

CITY OF LEXINGTON, TENNESSEE

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2010

CITY OF LEXINGTON, TENNESSEE

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2010

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CITY OF LEXINGTON, TENNESSEE
ROSTER OF PUBLICLY ELECTED OFFICIALS
JUNE 30, 2010

Bobby Dyer	Mayor
Jerry Bingham	Alderman
Emmit Blankenship	Alderman
John Casselberry	Alderman
Peggy Gilbert	Alderman
Jeff Griggs	Alderman
Frankie Stanfill	Alderman
Sandra Wood	Alderman

WILLIAMS, JERROLDs, GODWIN & NICHOLS, PLLC

Certified Public Accountants



408 Main Street, Savannah, Tennessee 38372

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Independent Auditors' Report

To the Mayor and City Aldermen
City of Lexington
Lexington, Tennessee 38351

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lexington, Tennessee, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lexington, Tennessee's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Lexington Electric System, which represent 55% and 77%, respectively, of the assets and revenues of the proprietary funds. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Electric System in the proprietary funds, is based on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lexington, Tennessee, as of June 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and the General Purpose School Fund 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 a report dated February 11, 2011, on our consideration of the City of Lexington's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Lexington, Tennessee's financial statements as a whole. The introductory section and supplemental information are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section and the schedule of unaccounted for water on pages 1 and 21 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Williams, Jerrold, Godwin & Nichols, PLLC

February 11, 2011

**CITY OF LEXINGTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

Our discussion and analysis of the City of Lexington, Tennessee, will offer readers of the City's financial statements a narrative overview and review of the financial activities of the City for the fiscal year ended June 30, 2010. Readers are encouraged to consider the information presented here in conjunction with the City's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 9 and 10) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 11. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 9. The following is one of the most important questions asked about the City's finances, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities – Most of the City's basic services are reported here, including the general administration, police, fire, public works, health, welfare, and recreation, economic development and debt service. Property taxes, local sales taxes, and state shared revenue finance most of these activities.
- Business-type activities – The City charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's gas, water and sewer, and electric operations are reported here.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 11. The fund financial statements begin on page 11 and provide detailed information about the most significant funds (not the City as a whole). Some funds

are required to be established by State law. However, the City Board establishes other funds to help it control and manage money for particular purposes (e.g. DARE Fund). The City's two kinds of funds – governmental and proprietary – use different accounting approaches.

- *Governmental Funds* – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.
- *Proprietary Funds* – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

The City as Trustee – The City maintains two types of fiduciary funds for which it is the trustee or fiduciary. The agency fund is used to account for student activity of the local city school. The pension trust fund accounts for pension contributions, benefits, and distributions. Both of these funds are reported in a separate Statement of Fiduciary Net Assets on page 31, and the Statement of Changes in the Fiduciary Net Assets for the Pension Trust fund is on page 32. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33 - 58.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligations to provide pension benefits to its employees. Required supplementary information can be found on pages 59 - 60 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented following the required supplementary information on pensions. Combining and individual statements and schedules can be found on pages 61 - 62 of this report.

THE CITY AS A WHOLE

Net assets may serve over time as a useful indicator of government's financial position. In the case of the City of Lexington, assets exceeded liabilities by \$65,115,462 as of June 30, 2010.

CITY OF LEXINGTON'S NET ASSETS

	Governmental Activities		Business Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 5,032,062	\$ 5,892,158	\$ 17,268,356	\$ 18,659,776	\$ 22,300,418	\$ 24,551,934
Capital Assets	30,524,159	31,633,541	62,445,800	60,848,119	92,969,959	92,481,660
Total Assets	35,556,221	37,525,699	79,714,156	79,507,895	115,270,377	117,033,594
Long term liabilities	16,141,146	16,922,671	24,477,273	25,766,750	40,618,419	42,689,421
Other liabilities	2,040,669	2,157,944	7,495,827	7,015,501	9,536,496	9,173,445
Total liabilities	18,181,815	19,080,615	31,973,100	32,782,251	50,154,915	51,862,866
Net Assets:						
Invested in capital assets, net of related debt	14,450,196	14,789,353	38,930,696	36,004,314	53,380,892	50,793,667
Restricted	561,235	569,804	673,263	1,638,404	1,234,498	2,208,208
Unrestricted	2,362,975	3,085,927	8,137,097	9,082,926	10,500,072	12,168,853
Total Net Assets	\$ 17,374,406	\$ 18,445,084	\$ 47,741,056	\$ 46,725,644	\$ 65,115,462	\$ 65,170,728

There is a prior period adjustment that affected the General Fund. For additional information see Note 3.J.

