State of Tennessee	2,012,510	0	0	2,012,510	1,730,375	1,730,375	282,135
Total Revenues	\$ 2,177,427	\$ 0	\$ 0	\$ 2,177,427	\$ 1,831,708	\$ 1,831,708	\$ 345,719
<u>Expenditures</u>							
<u>Highways</u>							
Administration	\$ 100,393	\$ (92)	\$ 0	\$ 100,301	\$ 106,117	\$ 106,117	\$ 5,816
Highway and Bridge Maintenance	1,830,549	(85,115)	56,536	1,801,970	2,351,286	2,268,313	466,343
Operation and Maintenance of Equipment	273,006	(6,683)	8,942	275,265	289,111	334,382	59,117
Other Charges	69,265	0	0	69,265	77,551	77,551	8,286
Employee Benefits	27,095	0	0	27,095	39,211	39,211	12,116
Capital Outlay	744,732	(117,655)	0	627,077	669,197	706,899	79,822
Total Expenditures	\$ 3,045,040	\$ (209,545)	\$ 65,478	\$ 2,900,973	\$ 3,532,473	\$ 3,532,473	\$ 631,500
Excess (Deficiency) of Revenues Over Expenditures	\$ (867,613)	\$ 209,545	\$ (65,478)	\$ (723,546)	\$ (1,700,765)	\$ (1,700,765)	\$ 977,219
Net Change in Fund Balance	\$ (867,613)	\$ 209,545	\$ (65,478)	\$ (723,546)	\$ (1,700,765)	\$ (1,700,765)	\$ 977,219
Fund Balance, July 1, 2005	2,852,013	(209,545)	0	2,642,468	2,464,617	2,464,617	177,851
Fund Balance, June 30, 2006	\$ 1,984,400	\$ 0	\$ (65,478)	\$ 1,918,922	\$ 763,852	\$ 763,852	\$ 1,155,070

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

A. BUDGETARY INFORMATION

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

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

The county's budgetary basis of accounting is consistent with generally accepted accounting principles (GAAP), except instances in which encumbrances are treated as budgeted expenditures. Therefore, actual amounts in the accompanying budgetary statements for the major funds are presented on this budgetary basis. A reconciliation of the difference between the budgetary basis and the GAAP basis is presented on the face of each budgetary schedule.

B. EXPENDITURES EXCEEDED APPROPRIATIONS

Total expenditures and encumbrances exceeded total appropriations approved by the County Commission in the General Fund by \$172,457. This was the result of not properly budgeting revenues and expenditures related to two federal grants. Such overexpenditures are a violation of state law. These overexpenditures were funded by available fund balance and greater than budgeted revenues.

**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 a specific purpose.

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.

Capital Projects Fund

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

General Capital Projects Fund – The General Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Exhibit F-1

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

	<u>Special Revenue Funds</u>		Total
	Drug	Constitu-	Nonmajor
	Control	tional	Governmental
		Officers -	Funds
		Fees	
<u>ASSETS</u>			
Cash	\$ 0	\$ 19,035	\$ 19,035
Equity in Pooled Cash and Investments	46,719	0	46,719
Total Assets	<u>\$ 46,719</u>	<u>\$ 19,035</u>	<u>\$ 65,754</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Due to Other Funds	\$ 0	\$ 1,250	\$ 1,250
Due to Litigants, Heirs, and Others	6,896	0	6,896
Total Liabilities	<u>\$ 6,896</u>	<u>\$ 1,250</u>	<u>\$ 8,146</u>
<u>Fund Balances</u>			
Reserved for Encumbrances	\$ 100	\$ 0	\$ 100
Reserved for Purchase of Electronic Fingerprint Imaging System	22,931	0	22,931
Unreserved	16,792	17,785	34,577
Total Fund Balances	<u>\$ 39,823</u>	<u>\$ 17,785</u>	<u>\$ 57,608</u>
Total Liabilities and Fund Balances	<u>\$ 46,719</u>	<u>\$ 19,035</u>	<u>\$ 65,754</u>

Exhibit F-2

Morgan 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			Capital Projects Fund	Total Nonmajor Governmental Funds
	Drug Control	Constitu- tional Officers - Fees	Total	General Capital Projects	
<u>Revenues</u>					
Local Taxes	\$ 0	\$ 18,901	\$ 18,901	\$ 0	\$ 18,901
Fines, Forfeitures, and Penalties	59,645	0	59,645	0	59,645
Charges for Current Services	556	99,535	100,091	0	100,091
Other Local Revenues	0	1,964	1,964	0	1,964
Total Revenues	<u>\$ 60,201</u>	<u>\$ 120,400</u>	<u>\$ 180,601</u>	<u>\$ 0</u>	<u>\$ 180,601</u>
<u>Expenditures</u>					
Current:					
Finance	\$ 0	\$ 94,486	\$ 94,486	\$ 0	\$ 94,486
Administration of Justice	0	26,814	26,814	0	26,814
Public Safety	62,740	0	62,740	0	62,740
Capital Projects	0	0	0	9,345	9,345
Total Expenditures	<u>\$ 62,740</u>	<u>\$ 121,300</u>	<u>\$ 184,040</u>	<u>\$ 9,345</u>	<u>\$ 193,385</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (2,539)</u>	<u>\$ (900)</u>	<u>\$ (3,439)</u>	<u>\$ (9,345)</u>	<u>\$ (12,784)</u>
Net Change in Fund Balances	<u>\$ (2,539)</u>	<u>\$ (900)</u>	<u>\$ (3,439)</u>	<u>\$ (9,345)</u>	<u>\$ (12,784)</u>
Fund Balance, July 1, 2005	42,362	18,685	61,047	9,345	70,392
Fund Balance, June 30, 2006	<u>\$ 39,823</u>	<u>\$ 17,785</u>	<u>\$ 57,608</u>	<u>\$ 0</u>	<u>\$ 57,608</u>

Exhibit F-3

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	Add: Encumbrances 6/30/2006	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Revenues</u>							
Fines, Forfeitures, and Penalties	\$ 59,645	\$ 0	\$ 0	\$ 59,645	\$ 31,500	\$ 31,500	\$ 28,145
Charges for Current Services	556	0	0	556	0	0	556
Total Revenues	\$ 60,201	\$ 0	\$ 0	\$ 60,201	\$ 31,500	\$ 31,500	\$ 28,701
<u>Expenditures</u>							
<u>Public Safety</u>							
Drug Enforcement	\$ 62,740	\$ (50)	\$ 100	\$ 62,790	\$ 75,000	\$ 75,000	\$ 12,210
Total Expenditures	\$ 62,740	\$ (50)	\$ 100	\$ 62,790	\$ 75,000	\$ 75,000	\$ 12,210
Excess (Deficiency) of Revenues Over Expenditures	\$ (2,539)	\$ 50	\$ (100)	\$ (2,589)	\$ (43,500)	\$ (43,500)	\$ 40,911
Net Change in Fund Balance	\$ (2,539)	\$ 50	\$ (100)	\$ (2,589)	\$ (43,500)	\$ (43,500)	\$ 40,911
Fund Balance, July 1, 2005	42,362	(50)	0	42,312	43,608	43,608	(1,296)
Fund Balance, June 30, 2006	\$ 39,823	\$ 0	\$ (100)	\$ 39,723	\$ 108	\$ 108	\$ 39,615

Major Governmental Fund

General Debt Service Fund

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

Exhibit G

Morgan 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	\$ 830,487	\$ 804,189	\$ 804,189	\$ 26,298
Other Governments and Citizens Groups	0	0	200,000	(200,000)
Total Revenues	<u>\$ 830,487</u>	<u>\$ 804,189</u>	<u>\$ 1,004,189</u>	<u>\$ (173,702)</u>
<u>Expenditures</u>				
<u>Principal on Debt</u>				
General Government	\$ 334,233	\$ 330,000	\$ 335,226	\$ 993
Education	280,774	260,000	280,774	0
<u>Interest on Debt</u>				
General Government	64,864	71,718	69,812	4,948
Education	594,683	676,282	651,488	56,805
<u>Other Debt Service</u>				
General Government	12,387	16,500	17,200	4,813
Total Expenditures	<u>\$ 1,286,941</u>	<u>\$ 1,354,500</u>	<u>\$ 1,354,500</u>	<u>\$ 67,559</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (456,454)</u>	<u>\$ (550,311)</u>	<u>\$ (350,311)</u>	<u>\$ (106,143)</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 0	\$ 200,000	\$ 0	\$ 0
Total Other Financing Sources (Uses)	<u>\$ 0</u>	<u>\$ 200,000</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Change in Fund Balance	<u>\$ (456,454)</u>	<u>\$ (350,311)</u>	<u>\$ (350,311)</u>	<u>\$ (106,143)</u>
Fund Balance, July 1, 2005	<u>3,881,643</u>	<u>3,878,599</u>	<u>3,878,599</u>	<u>3,044</u>
Fund Balance, June 30, 2006	<u><u>\$ 3,425,189</u></u>	<u><u>\$ 3,528,288</u></u>	<u><u>\$ 3,528,288</u></u>	<u><u>\$ (103,099)</u></u>

Fiduciary Funds

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

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

Cities - Property Tax Fund – The Cities - Property Tax Fund is used to account for city property taxes levied by the City of Sunbright and collected by the county trustee for the benefit of the city. These revenues are forwarded to the City of Sunbright by the county trustee on a monthly basis.

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

Exhibit H-1

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

	<u>Agency Funds</u>			
	Cities - Sales Tax	Cities - Property Tax	Constitu- tional Officers - Agency	Total
<u>ASSETS</u>				
Cash	\$ 0	\$ 0	\$ 686,665	\$ 686,665
Due from Other Governments	42,715	0	0	42,715
Property Taxes Receivable	0	47,543	0	47,543
Cash Shortage	0	0	14,756	14,756
Total Assets	<u>\$ 42,715</u>	<u>\$ 47,543</u>	<u>\$ 701,421</u>	<u>\$ 791,679</u>
<u>LIABILITIES</u>				
Due to Component Units	\$ 0	\$ 0	\$ 5,798	\$ 5,798
Due to Other Taxing Units	42,715	47,543	0	90,258
Due to Litigants, Heirs, and Others	0	0	695,623	695,623
Total Liabilities	<u>\$ 42,715</u>	<u>\$ 47,543</u>	<u>\$ 701,421</u>	<u>\$ 791,679</u>

Exhibit H-2

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

	Beginning Balance	Additions	Deductions	Ending Balance
<u>Cities - Sales Tax Fund</u>				
<u>Assets</u>				
Equity in Pooled Cash and Investments	\$ 0	\$ 290,380	\$ 290,380	\$ 0
Due From Other Governments	42,273	42,715	42,273	42,715
Total Assets	\$ 42,273	\$ 333,095	\$ 332,653	\$ 42,715
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 42,273	\$ 333,095	\$ 332,653	\$ 42,715
Total Liabilities	\$ 42,273	\$ 333,095	\$ 332,653	\$ 42,715
<u>Cities-Property Tax Fund</u>				
<u>Assets</u>				
Equity in Pooled Cash and Investments	\$ 0	\$ 42,081	\$ 42,081	\$ 0
Property Taxes Receivable	46,251	47,543	46,251	47,543
Total Assets	\$ 46,251	\$ 89,624	\$ 88,332	\$ 47,543
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 46,251	\$ 89,624	\$ 88,332	\$ 47,543
Total Liabilities	\$ 46,251	\$ 89,624	\$ 88,332	\$ 47,543
<u>Constitutional Officers - Agency Fund</u>				
<u>Assets</u>				
Cash	\$ 460,967	\$ 3,244,193	\$ 3,018,495	\$ 686,665
Accounts Receivable	74	0	74	0
Cash Shortage	6,103	8,653	0	14,756
Total Assets	\$ 467,144	\$ 3,252,846	\$ 3,018,569	\$ 701,421
<u>Liabilities</u>				
Due to Component Units	\$ 5,798	\$ 0	\$ 0	\$ 5,798
Due to Litigants, Heirs and Others	461,346	3,252,846	3,018,569	695,623
Total Liabilities	\$ 467,144	\$ 3,252,846	\$ 3,018,569	\$ 701,421

(Continued)

Exhibit H-2

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

	Beginning Balance	Additions	Deductions	Ending Balance
<u>Totals - All Agency Funds</u>				
<u>Assets</u>				
Cash	\$ 460,967	\$ 3,244,193	\$ 3,018,495	\$ 686,665
Equity in Pooled Cash and Investments	0	332,461	332,461	0
Account Receivable	74	0	74	0
Due From Other Governments	42,273	42,715	42,273	42,715
Property Taxes Receivable	46,251	47,543	46,251	47,543
Cash Shortage	6,103	8,653	0	14,756
Total Assets	<u>\$ 555,668</u>	<u>\$ 3,675,565</u>	<u>\$ 3,439,554</u>	<u>\$ 791,679</u>
<u>Liabilities</u>				
Due to Component Units	\$ 5,798	\$ 0	\$ 0	\$ 5,798
Due to Other Taxing Units	88,524	422,719	420,985	90,258
Due to Litigants, Heirs, and Others	461,346	3,252,846	3,018,569	695,623
Total Liabilities	<u>\$ 555,668</u>	<u>\$ 3,675,565</u>	<u>\$ 3,439,554</u>	<u>\$ 791,679</u>

Morgan County School Department

This section presents combining and individual fund financial statements for the Morgan County School Department, a discretely presented component unit. The Morgan County 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

Morgan County, Tennessee
Balance Sheet - Governmental Funds
Discretely Presented Morgan County 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	Govern- mental Funds
<u>ASSETS</u>			
Cash	\$ 126,449	\$ 15,616	\$ 142,065
Equity in Pooled Cash and Investments	1,145,495	601,366	1,746,861
Accounts Receivable	11,698	0	11,698
Due from Other Governments	821,356	147,636	968,992
Due from Other Funds	260,290	19,034	279,324
Due from Primary Government	5,798	0	5,798
Property Taxes Receivable	2,691,685	0	2,691,685
Allowance for Uncollectible Property Taxes	(176,912)	0	(176,912)
Total Assets	\$ 4,885,859	\$ 783,652	\$ 5,669,511
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 64,600	\$ 40,983	\$ 105,583
Accrued Payroll	15,873	0	15,873
Payroll Deductions Payable	321,709	18,470	340,179
Contracts Payable	10,253	0	10,253
Due to Other Funds	19,034	260,290	279,324
Due to State of Tennessee	2,291	0	2,291
Deferred Revenue - Current Property Taxes	2,365,645	0	2,365,645
Deferred Revenue - Delinquent Property Taxes	135,630	0	135,630
Other Deferred Revenues	5,798	0	5,798
Total Liabilities	\$ 2,940,833	\$ 319,743	\$ 3,260,576
<u>Fund Balances</u>			
Reserved for Encumbrances	\$ 24,556	\$ 0	\$ 24,556
Reserved for Career Ladder Program	952	0	952
Reserved for Basic Education Program	1,199,881	0	1,199,881
Reserved for Title I Grants to Local Education Agencies	0	13,568	13,568
Reserved for Special Education - Grants to States	0	1,460	1,460
Other Federal Reserves	0	146,912	146,912
Unreserved, Reported In:			
General Fund	719,637	0	719,637
Special Revenue Funds	0	301,969	301,969
Total Fund Balances	\$ 1,945,026	\$ 463,909	\$ 2,408,935
Total Liabilities and Fund Balances	\$ 4,885,859	\$ 783,652	\$ 5,669,511

Exhibit I-2

Morgan County, Tennessee
Reconciliation of the Balance Sheet of Governmental Funds to
the Statement of Net Assets
Discretely Presented Morgan County School Department
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 I-1)		\$	2,408,935
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Add: land	\$	1,114,029	
Add: construction in progress		25,896	
Add: buildings and improvements net of accumulated depreciation		27,954,699	
Add: other capital assets net of accumulated depreciation		<u>1,053,080</u>	30,147,704
(2) Certain earned amounts are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.			<u>141,428</u>
Net assets of governmental activities (Exhibit A)		\$	<u><u>32,698,067</u></u>

Exhibit I-3

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

	<u>Major Fund</u>	<u>Nonmajor</u> <u>Funds</u>	
	General Purpose School	Other Govern- mental Funds	Total Governmental Funds
<u>Revenues</u>			
Local Taxes	\$ 2,568,266	\$ 0	\$ 2,568,266
Licenses and Permits	765	0	765
Charges for Current Services	48,081	557,150	605,231
Other Local Revenues	269,303	7,884	277,187
State of Tennessee	15,740,170	18,210	15,758,380
Federal Government	963,605	2,635,130	3,598,735
Total Revenues	<u>\$ 19,590,190</u>	<u>\$ 3,218,374</u>	<u>\$ 22,808,564</u>
<u>Expenditures</u>			
Current:			
Instruction	\$ 12,068,288	\$ 1,558,439	\$ 13,626,727
Support Services	6,729,410	471,036	7,200,446
Operation of Non-Instructional Services	429,687	1,402,327	1,832,014
Capital Outlay	159,694	0	159,694
Total Expenditures	<u>\$ 19,387,079</u>	<u>\$ 3,431,802</u>	<u>\$ 22,818,881</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 203,111</u>	<u>\$ (213,428)</u>	<u>\$ (10,317)</u>
<u>Other Financing Sources (Uses)</u>			
Insurance Recovery	\$ 27,248	\$ 0	\$ 27,248
Transfers In	0	36,874	36,874
Transfers Out	(36,874)	0	(36,874)
Total Other Financing Sources (Uses)	<u>\$ (9,626)</u>	<u>\$ 36,874</u>	<u>\$ 27,248</u>
Net Change in Fund Balances	\$ 193,485	\$ (176,554)	\$ 16,931
Fund Balance, July 1, 2005	1,751,541	640,463	2,392,004
Fund Balance, June 30, 2006	<u>\$ 1,945,026</u>	<u>\$ 463,909</u>	<u>\$ 2,408,935</u>

Exhibit I-4

Morgan County, Tennessee
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
Discretely Presented Morgan County 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-3)		\$	16,931
(1) Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these 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 outlays in the current period	\$	260,673	
Less: current year depreciation		<u>(1,477,519)</u>	(1,216,846)
(2) The net effect of various miscellaneous transactions involving capital assets (sales, trade-ins, and donations) is to decrease net assets.			
Less: assets sold or disposed/surplused			(36,725)
(3) Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			
Less: for the year ended June 30, 2005	\$	(499,295)	
Add: for the year ended June 30, 2006		<u>141,428</u>	<u>(357,867)</u>
Change in net assets of governmental activities (Exhibit B)			<u>\$ (1,594,507)</u>

Exhibit I-5

Morgan County, Tennessee
Combining Balance Sheet - Nonmajor Governmental Funds
Discretely Presented Morgan County School Department
June 30, 2006

	<u>Special Revenue Funds</u>			Total Nonmajor Governmental Funds
	School Federal Projects	Central Cafeteria	Total	
<u>ASSETS</u>				
Cash	\$ 9,518	\$ 6,098	\$ 15,616	\$ 15,616
Equity in Pooled Cash and Investments	347,406	253,960	601,366	601,366
Due from Other Governments	100,960	46,676	147,636	147,636
Due from Other Funds	0	19,034	19,034	19,034
Total Assets	<u>\$ 457,884</u>	<u>\$ 325,768</u>	<u>\$ 783,652</u>	<u>\$ 783,652</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 17,970	\$ 23,013	\$ 40,983	\$ 40,983
Payroll Deductions Payable	18,470	0	18,470	18,470
Due to Other Funds	259,504	786	260,290	260,290
Total Liabilities	<u>\$ 295,944</u>	<u>\$ 23,799</u>	<u>\$ 319,743</u>	<u>\$ 319,743</u>
<u>Fund Balances</u>				
Reserved for Title I Grants to Local Education Agencies	\$ 13,568	\$ 0	\$ 13,568	\$ 13,568
Reserved for Special Education - Grants to States	1,460	0	1,460	1,460
Other Federal Reserves	146,912	0	146,912	146,912
Unreserved	0	301,969	301,969	301,969
Total Fund Balances	<u>\$ 161,940</u>	<u>\$ 301,969</u>	<u>\$ 463,909</u>	<u>\$ 463,909</u>
Total Liabilities and Fund Balances	<u>\$ 457,884</u>	<u>\$ 325,768</u>	<u>\$ 783,652</u>	<u>\$ 783,652</u>

Exhibit I-6

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

	<u>Special Revenue Funds</u>			Total Nonmajor Governmental Funds
	School Federal Projects	Central Cafeteria	Total	
<u>Revenues</u>				
Charges for Current Services	\$ 0	\$ 557,150	\$ 557,150	\$ 557,150
Other Local Revenues	0	7,884	7,884	7,884
State of Tennessee	0	18,210	18,210	18,210
Federal Government	1,714,240	920,890	2,635,130	2,635,130
Total Revenues	<u>\$ 1,714,240</u>	<u>\$ 1,504,134</u>	<u>\$ 3,218,374</u>	<u>\$ 3,218,374</u>
<u>Expenditures</u>				
Current:				
Instruction	\$ 1,558,439	\$ 0	\$ 1,558,439	\$ 1,558,439
Support Services	470,961	75	471,036	471,036
Operation of Non-Instructional Services	0	1,402,327	1,402,327	1,402,327
Total Expenditures	<u>\$ 2,029,400</u>	<u>\$ 1,402,402</u>	<u>\$ 3,431,802</u>	<u>\$ 3,431,802</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (315,160)</u>	<u>\$ 101,732</u>	<u>\$ (213,428)</u>	<u>\$ (213,428)</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 0	\$ 36,874	\$ 36,874	\$ 36,874
Total Other Financing Sources (Uses)	<u>\$ 0</u>	<u>\$ 36,874</u>	<u>\$ 36,874</u>	<u>\$ 36,874</u>
Net Change in Fund Balances	\$ (315,160)	\$ 138,606	\$ (176,554)	\$ (176,554)
Fund Balance, July 1, 2005	477,100	163,363	640,463	640,463
Fund Balance, June 30, 2006	<u>\$ 161,940</u>	<u>\$ 301,969</u>	<u>\$ 463,909</u>	<u>\$ 463,909</u>

Exhibit I-7

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	Add: Encumbrances 6/30/2006	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
Revenues							
Local Taxes	\$ 2,568,266	\$ 0	\$ 0	\$ 2,568,266	\$ 2,570,920	\$ 2,570,920	\$ (2,654)
Licenses and Permits	765	0	0	765	750	750	15
Charges for Current Services	48,081	0	0	48,081	26,400	26,400	21,681
Other Local Revenues	269,303	0	0	269,303	130,000	194,765	74,538
State of Tennessee	15,740,170	0	0	15,740,170	15,297,360	15,531,086	209,084
Federal Government	963,605	0	0	963,605	0	963,604	1
Total Revenues	\$ 19,590,190	\$ 0	\$ 0	\$ 19,590,190	\$ 18,025,430	\$ 19,287,525	\$ 302,665
Expenditures							
Instruction							
Regular Instruction Program	\$ 9,791,383	\$ (16,201)	\$ 671	\$ 9,775,853	\$ 9,170,451	\$ 9,798,368	\$ 22,515
Special Education Program	1,475,988	(21,803)	375	1,454,560	1,478,487	1,466,521	11,961
Vocational Education Program	800,917	(458)	0	800,459	810,840	815,089	14,630
Support Services							
Attendance	96,969	0	0	96,969	87,488	98,943	1,974
Health Services	160,015	(8)	0	160,007	163,339	168,867	8,860
Other Student Support	483,592	(678)	0	482,914	432,479	479,876	(3,038)
Regular Instruction Program	794,906	(20,262)	2,475	777,119	783,405	852,257	75,138
Special Education Program	142,224	0	0	142,224	146,142	144,230	2,006
Vocational Education Program	69,421	0	0	69,421	84,672	70,530	1,109
Board of Education	555,766	(269)	0	555,497	534,700	548,451	(7,046)
Director of Schools	219,959	(2,635)	0	217,324	228,641	221,665	4,341
Office of the Principal	1,122,844	(2,556)	0	1,120,288	1,053,711	1,089,820	(30,468)
Operation of Plant	1,476,783	(2,398)	0	1,474,385	1,338,522	1,486,475	12,090
Maintenance of Plant	733,929	(15,817)	836	718,948	544,164	733,839	14,891
Transportation	873,002	(2,601)	0	870,401	748,306	865,439	(4,962)