Governmental Activities

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants.

Business-type Activities

The changes in business-type activities net assets are described below:

- The City's Gas System had a profit of \$357,708 compared to a profit in the prior year of \$124,642. The increase in profit is primarily due to the System's implementation of the Purchased Gas Adjustment system for setting billing rates. This was the first complete year that this system was in place.
- The City's Water Systems Fund operated at a profit of \$322,464 compared to a profit in the prior year of \$250,820 (29% increase). The system had an increase in capital contributions of \$144,144.
- The City's Electric Department had a profit of \$355,240 compared to a profit in the prior year of \$483,359.

The following table provides a summary of the City's operations for the year ended June 30, 2010 with comparative totals for the year ended June 30, 2009.

CITY OF LEXINGTON'S CHANGES IN NET ASSETS

	Governmental Activities		Business Type Activities		TOTAL	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues						
Fees, fines and charges for services	\$ 1,537,307	\$ 1,549,988	\$ 53,422,814	\$ 60,353,305	\$ 54,960,121	\$ 61,903,293
Operating grants and contributions	8,219,396	7,928,345	-	-	8,219,396	7,928,345
Capital grants and contributions	131,408	59,453	514,129	390,303	645,537	449,756
General revenues:						
Property taxes	1,379,060	1,363,392	-	-	1,379,060	1,363,392
In-lieu of property taxes	92,816	71,095	-	-	92,816	71,095
Sales taxes	3,752,034	3,991,358	-	-	3,752,034	3,991,358
Investment earnings	85,663	86,476	126,223	241,473	211,886	327,949
Gain(loss) on sale of capital assets	6,492	53,374	7,730	9,950	14,222	63,324
Miscellaneous	243,305	220,029	925,468	224,805	1,168,773	444,834
Total revenues	15,447,481	15,323,510	54,996,364	61,219,836	70,443,845	76,543,346
Expenses:						
General government and administration						
Public safety	1,472,844	1,670,605	-	-	1,472,844	1,670,605
Public works	3,062,051	2,950,714	-	-	3,062,051	2,950,714
Health, Welfare and Recreation	1,998,473	2,636,656	-	-	1,998,473	2,636,656
Economic development	10,149,733	9,973,007	-	-	10,149,733	9,973,007
Interest on long-term debt	42,333	97,469	-	-	42,333	97,469
Paying agent fees	609,706	636,068	-	-	609,706	636,068
Water Systems	2,327	1,811	-	-	2,327	1,811
Natural Gas	-	-	5,173,630	5,169,409	5,173,630	5,169,409
Electric Department	-	-	7,381,038	10,538,087	7,381,038	10,538,087
Total expenses	17,337,467	17,966,330	52,862,852	59,374,917	70,200,319	77,341,247
Increase (decrease) in net assets before transfers	(1,889,986)	(2,642,820)	2,133,512	1,844,919	243,526	(797,901)
Transfers	783,433	623,645	(1,118,100)	(986,098)	(334,667)	(362,453)
Increase (decrease) in net assets	(1,106,553)	(2,019,175)	1,015,412	858,821	(91,141)	(1,160,354)
Net assets at beginning of year, as originally stated	18,445,084	20,455,020	46,725,644	45,773,832	65,170,728	66,228,852
Prior period adjustment	28,967	9,239	-	92,991	28,967	102,230
Inventory adjustment	6,908	-	-	-	6,908	-
Net assets at beginning of year, as restated	18,480,959	20,464,259	46,725,644	45,866,823	65,206,603	66,331,082
Net assets at end of year	\$ 17,374,406	\$ 18,445,084	\$ 47,741,056	\$ 46,725,644	\$ 65,115,462	\$ 65,170,728

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 11) reported a combined fund balance of \$2,914,125 which is 20.6% below last year's total of \$3,669,151.

The following schedule presents a summary of general, special revenues, debt service and capital project revenues and expenditures for the fiscal year ended June 30, 2010, and the amount and percentage of increases and decreases in relation to the prior year.