(Continued)

Exhibit I-7

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

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	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>Operation of Non-Instructional Services</u>							
Early Childhood Education	\$ 429,687	\$ 0	\$ 1,367	\$ 431,054	\$ 0	\$ 542,155	\$ 111,101
<u>Capital Outlay</u>							
Regular Capital Outlay	159,694	(63,619)	18,832	114,907	190,000	181,694	66,787
<u>Other Debt Service</u>							
Education	0	0	0	0	200,000	0	0
Total Expenditures	\$ 19,387,079	\$ (149,305)	\$ 24,556	\$ 19,262,330	\$ 17,995,347	\$ 19,564,219	\$ 301,889
Excess (Deficiency) of Revenues							
Over Expenditures	\$ 203,111	\$ 149,305	\$ (24,556)	\$ 327,860	\$ 30,083	\$ (276,694)	\$ 604,554
<u>Other Financing Sources (Uses)</u>							
Insurancy Recovery	\$ 27,248	\$ 0	\$ 0	\$ 27,248	\$ 0	\$ 0	\$ 27,248
Transfers Out	(36,874)	0	0	(36,874)	(30,083)	(36,874)	0
Total Other Financing Sources (Uses)	\$ (9,626)	\$ 0	\$ 0	\$ (9,626)	\$ (30,083)	\$ (36,874)	\$ 27,248
Net Change in Fund Balance							
Fund Balance, July 1, 2005	\$ 1,751,541	(149,305)	0	1,602,236	1,697,950	1,697,950	(95,714)
Fund Balance, June 30, 2006	\$ 1,945,026	\$ 0	\$ (24,556)	\$ 1,920,470	\$ 1,697,950	\$ 1,384,382	\$ 536,088

Exhibit I-8

Morgan County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Discretely Presented Morgan County School Department
School Federal Projects 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>						
Federal Government	\$ 1,714,240	\$ 0	\$ 1,714,240	\$ 1,941,415	\$ 2,039,279	\$ (325,039)
Total Revenues	\$ 1,714,240	\$ 0	\$ 1,714,240	\$ 1,941,415	\$ 2,039,279	\$ (325,039)
<u>Expenditures</u>						
<u>Instruction</u>						
Regular Instruction Program	\$ 710,110	\$ (1,362)	\$ 708,748	\$ 785,079	\$ 791,636	\$ 82,888
Special Education Program	754,846	(879)	753,967	700,792	700,609	(53,358)
Vocational Education Program	93,483	(2,886)	90,597	86,191	91,037	440
<u>Support Services</u>						
Other Student Support	23,475	(3,617)	19,858	30,500	27,027	7,169
Regular Instruction Program	430,069	(558)	429,511	331,853	423,041	(6,470)
Special Education Program	16,488	0	16,488	5,000	5,000	(11,488)
Vocational Education Program	929	0	929	2,000	929	0
Total Expenditures	\$ 2,029,400	\$ (9,302)	\$ 2,020,098	\$ 1,941,415	\$ 2,039,279	\$ 19,181
Excess (Deficiency) of Revenues Over Expenditures	\$ (315,160)	\$ 9,302	\$ (305,858)	\$ 0	\$ 0	\$ (305,858)
Net Change in Fund Balance	\$ (315,160)	\$ 9,302	\$ (305,858)	\$ 0	\$ 0	\$ (305,858)
Fund Balance, July 1, 2005	477,100	(9,302)	467,798	511,426	511,426	(43,628)
Fund Balance, June 30, 2006	\$ 161,940	\$ 0	\$ 161,940	\$ 511,426	\$ 511,426	\$ (349,486)

Exhibit I-9

Morgan County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Discretely Presented Morgan County 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	\$ 557,150	\$ 484,634	\$ 484,634	\$ 72,516
Other Local Revenues	7,884	3,500	63,500	(55,616)
State of Tennessee	18,210	22,500	22,500	(4,290)
Federal Government	920,890	760,334	867,334	53,556
Total Revenues	\$ 1,504,134	\$ 1,270,968	\$ 1,437,968	\$ 66,166
<u>Expenditures</u>				
<u>Support Services</u>				
Board of Education	\$ 75	\$ 0	\$ 0	\$ (75)
<u>Operation of Non-Instructional Services</u>				
Food Service	1,325,676	1,227,031	1,382,672	56,996
Community Services	76,651	74,020	92,170	15,519
Total Expenditures	\$ 1,402,402	\$ 1,301,051	\$ 1,474,842	\$ 72,440
Excess (Deficiency) of Revenues Over Expenditures	\$ 101,732	\$ (30,083)	\$ (36,874)	\$ 138,606
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 36,874	\$ 30,083	\$ 36,874	\$ 0
Total Other Financing Sources (Uses)	\$ 36,874	\$ 30,083	\$ 36,874	\$ 0
Net Change in Fund Balance	\$ 138,606	\$ 0	\$ 0	\$ 138,606
Fund Balance, July 1, 2005	163,363	75,671	75,671	87,692
Fund Balance, June 30, 2006	\$ 301,969	\$ 75,671	\$ 75,671	\$ 226,298

MISCELLANEOUS SCHEDULES

Exhibit J-1

Morgan County, Tennessee
Schedule of Changes in Long-term Notes, Bonds and Other Loans
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	Paid and/or Matured During Period	Outstanding 6-30-06
<u>NOTES PAYABLE</u>							
<u>Payable through General Debt Service Fund</u>							
Voting Machine	\$ 125,250	3.85 %	7-9-02	7-9-05	\$ 43,340	\$ 43,340	\$ 0
Vehicles	152,000	2.95	10-20-03	10-20-05	77,188	77,188	0
Vehicles	159,000	3.2	11-17-04	11-17-06	120,186	79,479	40,707
Total Notes Payable					<u>\$ 240,714</u>	<u>\$ 200,007</u>	<u>\$ 40,707</u>
<u>BONDS PAYABLE</u>							
<u>Payable through General Debt Service Fund</u>							
General Obligation	500,000	2.8	4-22-03	6-1-14	\$ 420,000	\$ 40,000	\$ 380,000
Total Bonds Payable					<u>\$ 420,000</u>	<u>\$ 40,000</u>	<u>\$ 380,000</u>
<u>OTHER LOANS PAYABLE</u>							
<u>Payable through General Debt Service Fund</u>							
Public Building Authority of Blount County - \$9,888,000 (Schools), \$112,000 (Jail)	10,000,000	(1)	6-21-01	6-1-26	\$ 10,000,000	0	\$ 10,000,000
Public Building Authority of Sevier County - \$4,118,000 (Schools), \$1,382,000 (Jail)	5,500,000	Variable	1-31-02	6-1-15	4,930,000	375,000	4,555,000
Total Other Loans Payable					<u>\$ 14,930,000</u>	<u>\$ 375,000</u>	<u>\$ 14,555,000</u>

- (1) This issue was swapped from a variable to a synthetic fixed rate by execution of a swap agreement during the year ended June 30, 2002.
This rate may vary from year to year.

Exhibit J-2

Morgan County, Tennessee
Schedule of Bond and Interest Requirements by Year

Year Ending June 30	Bond Requirements	Interest Requirements	Total Requirements
2007	\$ 40,000	\$ 10,640	\$ 50,640
2008	45,000	9,520	54,520
2009	45,000	8,260	53,260
2010	45,000	7,000	52,000
2011	50,000	5,740	55,740
2012	50,000	4,340	54,340
2013	50,000	2,940	52,940
2014	55,000	1,540	56,540
Total	<u>\$ 380,000</u>	<u>\$ 49,980</u>	<u>\$ 429,980</u>

Exhibit J-3

Morgan County, Tennessee
Schedule of Transfers
Discretely Presented Morgan County School Department
For the Year Ended June 30, 2006

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Purpose School	Central Cafeteria	To provide funds for operations	<u>\$ 36,874</u>

Exhibit J-4

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

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
County Executive	Section 8-24-102, <u>TCA</u>	\$ 57,804	\$ 50,000	Ohio Farmers Insurance Company
Road Superintendent	Section 8-24-102, <u>TCA</u>	55,052	100,000	"
Director of Schools	State Board of Education and County Board of Education	82,203 (1)	(2)	"
Trustee	Section 8-24-102, <u>TCA</u>	50,048	515,000	"
Assessor of Property	Section 8-24-102, <u>TCA</u>	50,048	10,000	"
County Clerk	Section 8-24-102, <u>TCA</u>	50,048	50,000	"
Circuit Court Clerk	Section 8-24-102, <u>TCA</u>	50,048	50,000	"
Clerk and Master	Section 8-24-102, <u>TCA</u>	57,798 (3)	50,000	"
Register	Section 8-24-102, <u>TCA</u>	50,048	25,000	"
Sheriff	Section 8-24-102, <u>TCA</u>	55,569 (4)	25,000	"
Director of Finance	Board of County Commissioners	42,541	50,000	"
County Employees Blanket Bond Coverage:				
	Employee Dishonesty - County		250,000	Specialty National Insurance Company
	Employee Dishonesty - School Department		150,000	Tennessee School Boards Risk Management Trust

(1) - Includes \$1,000 chief executive officer supplement.

(2) - The director of schools is covered under the School Department's Blanket Bond.

(3) - Includes special commissioner fees of \$7,750.

(4) - Includes a law enforcement training salary supplement of \$517.

Exhibit J-5

Morgan 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	Solid Waste / Sanitation	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>Local Taxes</u>							
<u>County Property Taxes</u>							
Current Property Tax	\$ 2,899,321	\$ 624,350	\$ 0	\$ 0	\$ 46,035	\$ 81,298	\$ 3,651,004
Trustee's Collections - Prior Year	172,017	37,194	0	0	2,741	8,485	220,437
Circuit/Clerk & Master Collections - Prior Years	56,258	12,069	0	18,901	890	1,638	89,756
Interest and Penalty	29,905	8,628	0	0	611	3,147	42,291
Pick-up Taxes	1,814	391	0	0	29	57	2,291
Payments in-Lieu-of Taxes - T.V.A.	1	0	0	0	0	0	1
Payments in-Lieu-of Taxes - Local Utilities	17,115	0	0	0	0	0	17,115
Payments in-Lieu-of Taxes - Other	6,108	0	0	0	0	0	6,108
<u>County Local Option Taxes</u>							
Local Option Sales Tax	0	0	0	0	0	729,342	729,342
Litigation Tax - General	33,041	0	0	0	0	0	33,041
Litigation Tax - Special Purpose	31,628	0	0	0	0	0	31,628
Litigation Tax - Jail, Workhouse, or Courthouse	14,193	0	0	0	0	0	14,193
Mineral Severance Tax	0	0	0	0	60,214	0	60,214
<u>Statutory Local Taxes</u>							
Bank Excise Tax	32,859	0	0	0	0	0	32,859
Interstate Telecommunications Tax	0	0	0	0	0	6,520	6,520
Total Local Taxes	\$ 3,294,260	\$ 682,632	\$ 0	\$ 18,901	\$ 110,520	\$ 830,487	\$ 4,936,800
<u>Licenses and Permits</u>							
<u>Licenses</u>							
Marriage Licenses	\$ 779	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 779
Cable TV Franchise	44,295	0	0	0	0	0	44,295
<u>Permits</u>							
Beer Permits	2,166	0	0	0	0	0	2,166
Total Licenses and Permits	\$ 47,240	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 47,240
<u>Fines, Forfeitures, and Penalties</u>							
<u>Circuit Court</u>							
Fines	\$ 7,538	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 7,538
Officers Costs	6,592	0	0	0	0	0	6,592
Drug Control Fines	0	0	1,511	0	0	0	1,511

(Continued)