<u>Revenues</u>	<u>June 30, 2010</u>	<u>Percent of Total</u>	<u>Increase (Decrease) from June 30, 2009</u>	<u>Percent Increase (Decrease)</u>
Taxes	\$ 4,617,201	29.95%	\$ (188,205)	-4.08%
Intergovernmental	8,943,925	58.01%	279,982	3.13%
Licenses and permits	19,793	0.13%	(2,108)	-10.65%
Charges for services	982,219	6.37%	(22,548)	-2.30%
Fines and forfeitures	275,228	1.79%	37,911	13.77%
Other revenues	579,833	3.76%	6,429	1.11%
Total Revenues	\$ 15,418,199	100.00%	\$ 111,461	0.99%

The decrease seen in taxes is due to decreased tax revenue of all types. The increase in intergovernmental revenues is due to increased grant revenues received by the school system.

<u>Expenditures</u>	<u>June 30, 2010</u>	<u>Percent of Total</u>	<u>Increase (Decrease) from June 30, 2009</u>	<u>Percent Increase (Decrease)</u>
General government	\$ 1,107,688	6.51%	\$ (174,528)	-15.76%
Public Safety	2,760,516	16.23%	107,742	3.90%
Public Works	1,625,178	9.55%	(369,493)	-22.74%
Health, welfare, and recreation	9,491,316	55.79%	137,696	1.45%
Economic development	42,333	0.25%	(55,136)	-130.24%
Capital outlay	477,866	2.81%	(481,148)	-100.69%
Debt Service	1,507,137	8.86%	(2,385,373)	-158.27%
Total Expenditures	\$ 17,012,034	100.00%	\$ (3,220,240)	-422.34%

The City's debt service expenditures decreased primarily due to the issuance of bond anticipation notes which were refunded during the prior year. The decreased capital outlay amount in the current year is due to a GPS system which was purchased in the prior year for the City. The decrease in public works expenditures is due to decreased repair and maintenance costs.

General Fund Budgetary Highlights

Over the course of the year the School System revised the budget at various times during the year. The following funds had expenditures that exceeded budget appropriations: Police Drug Fund and School Food Service Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 2010, the City had \$92,969,959 invested in a broad range of capital assets, including police and fire equipment, buildings, parks facilities, water and sewer lines, natural gas lines, electric plant and equipment, and various other equipment. This amount represents a net increase (including additions and deductions) of \$488,299, or 1% over the last year. Additional information on capital assets is in Note 3.C.

Debt

At year-end, the City had \$40,026,505 in outstanding long-term debt compared to \$42,159,671 last year. Of the total outstanding debt 40% belongs to the Governmental funds, 11% to the Gas Fund, 27% to the Water Systems Fund, and 22% to the Electric Department.

See Note 3.G for additional information.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City at 33 1st Street, Lexington, Tennessee.

Sue Wood
City Recorder

CITY OF LEXINGTON, TENNESSEE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2010

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash and cash equivalents	\$ 2,446,917	\$ 9,968,675	\$ 12,415,592
Investments	-	576,912	576,912
Receivables:			
Property taxes	1,462,042	-	1,462,042
Accounts receivable, net of allowance	15,977	3,565,886	3,581,863
Grant receivables	188,016	61,712	249,728
Other receivables	23,744	623,596	647,340
Internal balances	66,729	(66,729)	-
Due from other governments	570,297	-	570,297
Inventory	27,689	738,081	765,770
Natural gas storage	-	683,383	683,383
Prepaid expenses	163,469	149,698	313,167
Other assets	67,182	722,142	789,324
Note receivable	-	245,000	245,000
Capital assets:			
Land, improvements and construction in progress	2,024,855	7,489,565	9,514,420
Other capital assets, net of depreciation	28,499,304	54,956,235	83,455,539
TOTAL ASSETS	\$ 35,556,221	\$ 79,714,156	\$ 115,270,377
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable and accrued expenses	\$ 658,329	\$ 6,110,393	\$ 6,768,722
Deferred property taxes	1,354,999	-	1,354,999
Deferred revenue	27,342	-	27,342
Compensated absences	-	1,385,434	1,385,434
Long-term liabilities:			
Advances from Home Installation Program	-	265,350	265,350
Other post employment benefits	-	146,868	146,868
Compensated absences	-	179,696	179,696
Due within one year	905,266	1,392,366	2,297,632
Due in more than one year	15,235,879	22,492,993	37,728,872
TOTAL LIABILITIES	18,181,815	31,973,100	50,154,915
NET ASSETS			
Invested in capital assets, net of related debt	14,450,196	38,930,696	53,380,892
Restricted for:			
State Street Aid Fund	53,836	-	53,836
School Tax Fund	140,026	-	140,026
School Food Service	109,904	-	109,904
Solid Waste Collection	57,127	-	57,127
DARE Fund	4,754	-	4,754
Police Drug Fund	154,105	-	154,105
Debt service	402	673,263	673,665
Capital projects	41,081	-	41,081
Unrestricted	2,362,975	8,137,097	10,500,072
TOTAL NET ASSETS	17,374,406	47,741,056	65,115,462
TOTAL LIABILITIES AND NET ASSETS	\$ 35,556,221	\$ 79,714,156	\$ 115,270,377

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

Program Activities	Expenses	PROGRAM REVENUES			NET (EXPENSES) REVENUE AND CHANGES IN NET ASSETS		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General Government	\$ 1,472,844	\$ 73,562	\$ -	\$ 31,142	\$ (1,368,140)	\$ -	\$ (1,368,140)
Public Safety	3,062,051	369,628	25,220	100,266	(2,566,937)	-	(2,566,937)
Public Works	1,998,473	864,574	306,988	-	(826,911)	-	(826,911)
Health, Welfare and Recreation	10,149,733	229,543	7,887,188	-	(2,033,002)	-	(2,033,002)
Economic Development	42,333	-	-	-	(42,333)	-	(42,333)
Interest on long-term debt	609,706	-	-	-	(609,706)	-	(609,706)
Paying agent fees on long-term debt	2,327	-	-	-	(2,327)	-	(2,327)
Business-type activities:							
Gas Fund	7,381,038	7,644,765	-	25,668	-	289,395	289,395
Water Systems Fund	5,173,630	5,024,469	-	488,461	-	339,300	339,300
Electric Department	40,308,184	40,753,580	-	-	-	445,396	445,396
Total business-type activities	52,862,852	53,422,814	-	514,129	-	1,074,091	1,074,091
Total government	\$ 70,200,319	\$ 54,960,121	\$ 8,219,396	\$ 645,537	(7,449,356)	1,074,091	(6,375,265)
General revenues:							
Taxes:							
Property				1,379,060	-		1,379,060
In-lieu of taxes				92,816	-		92,816
Sales				3,752,034	-		3,752,034
Investment earnings				85,663	126,223		211,886
Gain (loss) on sale/retirement of capital assets				6,492	7,730		14,222
Settlements				-	136,856		136,856
Miscellaneous				243,305	788,612		1,031,917
Transfer out - in lieu of taxes				783,433	(783,433)		-
Transfer out - in lieu of taxes - other government				-	(334,667)		(334,667)
				<u>6,342,803</u>	<u>(58,679)</u>		<u>6,284,124</u>
				<u>(1,106,553)</u>	<u>1,015,412</u>		<u>(91,141)</u>
Net assets - beginning, as originally stated				18,445,084	46,725,644		65,170,728
Prior period adjustment				28,967	-		28,967
Inventory adjustment - school food service fund				6,908	-		6,908
Net assets - beginning, as restated				<u>18,480,959</u>	<u>46,725,644</u>		<u>65,206,603</u>
Net assets - ending				<u>\$ 17,374,406</u>	<u>\$ 47,741,056</u>		<u>\$ 65,115,462</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	General	General Purpose School Fund	Other Governmental Funds	Total
ASSETS				
Cash and cash equivalents	\$ 523,928	\$ 1,550,813	\$ 372,176	\$ 2,446,917
Taxes receivable	1,462,042	-	-	1,462,042
Accounts receivable	15,977	-	-	15,977
Grant receivable	38,286	188,016	-	226,302
Other receivables	4,930	18,814	-	23,744
Inventory	-	-	27,689	27,689
Due from other governments	322,694	79,535	129,782	532,011
Due from other funds	45,348	-	50,046	95,394
Prepaid expenses	147,059	-	16,410	163,469
TOTAL ASSETS	<u>\$ 2,560,264</u>	<u>\$ 1,837,178</u>	<u>\$ 596,103</u>	<u>\$ 4,993,545</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 377,998	\$ 15,534	\$ -	\$ 393,532
Bank overdrafts	-	-	-	-
Accrued expenses	84,708	76,981	6,150	167,839
Deferred revenue	1,462,042	3,251	24,091	1,489,384
Due to other funds	24,038	-	4,627	28,665
TOTAL LIABILITIES	<u>1,948,786</u>	<u>95,766</u>	<u>34,868</u>	<u>2,079,420</u>
FUND BALANCE				
Reserved for:				
Inventory	-	-	27,689	27,689
Career ladder	-	2,922	-	2,922
Capital outlay	-	36,705	-	36,705
Unreserved, undesignated, reported in:				
General fund	611,478	-	-	611,478
Special revenue funds	-	1,701,785	492,063	2,193,848
Debt service funds	-	-	402	402
Capital project funds	-	-	41,081	41,081
TOTAL FUND BALANCES	<u>611,478</u>	<u>1,741,412</u>	<u>561,235</u>	<u>2,914,125</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,560,264</u>	<u>\$ 1,837,178</u>	<u>\$ 596,103</u>	<u>\$ 4,993,545</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LEXINGTON, TENNESSEE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2010