Exhibit J-5

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

	Special Revenue Funds					Debt Service Fund	Total
	General	Solid Waste / Sanitation	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>Fines, Forfeitures, and Penalties (Cont.)</u>							
<u>Circuit Court (Cont.)</u>							
Jail Fees	\$ 327	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	327
Data Entry Fee - Circuit Court	312	0	0	0	0	0	312
<u>General Sessions Court</u>							
Fines	41,311	0	0	0	0	0	41,311
Officers Costs	33,758	0	0	0	0	0	33,758
Game and Fish Fines	480	0	0	0	0	0	480
Drug Control Fines	0	0	38,397	0	0	0	38,397
Jail Fees	5,782	0	0	0	0	0	5,782
DUI Treatment Fines	3,998	0	0	0	0	0	3,998
Data Entry Fee - General Sessions Court	3,404	0	0	0	0	0	3,404
<u>Juvenile Court</u>							
Fines	1,133	0	0	0	0	0	1,133
<u>Chancery Court</u>							
Data Entry Fee - Chancery Court	454	0	0	0	0	0	454
<u>Judicial District Drug Program</u>							
Courtroom Security Fee	2	0	0	0	0	0	2
<u>Other Fines, Forfeitures, and Penalties</u>							
Proceeds from Confiscated Property	0	0	19,737	0	0	0	19,737
Total Fines, Forfeitures, and Penalties	\$ 105,091	\$ 0	\$ 59,645	\$ 0	\$ 0	\$ 0	164,736
<u>Charges for Current Services</u>							
<u>General Service Charges</u>							
Solid Waste Disposal Fees	\$ 0	\$ 203,436	\$ 0	\$ 0	\$ 0	\$ 0	203,436
Patient Charges	686,852	0	0	0	0	0	686,852
Other General Service Charges	1,406	0	556	0	0	0	1,962
<u>Fees</u>							
Copy Fees	11,781	0	0	0	0	0	11,781
Telephone Commissions	5,982	0	0	0	0	0	5,982
Vending Machine Collections	53	0	0	0	0	0	53
Constitutional Officers' Fees and Commissions	0	0	0	91,785	0	0	91,785
Special Commissioner Fees/Special Master Fees	0	0	0	7,750	0	0	7,750
Data Processing Fee - Register	8,924	0	0	0	0	0	8,924

(Continued)

Exhibit J-5

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

	Special Revenue Funds					Debt Service Fund	Total
	General	Solid Waste / Sanitation	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>Charges for Current Services (Cont.)</u>							
<u>Fees (Cont.)</u>							
Data Processing Fee - Sheriff	\$ 2,958	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	2,958
Total Charges for Current Services	\$ 717,956	\$ 203,436	\$ 556	\$ 99,535	\$ 0	\$ 0	1,021,483
<u>Other Local Revenues</u>							
<u>Recurring Items</u>							
Investment Income	\$ 55,574	\$ 0	\$ 0	1,964	\$ 0	\$ 0	57,538
Lease/Rentals	15	0	0	0	0	0	15
Sale of Materials and Supplies	0	321	0	0	0	0	321
Commissary Sales	2,317	0	0	0	0	0	2,317
Sale of Recycled Materials	0	17,303	0	0	682	0	17,985
Miscellaneous Refunds	8,198	2,504	0	0	208	0	10,910
<u>Nonrecurring Items</u>							
Sale of Property	5,400	0	0	0	0	0	5,400
Damages Recovered from Individuals	0	0	0	0	53,507	0	53,507
Contributions & Gifts	2,000	0	0	0	0	0	2,000
<u>Other Local Revenues</u>							
Other Local Revenues	62	0	0	0	0	0	62
Total Other Local Revenues	\$ 73,566	\$ 20,128	\$ 0	1,964	\$ 54,397	\$ 0	150,055
<u>Fees Received from County Officials</u>							
<u>Excess Fees</u>							
Trustee	\$ 123,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	123,000
<u>Fees-In-Lieu of Salary</u>							
County Clerk	139,473	0	0	0	0	0	139,473
Circuit Court Clerk	29,382	0	0	0	0	0	29,382
General Sessions Court Clerk	102,097	0	0	0	0	0	102,097
Clerk and Master	61,286	0	0	0	0	0	61,286
Register	102,242	0	0	0	0	0	102,242
Sheriff	6,308	0	0	0	0	0	6,308
Total Fees Received from County Officials	\$ 563,788	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	563,788

(Continued)

Exhibit J-5

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

	Special Revenue Funds					Debt Service Fund	Total
	General	Solid Waste / Sanitation	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<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	8,712	0	0	0	0	0	8,712
<u>Public Works Grants</u>							
Bridge Program	0	0	0	0	118,118	0	118,118
State Aid Program	0	0	0	0	160,673	0	160,673
Litter Program	0	29,237	0	0	0	0	29,237
<u>Other State Revenues</u>							
Income Tax	11,035	0	0	0	0	0	11,035
Beer Tax	17,212	0	0	0	0	0	17,212
Alcoholic Beverage Tax	35,259	0	0	0	0	0	35,259
State Revenue Sharing - T.V.A.	195,287	0	0	0	0	0	195,287
Contracted Prisoner Boarding	105,735	0	0	0	0	0	105,735
Gasoline and Motor Fuel Tax	0	0	0	0	1,717,850	0	1,717,850
Petroleum Special Tax	0	0	0	0	15,869	0	15,869
Registrar's Salary Supplement	20,475	0	0	0	0	0	20,475
Other State Grants	122,310	11,576	0	0	0	0	133,886
Other State Revenues	5,187	0	0	0	0	0	5,187
Total State of Tennessee	\$ 530,212	\$ 40,813	\$ 0	\$ 0	\$ 2,012,510	\$ 0	\$ 2,583,535
<u>Federal Government</u>							
<u>Federal Through State</u>							
Community Development	\$ 206,719	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	206,719
Homeland Security Grants	62,958	0	0	0	0	0	62,958
Other Federal through State	170,720	0	0	0	0	0	170,720
Total Federal Government	\$ 440,397	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	440,397
<u>Other Governments and Citizens Groups</u>							
<u>Other Governments</u>							
Prisoner Board	\$ 61,969	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	61,969
Contributions	7,853	0	0	0	0	0	7,853
<u>Citizens Groups</u>							
Donations	908	0	0	0	0	0	908
<u>Other</u>							
Other	\$ 5,927	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	5,927
Total Other Governments and Citizens Groups	\$ 76,657	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	76,657
Total	\$ 5,849,167	\$ 947,009	\$ 60,201	\$ 120,400	\$ 2,177,427	\$ 830,487	\$ 9,984,691

Exhibit J-6

Morgan County, Tennessee
Schedule of Detailed Revenues -
All Governmental Fund Types
Discretely Presented Morgan County 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	\$ 2,239,649	\$ 0	\$ 0	\$ 2,239,649
Trustee's Collections - Prior Year	132,567	0	0	132,567
Circuit/Clerk & Master Collections - Prior Years	64,723	0	0	64,723
Interest and Penalty	27,340	0	0	27,340
Pick-up Taxes	1,401	0	0	1,401
<u>Statutory Local Taxes</u>				
Wholesale Beer Tax	102,586	0	0	102,586
Total Local Taxes	\$ 2,568,266	\$ 0	\$ 0	\$ 2,568,266
<u>Licenses and Permits</u>				
<u>Licenses</u>				
Marriage Licenses	\$ 765	\$ 0	\$ 0	\$ 765
Total Licenses and Permits	\$ 765	\$ 0	\$ 0	\$ 765
<u>Charges for Current Services</u>				
<u>Education Charges</u>				
Tuition - Regular Day Students	\$ 7,800	\$ 0	\$ 0	\$ 7,800
Tuition - Other	2,075	0	0	2,075
Lunch Payments - Children	0	0	278,401	278,401
Lunch Payments - Adults	0	0	55,815	55,815
Income from Breakfast	0	0	106,383	106,383
A la carte Sales	0	0	110,485	110,485
School Based Health Services - FFS	10,000	0	0	10,000
Receipts from Individual Schools	28,206	0	0	28,206
<u>Other Charges for Services</u>				
Other Charges for Services	0	0	6,066	6,066
Total Charges for Current Services	\$ 48,081	\$ 0	\$ 557,150	\$ 605,231
<u>Other Local Revenues</u>				
<u>Recurring Items</u>				
Investment Income	\$ 155,554	\$ 0	\$ 7,569	\$ 163,123
Miscellaneous Refunds	10,291	0	315	10,606
<u>Nonrecurring Items</u>				
Sale of Equipment	526	0	0	526
Sale of Property	67,475	0	0	67,475
<u>Other Local Revenues</u>				
Other Local Revenues	35,457	0	0	35,457
Total Other Local Revenues	\$ 269,303	\$ 0	\$ 7,884	\$ 277,187
<u>State of Tennessee</u>				
<u>State Education Funds</u>				
Basic Education Program	\$ 14,644,998	\$ 0	\$ 0	\$ 14,644,998
Early Childhood Education	376,037	0	0	376,037
School Food Service	0	0	18,210	18,210
Driver Education	15,608	0	0	15,608
Other State Education Funds	78,612	0	0	78,612
Career Ladder Program	225,452	0	0	225,452
Career Ladder - Extended Contract	137,576	0	0	137,576

(Continued)

Exhibit J-6

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

	General Purpose School	School Federal Projects	Central Cafeteria	Total
<u>State of Tennessee (Cont.)</u>				
<u>Other State Revenues</u>				
State Revenue Sharing - T.V.A.	\$ 195,287	\$ 0	\$ 0	\$ 195,287
Other State Grants	66,600	0	0	66,600
Total State of Tennessee	\$ 15,740,170	\$ 0	\$ 18,210	\$ 15,758,380
<u>Federal Government</u>				
<u>Federal Through State</u>				
USDA School Lunch Program	\$ 0	\$ 0	\$ 678,108	\$ 678,108
Breakfast	0	0	189,757	189,757
USDA - Other	0	0	53,025	53,025
Vocational Education - Basic Grants to States	0	97,054	0	97,054
Title I Grants to Local Education Agencies	0	706,000	0	706,000
Innovative Education Program Strategies	0	81,934	0	81,934
Special Education - Grants to States	33,034	671,184	0	704,218
Special Education Preschool Grants	0	34,425	0	34,425
Eisenhower Professional Development State Grants	0	103,500	0	103,500
Other Federal through State	930,571	20,143	0	950,714
Total Federal Government	\$ 963,605	\$ 1,714,240	\$ 920,890	\$ 3,598,735
Total	\$ 19,590,190	\$ 1,714,240	\$ 1,504,134	\$ 22,808,564

Exhibit J-7

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

General Fund

General Government

County Commission

Board and Committee Members Fees	\$	26,290	
Social Security		1,630	
Employer Medicare		381	
Audit Services		4,469	
Dues and Memberships		13,487	
Legal Services		20,061	
Legal Notices, Recording, and Court Costs		863	
Pauper Burials		293	
Postal Charges		344	
Office Supplies		1,054	
Other Supplies and Materials		1,771	
Premiums on Corporate Surety Bonds		7,606	
Other Charges		4,585	
Total County Commission			\$ 82,834

County Mayor/Executive

County Official/Administrative Officer	\$	57,804	
Assistant(s)		16,918	
Clerical Personnel		18,605	
Longevity Pay		600	
Social Security		5,580	
State Retirement		3,839	
Medical Insurance		28,622	
Employer Medicare		1,305	
Communication		1,875	
Postal Charges		84	
Travel		1,995	
Office Supplies		261	
Total County Mayor/Executive			137,488

County Attorney

Legal Services	\$	19,181	
Total County Attorney			19,181

Election Commission

County Official/Administrative Officer	\$	42,541	
Clerical Personnel		16,735	
Longevity Pay		100	
Election Commission		5,485	
Social Security		3,469	

(Continued)

Exhibit J-7

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

General Fund (Cont.)

General Government (Cont.)

Election Commission (Cont.)