Total fund balance - total governmental funds	\$ 2,914,125
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	30,524,159
Unamortized bond issuance costs are not recorded on governmental funds but are expensed when incurred.	67,182
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	107,043
Accrued interest is not reported in the governmental funds balance sheet but is recorded for government-wide purposes.	(96,957)
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.	<u>(16,141,146)</u>
Net assets of governmental activities	<u>\$ 17,374,406</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LEXINGTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	General	General Purpose School Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes				
Property taxes	\$ 1,356,270	\$ -	\$ -	\$ 1,356,270
Penalty and interest	9,222	-	-	9,222
In lieu of taxes	11,290	-	-	11,290
Sales	1,336,410	-	1,113,675	2,450,085
Beer tax	427,969	-	-	427,969
Business	220,350	-	-	220,350
Franchise	139,566	-	-	139,566
Privilege	2,449	-	-	2,449
Intergovernmental revenues	876,838	7,469,849	597,238	8,943,925
Licenses and permits	19,793	-	-	19,793
Charges for services	161,467	-	820,752	982,219
Fines, forfeits, and penalties	139,760	-	135,468	275,228
Other revenues	167,691	151,435	260,707	579,833
Total revenues	4,869,075	7,621,284	2,927,840	15,418,199
Expenditures				
Current:				
General government	1,107,688	-	-	1,107,688
Public safety	2,737,241	-	23,275	2,760,516
Public works	917,064	-	708,114	1,625,178
Health, welfare, and recreation	528,991	8,375,512	586,813	9,491,316
Economic development	42,333	-	-	42,333
Capital outlay	87,584	172,307	217,975	477,866
Debt service:				
Principal payments	71,350	65,000	753,538	889,888
Interest payments	58,579	23,378	532,965	614,922
Other debt costs	-	-	2,327	2,327
Total expenditures	5,550,830	8,636,197	2,825,007	17,012,034
Excess (deficiency) of revenues over (under) expenditures	(681,755)	(1,014,913)	102,833	(1,593,835)
Other financing sources (uses)				
Transfers in	892,456	1,063,000	1,371,828	3,327,284
Transfers out	(812,094)	-	(1,731,757)	(2,543,851)
Proceeds from sale of general fixed assets	6,492	-	-	6,492
Total other financing sources (uses)	86,854	1,063,000	(359,929)	789,925
Net Change in Fund Balances	(594,901)	48,087	(257,096)	(803,910)
FUND BALANCE AT BEGINNING OF YEAR, as originally stated	1,177,412	1,693,325	798,414	3,669,151
PRIOR PERIOD ADJUSTMENT	28,967	-	-	28,967
INVENTORY ADJUSTMENT	-	-	6,908	6,908
FUND BALANCE AT BEGINNING OF YEAR, as restated	1,206,379	1,693,325	805,322	3,705,026
FUND BALANCE AT END OF YEAR	\$ 611,478	\$ 1,741,412	\$ 548,226	\$ 2,901,116

The accompanying notes are an integral part of these financial statements.

CITY OF LEXINGTON, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds	\$	(803,910)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded for the current period.		
		477,866
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in government funds.		
		(1,585,647)
Difference in the gain or loss from sale of fixed assets		
		-
Long-term debt proceeds are recorded on the governmental funds as revenues, but the government-wide statement of activities does not report debt proceeds as revenue		
		(108,702)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
		890,227
Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, they are not reported as expenditures in governmental funds.		
		823
Some property tax will not be collected for several months after the City's fiscal year end, they are not considered "available" revenues in the governmental funds.		
		22,790
Change in net assets of governmental activities	\$	<u>(1,106,553)</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
Taxes				
Property taxes - current	\$ 1,400,000	\$ 1,400,000	\$ 1,299,473	\$ (100,527)
Property taxes - delinquent	-	-	56,797	56,797
Penalties and interest	10,500	10,500	9,222	(1,278)
In lieu of taxes:				
Lexington Housing Authority	10,000	10,000	11,290	1,290
Local sales tax	1,404,302	1,404,302	1,336,410	(67,892)
Local beer tax	415,382	415,382	427,969	12,587
Business tax	390,720	390,720	220,350	(170,370)
Franchise tax	141,872	141,872	139,566	(2,306)
Privilege tax	2,500	2,500	2,449	(51)
Total taxes	3,775,276	3,775,276	3,503,526	(271,750)
Intergovernmental				
TVA payments in lieu of taxes	73,120	73,120	81,526	8,406
State fire education	7,800	7,800	7,800	-
State law enforcement grant	16,200	16,200	16,200	-
FEMA grant - storm drains	-	-	31,142	31,142
Police safety grant - alcohol saturation	30,675	30,675	2,602	(28,073)
Police - COPS	55,831	55,831	36,944	(18,887)
Police grant - crash reduction	14,068	14,068	-	(14,068)
Police grant - vest	-	-	4,978	4,978
Police grant - Byrne	32,358	32,358	32,358	-
Police network grant	9,437	9,437	23,384	13,947
Fire grant	375,373	375,373	-	(375,373)
Police grant	290,378	290,378	-	(290,378)
State of Tennessee				
- Sales tax allocation	476,400	476,400	473,007	(3,393)
- Telecommunication tax	-	-	609	609
- Income tax allocation	71,500	71,500	21,581	(49,919)
- Beer tax allocation	3,850	3,850	3,664	(186)
- City street & transportation	15,900	15,900	15,874	(26)
- Street maintenance	89,600	89,600	95,753	6,153
- Excise tax	45,000	45,000	12,754	(32,246)
Grants from Local Governments				
- Crimestoppers	1,200	1,200	1,200	-
- County recreation grant	10,000	10,000	10,000	-
- Other miscellaneous grants	5,053	5,053	5,462	409
Total intergovernmental revenues	1,623,743	1,623,743	876,838	(746,905)
Licenses and permits				
Beer licenses	1,000	1,000	1,500	500
Building permits	15,000	15,000	15,015	15
Business license	8,500	8,500	2,978	(5,522)
Other permits	1,000	1,000	300	(700)
Total licenses and permits	25,500	25,500	19,793	(5,707)

The accompanying notes are an integral part of these financial statements.

CITY OF LEXINGTON, TENNESSEE

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (continued)
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues (continued)				
Charges for services				
Clerk's fees - business tax	8,700	8,700	24,969	16,269
Accident report filing fees	3,000	3,000	3,227	227
Maintenance charges for Caywood	30,000	30,000	71,173	41,173
Street repair	30,000	30,000	31,222	1,222
Dispatch fees	20,000	20,000	20,000	-
SOR charges	800	800	450	(350)
Parks and recreation charges	13,000	13,000	10,426	(2,574)
Total charges for services	105,500	105,500	161,467	55,967
City court fines and costs	148,500	148,500	139,760	(8,740)
Other revenues				
Interest income	28,700	28,700	41,200	12,500
Community center revenue	34,000	34,000	22,667	(11,333)
Fireworks donations	-	-	10,194	10,194
Waterworks rental	14,400	14,400	14,400	-
Gas system rental	14,400	14,400	14,400	-
Sales of cemetery lots	18,600	18,600	12,600	(6,000)
Insurance recoveries	100,000	100,000	20,192	(79,808)
Sales of other materials	20,000	20,000	7,965	(12,035)
Miscellaneous income	30,000	30,000	24,073	(5,927)
Total other revenue	260,100	260,100	167,691	(92,409)
Total revenues	5,938,619	5,938,619	4,869,075	(1,069,544)
Expenditures				
General government				
General				
Salaries	57,749	57,749	58,152	(403)
Employee benefits	287,077	287,077	328,207	(41,130)
Memberships	2,500	2,500	2,091	409
Operating expenses	2,500	2,500	2,365	135
Other operating expenses	33,550	33,550	47,993	(14,443)
Insurance	145,310	145,310	146,855	(1,545)
Total general	528,686	528,686	585,663	(56,977)
Judicial				
Salaries	8,800	8,800	8,801	(1)
Total judicial	8,800	8,800	8,801	(1)

The accompanying notes are an integral part of these financial statements.