State Retirement	\$	2,488	
Medical Insurance		13,209	
Employer Medicare		811	
Advertising		535	
Communication		1,093	
Dues and Memberships		120	
Maintenance & Repair Services - Office Equipment		2,003	
Postal Charges		786	
Travel		1,423	
Office Supplies		5,326	
Voting Machines		136,500	
Total Election Commission			\$ 232,624

Register of Deeds

County Official/Administrative Officer	\$	50,048	
Secretary(ies)		17,576	
Part-time Personnel		2,990	
Longevity Pay		200	
Social Security		4,375	
State Retirement		2,842	
Medical Insurance		4,100	
Employer Medicare		1,023	
Communication		1,803	
Postal Charges		693	
Printing, Stationery, and Forms		1,501	
Rentals		1,712	
Office Supplies		711	
Office Equipment		9,054	
Total Register of Deeds			98,628

County Buildings

Custodial Personnel	\$	26,994	
Longevity Pay		100	
Social Security		1,573	
State Retirement		620	
Medical Insurance		4,758	
Employer Medicare		368	
Communication		7,877	
Maintenance & Repair Services - Buildings		45,007	
Pest Control		2,940	

(Continued)

Exhibit J-7

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

General Fund (Cont.)

General Government (Cont.)

County Buildings (Cont.)

Rentals	\$	1,200	
Custodial Supplies		6,000	
Electricity		32,653	
Natural Gas		7,028	
Office Supplies		9,321	
Water and Sewer		4,849	
Other Supplies and Materials		1,376	
Building and Contents Insurance		19,800	
Liability Insurance		273,286	
Workers' Compensation Insurance		104,313	
Total County Buildings			\$ 550,063

Finance

Accounting and Budgeting

Supervisor/Director	\$	42,541	
Accountants/Bookkeepers		89,700	
Longevity Pay		2,300	
Social Security		7,790	
State Retirement		5,637	
Medical Insurance		30,921	
Employer Medicare		1,822	
Communication		2,775	
Maintenance & Repair Services - Office Equipment		8,476	
Postal Charges		4,009	
Travel		707	
Office Supplies		4,545	
In Service/Staff Development		214	
Data Processing Equipment		1,852	
Total Accounting and Budgeting			203,289

Property Assessor's Office

County Official/Administrative Officer	\$	50,048	
Clerical Personnel		35,560	
Longevity Pay		1,000	
Board and Committee Members Fees		2,850	
Social Security		5,202	
State Retirement		3,349	
Medical Insurance		5,856	
Employer Medicare		1,217	
Audit Services		1,425	

(Continued)

Exhibit J-7

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

General Fund (Cont.)

Finance (Cont.)

Property Assessor's Office (Cont.)

Communication	\$	1,469	
Data Processing Services		3,754	
Maintenance & Repair Services - Office Equipment		522	
Postal Charges		433	
Travel		1,931	
Office Supplies		1,229	
Total Property Assessor's Office			\$ 115,845

Reappraisal Program

Clerical Personnel	\$	18,043	
Part-time Personnel		20	
Longevity Pay		400	
Social Security		975	
State Retirement		774	
Medical Insurance		9,378	
Employer Medicare		228	
Communication		1,133	
Data Processing Services		2,779	
Postal Charges		3,234	
Rentals		5,400	
Travel		1,446	
Office Supplies		801	
Other Supplies and Materials		138	
Total Reappraisal Program			44,749

County Trustee's Office

Social Security	\$	4,764	
State Retirement		2,926	
Medical Insurance		8,930	
Employer Medicare		1,114	
Total County Trustee's Office			17,734

County Clerk's Office

County Official/Administrative Officer	\$	50,048	
Secretary(ies)		46,942	
Part-time Personnel		2,682	
Longevity Pay		1,200	
Social Security		6,108	
State Retirement		4,114	
Medical Insurance		23,425	

(Continued)

Exhibit J-7

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

General Fund (Cont.)

Finance (Cont.)

County Clerk's Office (Cont.)

Employer Medicare	\$	1,428	
Communication		1,669	
Postal Charges		3,848	
Office Supplies		1,930	
Total County Clerk's Office			\$ 143,394

Administration of Justice

Circuit Court

County Official/Administrative Officer	\$	50,048	
Clerical Personnel		53,714	
Longevity Pay		1,100	
Overtime Pay		3,905	
Social Security		6,281	
State Retirement		4,557	
Medical Insurance		25,266	
Employer Medicare		1,469	
Communication		1,794	
Dues and Memberships		120	
Maintenance & Repair Services - Office Equipment		10,482	
Postal Charges		1,000	
Travel		94	
Office Supplies		5,900	
Total Circuit Court			165,730

Criminal Court

Other Salaries & Wages	\$	21,168	
Jury and Witness Fees		9,902	
Social Security		1,371	
Employer Medicare		321	
Postal Charges		2,341	
Rentals		1,574	
Travel		1,345	
Law Enforcement Equipment		970	
Total Criminal Court			38,992

General Sessions Court

Paraprofessionals	\$	3,510	
Clerical Personnel		7,414	
Social Security		677	
State Retirement		33	

(Continued)

Exhibit J-7

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

General Fund (Cont.)

Administration of Justice (Cont.)

General Sessions Court (Cont.)

Employer Medicare	\$	158	
Communication		1,978	
Dues and Memberships		115	
Postal Charges		126	
Travel		2,518	
Office Supplies		2,681	
Total General Sessions Court			\$ 19,210

General Sessions Judge

Judge(s)	\$	83,390	
Social Security		5,024	
Medical Insurance		9,378	
Employer Medicare		1,175	
Total General Sessions Judge			98,967

Chancery Court

County Official/Administrative Officer	\$	50,048	
Clerical Personnel		40,156	
Longevity Pay		3,000	
Social Security		5,632	
State Retirement		3,905	
Medical Insurance		19,760	
Employer Medicare		1,317	
Communication		1,729	
Dues and Memberships		60	
Postal Charges		1,300	
Travel		796	
Office Supplies		4,706	
Total Chancery Court			132,409

Juvenile Court

Social Workers	\$	15,050	
Social Security		933	
State Retirement		588	
Medical Insurance		1,327	
Employer Medicare		218	
Communication		120	
Travel		937	
Office Supplies		1,066	
Total Juvenile Court			20,239

(Continued)

Exhibit J-7

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

General Fund (Cont.)

Public Safety

Sheriff's Department

County Official/Administrative Officer	\$	55,052	
Deputy(ies)		350,576	
Salary Supplements		5,706	
Clerical Personnel		18,463	
Longevity Pay		3,800	
Overtime Pay		53,776	
Other Salaries & Wages		15,440	
Board and Committee Members Fees		1,550	
In-Service Training		7,259	
Social Security		31,469	
State Retirement		20,863	
Medical Insurance		116,375	
Employer Medicare		7,360	
Contracts with Other Public Agencies		4,499	
Dues and Memberships		120	
Postal Charges		2,519	
Travel		1,313	
Other Contracted Services		906	
Gasoline		85,935	
Office Supplies		7,553	
Uniforms		3,765	
Vehicle Parts		34,672	
Communication Equipment		2,524	
Law Enforcement Equipment		8,515	
Total Sheriff's Department			\$ 840,010

Jail

Assistant(s)	\$	22,181
Dispatchers/Radio Operators		89,856
Guards		391,237
Clerical Personnel		17,612
Cafeteria Personnel		15,608
Temporary Personnel		648
Longevity Pay		3,900
Overtime Pay		36,986
Other Salaries & Wages		22,808
In-Service Training		8,259
Social Security		37,333
State Retirement		22,190
Medical Insurance		147,787

(Continued)

Exhibit J-7

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

General Fund (Cont.)

Public Safety (Cont.)

Jail (Cont.)

Employer Medicare	\$	8,588	
Communication		17,510	
Maintenance & Repair Services - Office Equipment		29,198	
Medical and Dental Services		48,839	
Pest Control		360	
Travel		1,190	
Custodial Supplies		22,159	
Drugs and Medical Supplies		43,437	
Electricity		28,723	
Food Supplies		80,132	
Natural Gas		6,846	
Office Supplies		2,444	
Uniforms		3,169	
Water and Sewer		15,843	
Other Supplies and Materials		2,948	
Law Enforcement Equipment		3	
Total Jail			\$ 1,127,794

Juvenile Services

Other Contracted Services	\$	2,015	
Total Juvenile Services			2,015

Fire Prevention and Control

Medical Insurance	\$	9,591	
Contracts with Government Agencies		2,000	
Contributions		24,463	
Vehicle and Equipment Insurance		29,761	
Workers' Compensation Insurance		8,178	
Total Fire Prevention and Control			73,993

Civil Defense

Supervisor/Director	\$	10,575	
Social Security		656	
Employer Medicare		153	
Communication		2,711	
Dues and Memberships		126	
Maintenance & Repair Services - Equipment		48	
Travel		992	
Gasoline		548	
Office Supplies		626	

(Continued)

Exhibit J-7

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

General Fund (Cont.)

Public Safety (Cont.)

Civil Defense (Cont.)

Other Supplies and Materials	\$	74,395	
Other Charges		<u>1,932</u>	
Total Civil Defense			\$ 92,762

Rescue Squad

Contributions	\$	<u>2,500</u>	
Total Rescue Squad			2,500

County Coroner/Medical Examiner

Supervisor/Director	\$	15,000	
Medical and Dental Services		4,887	
Other Supplies and Materials		<u>93</u>	
Total County Coroner/Medical Examiner			19,980

Public Health and Welfare

Local Health Center

Custodial Personnel	\$	4,081	
Social Security		253	
Employer Medicare		59	
Communication		4,762	
Contributions		25,979	
Maintenance & Repair Services - Buildings		527	
Maintenance & Repair Services - Equipment		674	
Postal Charges		1,600	
Custodial Supplies		685	
Drugs and Medical Supplies		1,269	
Electricity		5,301	
Natural Gas		1,870	
Office Supplies		1,121	
Water and Sewer		805	
Office Equipment		<u>903</u>	
Total Local Health Center			49,889

Ambulance/Emergency Medical Services

Assistant(s)	\$	20,103	
Supervisor/Director		35,928	
Medical Personnel		229,053	
Temporary Personnel		3,779	
Longevity Pay		10,700	
Overtime Pay		170,948	

(Continued)

Exhibit J-7

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

General Fund (Cont.)

Public Health and Welfare (Cont.)

Ambulance/Emergency Medical Services (Cont.)

Other Salaries & Wages	\$	9,802	
In-Service Training		2,680	
Social Security		28,677	
State Retirement		19,058	
Medical Insurance		94,313	
Employer Medicare		6,707	
Communication		5,453	
Dues and Memberships		100	
Licenses		750	
Maintenance & Repair Services - Equipment		4,510	
Maintenance & Repair Services - Vehicles		13,902	
Postal Charges		59	
Travel		1,648	
Custodial Supplies		1,397	
Drugs and Medical Supplies		26,268	
Electricity		4,817	
Gasoline		16,918	
Natural Gas		2,869	
Office Supplies		937	
Uniforms		2,494	
Water and Sewer		1,617	
Other Charges		3,182	
Attendance Equipment		6,430	
Communication Equipment		2,106	
Data Processing Equipment		107	
Total Ambulance/Emergency Medical Services			\$ 727,312

Crippled Children Services

Contributions	\$	937	
Other Charges		5,000	
Total Crippled Children Services			5,937

Other Local Health Services

Medical Personnel	\$	84,738	
Clerical Personnel		18,864	
Social Security		6,423	
State Retirement		2,685	
Medical Insurance		4,099	
Employer Medicare		1,502	
Travel		2,237	

(Continued)

Exhibit J-7

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

General Fund (Cont.)

Public Health and Welfare (Cont.)

Other Local Health Services (Cont.)

Office Supplies	\$	140	
Liability Insurance		221	
Total Other Local Health Services			\$ 120,909

Social, Cultural, and Recreational Services

Senior Citizens Assistance

Other Charges	\$	8,678	
Total Senior Citizens Assistance			8,678

Libraries

Librarians	\$	37,509	
In-Service Training		125	
Social Security		2,333	
Employer Medicare		546	
Communication		6,813	
Postal Charges		624	
Rentals		1,174	
Travel		248	
Instructional Supplies and Materials		338	
Office Supplies		787	
Periodicals		2,226	
Data Processing Equipment		999	
Total Libraries			53,722

Parks and Fair Boards

Maintenance & Repair Services - Buildings	\$	2,452	
Other Supplies and Materials		1,362	
Total Parks and Fair Boards			3,814

Agriculture & Natural Resources

Agriculture Extension Service

Communication	\$	1,524	
Maintenance & Repair Services - Office Equipment		706	
Other Contracted Services		42,260	
Office Supplies		315	
Other Supplies and Materials		2,346	
Total Agriculture Extension Service			47,151

Soil Conservation

Contributions	\$	1,800	
Total Soil Conservation			1,800

(Continued)

Exhibit J-7

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

General Fund (Cont.)