CITY OF LEXINGTON, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (continued)
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (continued)				
General government (continued)				
City recorder				
Salaries	197,745	197,745	197,629	116
Employee benefits	27,094	27,094	26,568	526
Insurance	280	280	439	(159)
Office expense	13,000	13,000	9,640	3,360
Professional fees	55,666	55,666	46,414	9,252
Membership and dues	50	50	-	50
Repair and maintenance	2,950	2,950	2,409	541
Other operating expenses	312,540	312,540	210,664	101,876
Capital outlay	66,649	66,649	50,726	15,923
Total city recorder	675,974	675,974	544,489	131,485
City Hall				
Utilities	22,118	22,118	19,461	2,657
Total general government	1,235,578	1,235,578	1,158,414	77,164
Public safety				
Police department				
Salary	1,508,163	1,508,163	1,482,781	25,382
Employee benefits	219,752	219,752	203,166	16,586
Utilities	32,572	32,572	30,334	2,238
Repair and maintenance	24,250	24,250	33,864	(9,714)
Memberships and dues	1,000	1,000	650	350
Supplies	35,130	35,130	48,468	(13,338)
Uniforms and clothing	10,850	10,850	7,441	3,409
Gas, oil, and diesel	60,391	60,391	63,346	(2,955)
Insurance	2,240	2,240	3,659	(1,419)
Equipment rental	9,500	9,500	10,341	(841)
Office expense	33,500	33,500	28,269	7,231
Capital outlay	142,369	142,369	36,858	105,511
Total police department	2,079,717	2,079,717	1,947,277	132,440
Fire department				
Salaries	612,367	612,367	597,261	15,106
Employee benefits	90,243	90,243	88,369	1,874
Volunteer firemen	4,000	4,000	4,090	(90)
Utilities	35,934	35,934	34,677	1,257
Memberships	1,300	1,300	1,038	262
Repair and maintenance	14,850	14,850	14,129	721
Supplies	4,000	4,000	3,055	945
Clothing and uniforms	4,800	4,800	4,673	127
Gas, oil, diesel	9,307	9,307	7,998	1,309
Insurance	3,935	3,935	3,973	(38)
Travel	2,000	2,000	2,844	(844)
Equipment rent	2,500	2,500	2,341	159
Capital outlay	374,729	374,729	-	374,729
Total fire department	1,159,965	1,159,965	764,448	395,517
Building Inspector				
Salaries	54,636	54,636	54,429	207
Employee benefits	7,211	7,211	6,636	575
Insurance	70	70	110	(40)
Other operating expenses	5,106	5,106	1,199	3,907
Total building inspector	67,023	67,023	62,374	4,649
Total public safety	3,306,705	3,306,705	2,774,099	532,606

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (continued)
YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (continued)				
Public works				
Highways and streets				
Salaries	499,916	499,916	528,042	(28,126)
Employee benefits	81,782	81,782	85,918	(4,136)
Utilities	19,173	19,173	16,760	2,413
Repair and maintenance	170,500	170,500	162,504	7,996
Repair and maintenance - equipment	5,000	5,000	10,010	(5,010)
Clothing and uniforms	4,200	4,200	3,666	534
Gas, oil, diesel	29,295	29,295	34,044	(4,749)
Culverts	3,000	3,000	-	3,000
Gravel and sand	10,000	10,000	21,214	(11,214)
Operating supplies	8,700	8,700	14,894	(6,194)
Insurance	840	840	1,267	(427)
Office supplies	2,900	2,900	2,624	276
Total highways and streets	835,306	835,306	880,943	(45,637)
Garage				
Repair and maintenance	2,250	2,250	1,708	542
Supplies	15,213	15,213	9,163	6,050
Uniforms	775	775	1,819	(1,044)
Fuel	158	158	-	158
Other operating expense	1,000	1,000	-	1,000
Total garage	19,396	19,396	12,690	6,706
Animal control				
Contract labor	19,200	19,200	19,200	-
Operating costs	3,560	3,560	3,892	(332)
Total animal control	22,760	22,760	23,092	(332)
Sanitation				
Landfill closure	1,000	1,000	339	661
Total public works	878,462	878,462	917,064	(38,602)
Health, welfare, and recreation				
Appropriations				
Library	31,000	31,000	31,000	-
Library utilities	12,605	12,605	10,924	1,681
RSVP	6,900	6,900	-	6,900
Senior Citizens	11,000	11,000	11,000	-
Rescue Squad	13,050	13,050	13,050	-
Rescue Squad utilities	851	851	688	163
Christmas parade	500	500	500	-
Carl Perkins	1,725	1,725	1,725	-
Lexington scholarship	500	500	500	-
JACO A	1,900	1,900	1,900	-
Hope utilities	4,909	4,909	4,091	818
Project graduation	1,000	1,000	1,000	-
Teen summit	250	250	250	-
Community beautification	20	20	22	(2)
Airport	38,498	38,498	38,498	-
Fireworks	-	-	8,100	(8,100)
Other appropriations	4,600	4,600	209	4,391
Total appropriations	129,308	129,308	123,457	5,851