Other Operations

Tourism

Building Improvements	\$ 1,000	
Total Tourism		\$ 1,000

Industrial Development

Supervisor/Director	\$ 10,396	
Board and Committee Members Fees	3,600	
Social Security	307	
Employer Medicare	72	
Communication	672	
Contributions	42,061	
Travel	3,201	
Office Supplies	257	
Site Development	37,832	
Total Industrial Development		98,398

Other Economic and Community Development

Contributions	\$ 20,000	
Utilities	302	
Other Charges	24,308	
Other Construction	204,506	
Total Other Economic and Community Development		249,116

Veterans' Services

Other Supplies and Materials	\$ 926	
Total Veterans' Services		926

Miscellaneous

Unemployment Compensation	\$ 9,220	
Trustee's Commission	76,349	
Total Miscellaneous		85,569

Total General Fund \$ 5,734,651

Solid Waste/Sanitation Fund

Public Health and Welfare

Sanitation Management

Supervisor/Director	\$ 39,988
Longevity Pay	1,500
Social Security	2,572
State Retirement	1,738

(Continued)

Exhibit J-7

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

Solid Waste/Sanitation Fund (Cont.)

Public Health and Welfare (Cont.)

Sanitation Management (Cont.)

Medical Insurance	\$	4,246	
Employer Medicare		602	
Building and Contents Insurance		2,505	
Liability Insurance		2,197	
Vehicle and Equipment Insurance		6,584	
Workers' Compensation Insurance		12,160	
Total Sanitation Management			\$ 74,092

Sanitation Education/Information

Supervisor/Director	\$	9,192	
Attendants		10,366	
Social Security		1,289	
Employer Medicare		301	
Advertising		2,197	
Communication		163	
Other Contracted Services		500	
Gasoline		1,060	
Instructional Supplies and Materials		2,275	
Vehicle Parts		697	
Other Supplies and Materials		89	
Total Sanitation Education/Information			28,129

Waste Pickup

Truck Drivers	\$	38,715	
Part-time Personnel		4,725	
Longevity Pay		400	
Overtime Pay		3,423	
Social Security		2,986	
State Retirement		1,810	
Medical Insurance		8,654	
Employer Medicare		698	
Other Contracted Services		301,832	
Equipment and Machinery Parts		4,248	
Gasoline		22,243	
Lubricants		1,440	
Tires and Tubes		7,292	
Solid Waste Equipment		61,390	
Total Waste Pickup			459,856

(Continued)

Exhibit J-7

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

Solid Waste/Sanitation Fund (Cont.)

Public Health and Welfare (Cont.)

Convenience Centers

Attendants	\$	141,156	
Longevity Pay		3,100	
Overtime Pay		1,370	
Social Security		9,271	
State Retirement		4,111	
Medical Insurance		30,303	
Employer Medicare		2,168	
Rentals		3,014	
General Construction Materials		13,035	
Gravel and Chert		1,337	
Other Supplies and Materials		472	
Total Convenience Centers			\$ 209,337

Recycling Center

Attendants	\$	33,642	
Part-time Personnel		5,612	
Longevity Pay		1,500	
Other Salaries & Wages		663	
Social Security		2,580	
State Retirement		1,525	
Medical Insurance		19,641	
Employer Medicare		603	
Communication		1,104	
Electricity		2,580	
Gasoline		4,599	
Uniforms		1,035	
Vehicle Parts		314	
Water and Sewer		377	
Other Supplies and Materials		1,047	
Other Charges		1,483	
Solid Waste Equipment		12,491	
Total Recycling Center			90,796

Landfill Operation and Maintenance

Attendants	\$	17,606
Social Security		1,143
State Retirement		772
Medical Insurance		8,677
Employer Medicare		267
Communication		3,486

(Continued)

Exhibit J-7

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

Solid Waste/Sanitation Fund (Cont.)

Public Health and Welfare (Cont.)

Landfill Operation and Maintenance (Cont.)

Engineering Services	\$	1,000	
Maintenance & Repair Services - Equipment		12,926	
Rentals		3,190	
Electricity		7,997	
Equipment and Machinery Parts		13,934	
Gasoline		9,793	
General Construction Materials		3,876	
Lubricants		1,936	
Office Supplies		449	
Water and Sewer		<u>1,632</u>	
Total Landfill Operation and Maintenance	\$		88,684

Other Operations

Other Charges

Trustee's Commission	\$	<u>13,605</u>	
Total Other Charges			13,605

Miscellaneous

Unemployment Compensation	\$	<u>1,103</u>	
Total Miscellaneous			<u>1,103</u>

Total Solid Waste/Sanitation Fund \$ 965,602

Drug Control Fund

Public Safety

Drug Enforcement

Overtime Pay	\$	7,000	
Confidential Drug Enforcement Payments		3,000	
Rentals		4,200	
Instructional Supplies and Materials		976	
Other Supplies and Materials		42,160	
Trustee's Commission		405	
Motor Vehicles		<u>4,999</u>	
Total Drug Enforcement	\$		<u>62,740</u>

Total Drug Control Fund 62,740

(Continued)

Exhibit J-7

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

Constitutional Officers - Fees Fund

Finance

County Trustee's Office

Constitutional Officers' Operating Expenses	\$ 94,486	
Total County Trustee's Office		\$ 94,486

Administration of Justice

Circuit Court Clerk

Constitutional Officers' Operating Expenses	\$ 163	
Total Circuit Court Clerk		163

Chancery Court

Special Commissioner Fees/Special Master Fees	\$ 7,750	
Constitutional Officers' Operating Expenses	18,901	
Total Chancery Court		<u>26,651</u>

Total Constitutional Officers - Fees Fund		\$ 121,300
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Highway/Public Works Fund

Highways

Administration

County Official/Administrative Officer	\$ 55,052	
Secretary(ies)	20,939	
Longevity Pay	1,500	
Social Security	4,792	
State Retirement	3,238	
Employee and Dependent Insurance	9,441	
Employer Medicare	1,121	
Dues and Memberships	2,415	
Legal Services	614	
Office Supplies	1,181	
Other Charges	100	
Total Administration		\$ 100,393

Highway and Bridge Maintenance

Foremen	\$ 56,284
Equipment Operators	34,306
Truck Drivers	65,550
Laborers	72,858
Longevity Pay	9,700
Social Security	14,276
State Retirement	9,779
Employee and Dependent Insurance	70,063

(Continued)

Exhibit J-7

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

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Highway and Bridge Maintenance (Cont.)

Employer Medicare	\$	3,308	
Other Contracted Services		367,710	
Asphalt - Hot Mix		692,673	
Asphalt - Liquid		198,007	
Crushed Stone		188,768	
Pipe - Metal		46,838	
Road Signs		279	
Structural Steel		150	
Total Highway and Bridge Maintenance			\$ 1,830,549

Operation and Maintenance of Equipment

Mechanic(s)	\$	26,278	
Laborers		25,396	
Longevity Pay		3,000	
Social Security		3,289	
State Retirement		2,245	
Employee and Dependent Insurance		13,689	
Employer Medicare		769	
Other Contracted Services		1,565	
Diesel Fuel		83,737	
Equipment and Machinery Parts		40,244	
Garage Supplies		14,392	
Gasoline		38,081	
Lubricants		3,940	
Tires and Tubes		11,109	
Uniforms		5,272	
Total Operation and Maintenance of Equipment			273,006

Other Charges

Communication	\$	3,740	
Electricity		2,341	
Natural Gas		1,966	
Water and Sewer		436	
Liability Insurance		18,447	
Trustee's Commission		19,009	
Vehicle and Equipment Insurance		22,574	
Other Charges		752	
Total Other Charges			69,265

(Continued)

Exhibit J-7

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

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Employee Benefits

Workers' Compensation Insurance	\$ 27,095	
Total Employee Benefits		\$ 27,095

Capital Outlay

Bridge Construction	\$ 469,491	
Highway Equipment	70,000	
Right-of-Way	500	
State Aid Projects	204,741	
Total Capital Outlay		<u>744,732</u>

Total Highway/Public Works Fund \$ 3,045,040

General Debt Service Fund

Principal on Debt

General Government

Principal on Bonds	\$ 40,000	
Principal on Notes	200,007	
Principal on Other Loans	94,226	
Total General Government		\$ 334,233

Education

Principal on Other Loans	\$ 280,774	
Total Education		280,774

Interest on Debt

General Government

Interest on Bonds	\$ 11,760	
Interest on Notes	7,416	
Interest on Other Loans	45,688	
Total General Government		64,864

Education

Interest on Other Loans	\$ 594,683	
Total Education		594,683

Other Debt Service

General Government

Fiscal Agent Charges	\$ 3,108	
Trustee's Commission	9,279	
Total General Government		<u>12,387</u>

Total General Debt Service Fund 1,286,941

(Continued)

Exhibit J-7

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

<u>General Capital Projects Fund</u>			
<u>Capital Projects</u>			
<u>Other General Government Projects</u>			
General Construction Materials	\$	9,292	
Other Supplies and Materials		<u>53</u>	
Total Other General Government Projects			<u>\$ 9,345</u>
Total General Capital Projects Fund			<u>\$ 9,345</u>
Total Governmental Funds - Primary Government			<u>\$ 11,225,619</u>

Exhibit J-8

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

General Purpose School Fund

Instruction

Regular Instruction Program

Teachers	\$	7,000,094	
Career Ladder Program		165,001	
Career Ladder Extended Contracts		100,500	
Educational Assistants		142,743	
Other Salaries & Wages		2,063	
Certified Substitute Teachers		85,342	
Non-certified Substitute Teachers		93,295	
Social Security		469,746	
State Retirement		421,502	
Life Insurance		12,437	
Medical Insurance		754,018	
Dental Insurance		49,442	
Unemployment Compensation		16,083	
Employer Medicare		109,875	
Instructional Supplies and Materials		99,827	
Textbooks		175,531	
Other Supplies and Materials		1,790	
Fee Waivers		33,308	
Other Charges		58,786	
Total Regular Instruction Program			\$ 9,791,383

Special Education Program

Teachers	\$	952,372	
Career Ladder Program		11,000	
Career Ladder Extended Contracts		2,000	
Educational Assistants		60,745	
Social Security		62,187	
State Retirement		55,952	
Life Insurance		1,306	
Medical Insurance		121,433	
Dental Insurance		5,422	
Unemployment Compensation		1,213	
Employer Medicare		14,544	
Contracts with Private Agencies		129,694	
Other Contracted Services		35,428	
Instructional Supplies and Materials		486	
Other Charges		403	
Special Education Equipment		21,803	
Total Special Education Program			1,475,988

(Continued)

Exhibit J-8

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

General Purpose School Fund (Cont.)

Instruction (Cont.)

Vocational Education Program

Teachers	\$	597,483	
Career Ladder Program		12,000	
Career Ladder Extended Contracts		600	
Educational Assistants		9,767	
Social Security		37,138	
State Retirement		33,853	
Life Insurance		800	
Medical Insurance		73,052	
Dental Insurance		2,981	
Unemployment Compensation		1,311	
Employer Medicare		8,685	
Instructional Supplies and Materials		23,247	
Total Vocational Education Program			\$ 800,917

Support Services

Attendance

Supervisor/Director	\$	56,058	
Career Ladder Program		1,000	
Social Security		3,477	
State Retirement		3,084	
Life Insurance		48	
Medical Insurance		4,139	
Dental Insurance		191	
Employer Medicare		813	
Travel		504	
Drugs and Medical Supplies		7,999	
Other Charges		19,656	
Total Attendance			96,969

Health Services

Medical Personnel	\$	31,714	
Other Salaries & Wages		83,032	
Social Security		7,036	
State Retirement		6,260	
Life Insurance		187	
Medical Insurance		18,091	
Dental Insurance		1,020	
Employer Medicare		1,646	
Travel		2,358	

(Continued)

Exhibit J-8

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Health Services (Cont.)

Drugs and Medical Supplies	\$	7,497	
Other Charges		1,174	
Total Health Services			\$ 160,015

Other Student Support

Career Ladder Program	\$	5,000	
Guidance Personnel		313,769	
Social Security		19,542	
State Retirement		17,532	
Life Insurance		343	
Medical Insurance		24,062	
Dental Insurance		1,062	
Employer Medicare		4,570	
Evaluation and Testing		14,963	
Travel		238	
Other Contracted Services		25,406	
In Service/Staff Development		2,000	
Other Charges		55,105	
Total Other Student Support			483,592

Regular Instruction Program

Supervisor/Director	\$	13,281	
Career Ladder Program		6,000	
Career Ladder Extended Contracts		2,000	
Librarians		236,413	
Instructional Computer Personnel		42,846	
Secretary(ies)		39,779	
Educational Assistants		47,607	
Other Salaries & Wages		63,660	
Social Security		25,490	
State Retirement		21,632	
Life Insurance		478	
Medical Insurance		43,015	
Dental Insurance		1,440	
Employer Medicare		5,961	
Maintenance & Repair Services - Equipment		2,213	
Travel		19,951	
Other Contracted Services		14,370	
Library Books/Media		17,474	

(Continued)

Exhibit J-8

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Regular Instruction Program (Cont.)

Other Supplies and Materials	\$	3,346	
Other Equipment		187,950	
Total Regular Instruction Program			\$ 794,906

Special Education Program

Supervisor/Director	\$	59,076	
Career Ladder Program		2,000	
Psychological Personnel		40,060	
Secretary(ies)		8,732	
Social Security		6,812	
State Retirement		5,928	
Life Insurance		98	
Medical Insurance		9,463	
Dental Insurance		425	
Employer Medicare		1,593	
Travel		4,943	
In Service/Staff Development		3,094	
Total Special Education Program			142,224

Vocational Education Program

Supervisor/Director	\$	54,906	
Social Security		2,885	
State Retirement		2,939	
Life Insurance		48	
Medical Insurance		5,366	
Dental Insurance		207	
Employer Medicare		675	
Travel		2,395	
Total Vocational Education Program			69,421

Board of Education

Board and Committee Members Fees	\$	14,625	
Social Security		907	
Employer Medicare		213	
Audit Services		10,400	
Communication		58	
Dues and Memberships		9,576	
Legal Services		10,508	
Postal Charges		88	

(Continued)

Exhibit J-8

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Board of Education (Cont.)

Travel	\$	8,891	
Liability Insurance		219,124	
Trustee's Commission		94,959	
Workers' Compensation Insurance		184,517	
Other Charges		1,900	
Total Board of Education			\$ 555,766

Director of Schools

County Official/Administrative Officer	\$	81,203	
Assistant(s)		54,490	
Career Ladder Program		1,000	
Secretary(ies)		21,606	
Social Security		9,708	
State Retirement		8,424	
Life Insurance		119	
Medical Insurance		2,009	
Dental Insurance		182	
Employer Medicare		2,270	
Communication		16,036	
Dues and Memberships		155	
Travel		7,037	
Other Contracted Services		6,196	
Office Supplies		5,916	
In Service/Staff Development		1,006	
Other Charges		2,602	
Total Director of Schools			219,959

Office of the Principal

Principals	\$	407,787	
Teachers		1,250	
Career Ladder Program		15,000	
Career Ladder Extended Contracts		16,000	
Assistant Principals		290,323	
Secretary(ies)		101,198	
Clerical Personnel		52,705	
Social Security		53,522	
State Retirement		46,534	
Life Insurance		751	
Medical Insurance		38,697	

(Continued)

Exhibit J-8

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Office of the Principal (Cont.)

Dental Insurance	\$	1,878	
Unemployment Compensation		491	
Employer Medicare		12,517	
Communication		24,866	
Travel		4,734	
Other Contracted Services		50,975	
Other Charges		3,616	
Total Office of the Principal			\$ 1,122,844

Operation of Plant

Custodial Personnel	\$	442,826	
Social Security		27,385	
State Retirement		18,695	
Life Insurance		768	
Unemployment Compensation		11,096	
Employer Medicare		6,405	
Other Contracted Services		76,393	
Electricity		670,669	
Natural Gas		89,108	
Water and Sewer		103,671	
Other Charges		29,767	
Total Operation of Plant			1,476,783

Maintenance of Plant

Supervisor/Director	\$	31,600	
Custodial Personnel		3,346	
Maintenance Personnel		105,592	
Social Security		8,704	
State Retirement		5,921	
Life Insurance		152	
Unemployment Compensation		768	
Employer Medicare		2,035	
Architects		12,566	
Maintenance & Repair Services - Buildings		239,821	
Travel		630	
Other Contracted Services		15,561	
Other Supplies and Materials		126,652	
Other Charges		2,788	
Administration Equipment		67,736	

(Continued)

Exhibit J-8

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

General Purpose School Fund (Cont.)

Support Services (Cont.)

Maintenance of Plant (Cont.)

Maintenance Equipment	\$	27,546	
Other Capital Outlay		82,511	
Total Maintenance of Plant			\$ 733,929

Transportation

Supervisor/Director	\$	29,582	
Mechanic(s)		54,634	
Bus Drivers		447,984	
Social Security		32,915	
State Retirement		21,974	
Life Insurance		500	
Medical Insurance		459	
Dental Insurance		21	
Unemployment Compensation		1	
Employer Medicare		7,698	
Communication		2,113	
Travel		196	
Other Contracted Services		4,677	
Diesel Fuel		103,139	
Equipment and Machinery Parts		383	
Gasoline		72,329	
Lubricants		3,294	
Tires and Tubes		9,699	
Vehicle Parts		63,912	
Other Charges		12,688	
Other Equipment		4,804	
Total Transportation			873,002

Operation of Non-Instructional Services

Early Childhood Education

Teachers	\$	183,195	
Educational Assistants		44,103	
Non-certified Substitute Teachers		2,825	
Social Security		13,070	
State Retirement		11,195	
Life Insurance		400	
Medical Insurance		17,668	
Dental Insurance		764	
Employer Medicare		3,057	

(Continued)

Exhibit J-8

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

<u>General Purpose School Fund (Cont.)</u>		
<u>Operation of Non-Instructional Services (Cont.)</u>		
<u>Early Childhood Education (Cont.)</u>		
Travel	\$	2,875
Instructional Supplies and Materials		71,321
Other Supplies and Materials		73,529
Other Charges		5,685
Total Early Childhood Education		<u>429,687</u>
	\$	429,687
<u>Capital Outlay</u>		
<u>Regular Capital Outlay</u>		
Architects	\$	25,896
Other Capital Outlay		133,798
Total Regular Capital Outlay		<u>159,694</u>
		<u>159,694</u>
Total General Purpose School Fund		\$ 19,387,079
<u>School Federal Projects Fund</u>		
<u>Instruction</u>		
<u>Regular Instruction Program</u>		
Teachers	\$	373,431
Clerical Personnel		17,261
Certified Substitute Teachers		7,588
Social Security		24,108
State Retirement		21,178
Life Insurance		490
Medical Insurance		44,927
Dental Insurance		1,793
Unemployment Compensation		1,005
Employer Medicare		5,638
Instructional Supplies and Materials		137,262
Other Charges		40,304
Regular Instruction Equipment		35,125
Total Regular Instruction Program		<u>710,110</u>
	\$	710,110
<u>Special Education Program</u>		
Teachers	\$	41,795
Educational Assistants		249,883
Other Salaries & Wages		88,048
Certified Substitute Teachers		3,095
Social Security		24,437
State Retirement		16,094

(Continued)

Exhibit J-8

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

School Federal Projects Fund (Cont.)

Instruction (Cont.)

Special Education Program (Cont.)

Life Insurance	\$	789	
Medical Insurance		4,734	
Unemployment Compensation		2,984	
Employer Medicare		5,663	
Maintenance & Repair Services - Equipment		2,616	
Other Contracted Services		284,444	
Instructional Supplies and Materials		22,132	
Other Supplies and Materials		7,961	
Fee Waivers		171	
Total Special Education Program			\$ 754,846

Vocational Education Program

Educational Assistants	\$	9,250	
Other Salaries & Wages		736	
Social Security		619	
State Retirement		412	
Life Insurance		15	
Unemployment Compensation		87	
Employer Medicare		145	
Travel		27	
Instructional Supplies and Materials		24,242	
Vocational Instruction Equipment		57,950	
Total Vocational Education Program			93,483

Support Services

Other Student Support

Travel	\$	4,467	
In Service/Staff Development		1,060	
Other Charges		17,948	
Total Other Student Support			23,475

Regular Instruction Program

Supervisor/Director	\$	56,058	
Secretary(ies)		18,715	
Social Security		4,372	
State Retirement		3,867	
Life Insurance		77	
Medical Insurance		4,865	
Dental Insurance		212	

(Continued)

Exhibit J-8

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

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Regular Instruction Program (Cont.)

Unemployment Compensation	\$	168	
Employer Medicare		1,023	
Consultants		4,100	
Travel		72,553	
Library Books/Media		10,741	
Other Supplies and Materials		145,501	
In Service/Staff Development		37,639	
Other Charges		70,178	
Total Regular Instruction Program			\$ 430,069

Special Education Program

Travel	\$	5,529	
Other Supplies and Materials		9,214	
In Service/Staff Development		1,745	
Total Special Education Program			16,488

Vocational Education Program

Travel	\$	929	
Total Vocational Education Program			929

Total School Federal Projects Fund \$ 2,029,400

Central Cafeteria Fund

Support Services

Board of Education

Trustee's Commission	\$	75	
Total Board of Education			\$ 75

Operation of Non-Instructional Services

Food Service

Supervisor/Director	\$	43,074	
Clerical Personnel		1,430	
Cafeteria Personnel		380,707	
Social Security		26,421	
State Retirement		14,534	
Life Insurance		407	
Medical Insurance		4,865	
Dental Insurance		425	
Unemployment Compensation		177	

(Continued)

Exhibit J-8

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

Central Cafeteria Fund (Cont.)

Operation of Non-Instructional Services (Cont.)

Food Service (Cont.)

Employer Medicare	\$	6,164	
Maintenance & Repair Services - Equipment		100	
Travel		2,607	
Other Contracted Services		4,747	
Food Preparation Supplies		57,530	
Food Supplies		757,269	
Office Supplies		358	
Uniforms		3,118	
Other Supplies and Materials		3,966	
In Service/Staff Development		1,635	
Other Charges		275	
Food Service Equipment		15,867	
Total Food Service			\$ 1,325,676

Community Services

Part-time Personnel	\$	31,009	
Social Security		1,923	
State Retirement		1,191	
Employer Medicare		449	
Travel		1,348	
Food Supplies		40,381	
Other Supplies and Materials		350	
Total Community Services			<u>76,651</u>

Total Central Cafeteria Fund \$ 1,402,402

Total Governmental Funds - Morgan County School Department \$ 22,818,881

Exhibit J-9

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

	Cities - Sales Tax Fund	Cities - Property Tax Fund	Total
<u>Cash Receipts</u>			
Current Property Tax	\$ 0	\$ 41,502	\$ 41,502
Interest and Penalty	0	579	579
Local Option Sales Tax	290,380	0	290,380
Total Cash Receipts	<u>\$ 290,380</u>	<u>\$ 42,081</u>	<u>\$ 332,461</u>
<u>Cash Disbursements</u>			
Remittance of Revenues Collected	\$ 287,476	\$ 41,239	\$ 328,715
Trustee's Commission	2,904	842	3,746
Total Cash Disbursements	<u>\$ 290,380</u>	<u>\$ 42,081</u>	<u>\$ 332,461</u>
Excess of Cash Receipts Over (Under) Cash Disbursements	\$ 0	\$ 0	\$ 0
Cash Balance, July 1, 2005	<u>0</u>	<u>0</u>	<u>0</u>
Cash Balance, June 30, 2006	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

December 7, 2006

Morgan County Executive and
Board of County Commissioners
Morgan County, Tennessee

To the County Executive and Board of County Commissioners:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Morgan County, Tennessee, as of and for the year ended June 30, 2006, which collectively comprise Morgan County's basic financial statements and have issued our report thereon dated December 7, 2006. Our report on the aggregate discretely presented component units' financial statements was qualified due to not including the financial statements of the Morgan County Emergency Communications District, a discretely presented component unit, which was not available from other auditors as of the date of this report. 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 Morgan County'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 Morgan County'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, 06.02, and 06.04.

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, of the reportable conditions described above, we consider item 06.01 to be a material weakness.

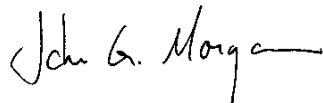
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morgan County's 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 an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and is described in the accompanying Schedule of Findings and Questioned Costs as item 06.03.

We have also noted certain other matters that we reported to the management of Morgan County in separate communications.

This report is intended solely for the information and use of the Board of County Commissioners, 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/sb



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

December 7, 2006

Morgan County Executive and
Board of County Commissioners
Morgan County, Tennessee

To the County Executive and Board of County Commissioners:

Compliance

We have audited the compliance of Morgan County 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. Morgan County'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 Morgan County's management. Our responsibility is to express an opinion on Morgan County'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 Morgan County'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 Morgan County's compliance with those requirements.

In our opinion, Morgan County 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 Morgan County 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 Morgan County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

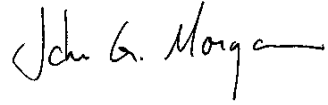
Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce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

Schedule of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Morgan County, Tennessee, as of and for the year ended June 30, 2006, and have issued our report thereon dated December 7, 2006. Our report on the aggregate discretely presented component units' financial statements was qualified due to not including the financial statements of the Morgan County Emergency Communications District, a discretely presented component unit, which was not available from other auditors as of the date of this report. Our audit was performed for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and State Grants is presented for purposes of additional analysis, as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of County Commissioners, 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". The signature is written in a cursive style with a long horizontal flourish at the end.

John G. Morgan
Comptroller of the Treasury

JGM/sb

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

Federal/Pass-through Agency/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	\$ 43,577
Total Passed-through State Department of Agriculture			\$ 43,577
Passed-through State Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	\$ 189,757
National School Lunch Program	10.555	N/A	660,200
Summer Food Service Program for Children	10.559	N/A	45,313
Total Passed-through State Department of Education			\$ 895,270
Total U.S. Department of Agriculture			\$ 938,847
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	GG-05011856-00	\$ 179,784
Total U.S. Department of Housing and Urban Development			\$ 179,784
U.S. Department of Transportation:			
Passed-through State Department of Military: Interagency Hazardous Materials Public Sector Training and Planning Grants			
Total U.S. Department of Transportation	20.703	GG-05-11656-00	\$ 6,633
Appalachian Regional Commission:			
Passed-through Tennessee Valley Authority:			
Appalachian Regional Development	23.001	N/A	\$ 34,220
Total Appalachian Regional Commission			\$ 34,220
U.S. Department of Education:			
Passed-through State Department of Education:			
Title I Grant to Local Educational Agencies	84.010	N/A	\$ 818,432
Special Education Cluster:			
Special Education - Grants to States	84.027	N/A	768,537
Special Education - Preschool Grants	84.173	N/A	35,663
Vocational Education - Basic Grants to States	84.048	N/A	97,054
Safe and Drug Free Schools and Communities - State Grants	84.186	(2)	28,619
Twenty-First Century Community Learning Centers	84.287	(2)	664,598
State Grants for Innovative Programs	84.298	N/A	144,301
Rural Education	84.358	(2)	39,319
Improving Teacher Quality State Grants	84.367	N/A	121,207
Total U.S. Department of Education			\$ 2,717,730

(Continued)

Morgan County, Tennessee
Schedule of Expenditures of Federal Awards and State Grants (1) (Cont.)

Federal/Pass-through Agency/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. Election Assistance Commission:			
Passed-through Secretary of State:			
Help America Vote Act Requirements Payments	90.401	(2)	\$ 136,500
Total U.S. Election Assistance Commission			\$ 136,500
U.S. Department of Homeland Security:			
Passed-through State Department of Military:			
State Domestic Preparedness Equipment Support Program	97.004	(3)	\$ 48,242
Hazard Mitigation Grant	97.039	GG-04-10711-00	1,932
Emergency Management Performance Grants	97.042	(4)	6,151
Total U.S. Department of Homeland Security			\$ 56,325
Total Expenditures of Federal Awards			\$ 4,070,039
<u>State Grants</u>		<u>Contract Number</u>	
Juvenile Services Program - State Children Services Commission	N/A	(2)	\$ 9,000
State Reappraisal Grant - Comptroller of the Treasury	N/A	(2)	8,712
Litter Program - State Department of Transportation	N/A	(2)	29,237
Waste Tire Grant - State Department of Transportation	N/A	(2)	6,312
Waste Reduction Grant - State Department of Environment and Conservation	N/A	(2)	5,264
Governor's Books - State Department of Economic and Community Development	N/A	(2)	2,791
Imagination Library Flex-E-Grant - State Department of Economic and Community Development	N/A	(2)	4,555
Health Department Programs - State Department of Health	N/A	(2)	114,964
Family Resource Center Grant - State Department of Education	N/A	(2)	33,300
Total State Grants			\$ 214,135

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.
- 3 - Z-04-022479-01: \$26,536; Z-05-025194-00: \$21,706
- 4 - Z-05-025376-00: \$ 2,955; Z-06-032882-00: \$ 3,196

Morgan 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 Morgan County, Tennessee, for the year ended June 30, 2005, which have not been corrected.

OFFICE OF DIRECTOR OF FINANCE

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
05.02	155	Payroll deduction accounts were not properly reconciled
05.03 (A, B, & D)	156	The office had budget deficiencies

OTHER FINDING

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
05.05	158	Duties were not segregated adequately in the Offices of Director of Finance, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff

MORGAN 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 aggregate discretely presented component units is qualified. Our report on the governmental activities, each major fund, and the aggregate remaining fund information is unqualified.
2. The audit of the financial statements of Morgan County disclosed reportable conditions in internal control. One of these conditions was considered to be a material weakness.
3. The audit disclosed no instances of noncompliance that are material to the financial statements of Morgan County.
4. The audit disclosed no reportable conditions in internal control over major programs.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit revealed no findings that are required to be reported under Section 510(a) of OMB Circular A-133.
7. The Child Nutrition Cluster: the School Breakfast Program, the National School Lunch Program, and Summer Food Service Program for Children (CFDA Nos. 10.553, 10.555, and 10.559); the Title I Grants to Local Educational Agencies (CFDA No. 84.010); and the Special Education Cluster: Special Education - Grants to States and the 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. Morgan County 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. Officials offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

OFFICE OF COUNTY CLERK

FINDING 06.01 **A CASH SHORTAGE OF \$14,755.93 EXISTED IN THE OFFICE AS OF JUNE 30, 2006**

(Internal Control – Material Weakness Under Government Auditing Standards)

The annual financial report of Morgan County for the year ended June 30, 2005, revealed a cash shortage of at least \$6,103.19 in the Office of County Clerk. We also reported that our examination was ongoing, and if any additional shortage was determined, we would communicate those results in a future report. As a result of our ongoing examination, an additional \$8,652.74 cash shortage was identified, bringing the total cash shortage to \$14,755.93 as of June 30, 2006. Details of the additional cash shortage were reported to the county executive, county clerk, and board of county commissioners in a separate report dated July 12, 2006. The county clerk liquidated the cash shortage on September 7, 2006, by depositing personal funds totaling \$14,755.93 to the office bank account. The clerk resigned from office on December 31, 2006. Refer to the two above-noted reports for details of the cash shortage.

OFFICE OF DIRECTOR OF FINANCE

FINDING 06.02 **GENERAL LEDGER PAYROLL LIABILITY ACCOUNTS AND THE PAYROLL TAX BANK CLEARING ACCOUNT WERE NOT RECONCILED MONTHLY**

(Internal Control – Reportable Condition Under Government Auditing Standards)

The following payroll related deficiencies were noted:

- A. General ledger payroll liability accounts were not reconciled monthly with payroll records and payments. The failure to regularly reconcile payroll deduction accounts allows errors to remain undiscovered and uncorrected.
- B. The Finance Office did not reconcile its payroll tax bank clearing account on a monthly basis. The county uses this clearing account to channel payroll tax liabilities due the Internal Revenue Service (IRS). Once the Finance Office makes a tax deposit to this account and notifies the IRS of the deposit, the IRS withdraws the funds from the account. The Finance Office failed to notify the IRS of certain School Department tax deposits made to this account

during May 2006, and the office did not discover the oversight until questioned by auditors in July 2006. Subsequently, the county notified the IRS of the deposits; however, the IRS assessed the county penalties for the late payment of the payroll taxes. The county appealed the assessment and was granted a one-time waiver of the penalty. It is important that the payroll tax bank clearing account be reconciled monthly to detect such oversights or other errors on a timely basis.

RECOMMENDATION

General ledger payroll liability accounts and the payroll tax bank clearing account should be reconciled monthly with payroll records and payments, and errors should be corrected promptly.

FINDING 06.03 **THE OFFICE HAD BUDGET DEFICIENCIES**
 (Noncompliance Under Government Auditing Standards)

Our examination revealed the following budget deficiencies:

- A. General Fund expenditures and encumbrances exceeded total appropriations approved by the County Commission by \$172,457. These overexpenditures resulted primarily from management not including the budgets for two federal grants channeled through the General Fund.
- B. Expenditures and encumbrances exceeded appropriations approved by the County Commission in the following funds' major appropriation categories (the legal level of control):

<u>Fund/Major Category</u>	<u>Amount Overspent</u>
General Purpose School Fund:	
Other Student Support	\$ 3,038
Board of Education	7,046
Office of the Principal	30,468
Transportation	4,962
School Federal Projects Fund:	
Instruction Special Education Program	53,358
Support Service Regular Instruction Program	6,470
Support Services Special Education Program	11,488
Central Cafeteria Fund:	
Support Services Board of Education	75

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 to be 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 County Commission. Grant revenue estimates and appropriations should be included in the budget for the fund in which grant activity is accounted.

OTHER FINDING

FINDING 06.04 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF DIRECTOR OF FINANCE, TRUSTEE, COUNTY CLERK, CIRCUIT AND GENERAL SESSIONS COURTS CLERK, CLERK AND MASTER, REGISTER, AND SHERIFF**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among officials and employees in the Offices of Director of Finance, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff. Officials and employees responsible for maintaining the accounting records in these offices 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.

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

There were no findings and questioned costs for federal awards.

MORGAN COUNTY, TENNESSEE
AUDITEE REPORTING RESPONSIBILITIES
For the Year Ended June 30, 2006

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

Director of Schools – Summary Schedule of Prior-Year Audit Findings

FINDINGS 05.04 and 05.06

Steps have been taken to ensure the controls over the preparation and submission of USDA claims for reimbursements are adequate for Morgan County schools.

- Step 1: New computer software and the necessary training have been purchased at an expense of over \$21,000. With these new programs, we have centralized our point of sales for 2005-2006 and can generate up-to-date information and reports for the seven schools in our system.
- Step 2: A new nutrition food service supervisor was hired in February 2005, and is working diligently to get Morgan County back on track and processing USDA claims in a timely manner.
- Step 3: A full-time secretary/assistant was hired in August 2005 to work with the application process for the free and reduced nutrition program and to help with the new computer system's input and report generation.
- Step 4: Employees in the Food Service Department have been attending training to learn the requirements necessary for the school nutrition program such as: Administrative Review and School Meal Initiative Training, Horizon Software training for point of sale and inventory, In-Team Associates Training, Quarterly Supervisor Training by state representatives, and ServSafe Classes.

These steps will enable us to ensure adequate controls for USDA claims for reimbursement.

The state conducted a Coordinated Review Effort during November 13-17, 2006. We have not received any written reports as a result of the review.