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (continued)
YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (continued)				
Health, welfare, and recreation (continued)				
Museum				
Contract labor	14,400	14,400	14,400	-
Utilities	5,902	5,902	6,169	(267)
Repair and maintenance	-	-	88	(88)
Telephone	646	646	624	22
Security system	450	450	446	4
Operating costs	100	100	-	100
Janitorial costs	100	100	61	39
Total museum	21,598	21,598	21,788	(190)
Civic center				
Utilities	34,792	34,792	35,379	(587)
Contract labor	19,500	19,500	19,500	-
Repair and maintenance	10,500	10,500	22,738	(12,238)
Operating costs	2,500	2,500	530	1,970
Janitorial costs	3,500	3,500	1,751	1,749
Total civic center	70,792	70,792	79,898	(9,106)
Parks				
Salaries	210,061	210,061	166,168	43,893
Employee benefits	33,555	33,555	27,085	6,470
Repair and maintenance	32,100	32,100	29,784	2,316
Utilities	76,662	76,662	61,184	15,478
Insurance	1,260	1,260	827	433
Other operating expenses	21,072	21,072	18,800	2,272
Total parks	374,710	374,710	303,848	70,862
Total health, welfare, and recreation	596,408	596,408	528,991	67,417
Economic development				
State plan service	15,000	15,000	10,803	4,197
Professional fees	7,000	7,000	1,045	5,955
Travel	1,750	1,750	434	1,316
Miscellaneous	25,000	25,000	30,051	(5,051)
Capital outlay	50,000	50,000	-	50,000
Total economic development	98,750	98,750	42,333	56,417
Debt service				
Principal payments	42,000	42,000	71,350	(29,350)
Interest payments	58,584	58,584	58,579	5
Bond issue costs	2,500	2,500	-	2,500
Total debt service	103,084	103,084	129,929	(26,845)
Total expenditures	6,218,987	6,218,987	5,550,830	668,157

The accompanying notes are an integral part of these financial statements.

CITY OF LEXINGTON, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (continued)
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
Excess (deficiency) of revenues over (under) expenditures	(280,368)	(280,368)	(681,755)	(401,387)
Other financing sources (uses)				
Transfers in	701,261	701,261	892,456	191,195
Transfers out	(805,710)	(805,710)	(812,094)	(6,384)
Note proceeds	-	-	-	-
Sale of general fixed assets	50,000	50,000	6,492	(43,508)
Total other financing sources (uses)	(54,449)	(54,449)	86,854	141,303
Net change in fund balance	(334,817)	(334,817)	(594,901)	(260,084)
FUND BALANCE, Beginning of Year - as originally stated	1,177,412	1,177,412	1,177,412	-
Prior period adjustment	-	-	28,967	28,967
FUND BALANCE, Beginning of Year - as restated	1,177,412	1,177,412	1,206,379	28,967
FUND BALANCE AT END OF YEAR	<u>\$ 842,595</u>	<u>\$ 842,595</u>	<u>\$ 611,478</u>	<u>\$ (231,117)</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
GENERAL PURPOSE SCHOOL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenues				
Local funds				
Henderson County				
Wheel tax	\$ 89,500	\$ 85,500	\$ 90,717	\$ 5,217
Current year tax levy	509,000	479,000	478,549	(451)
Prior year tax receipts	35,950	30,950	28,203	(2,747)
Mixed drink tax	1,000	1,000	1,068	68
Local sales tax	825,000	795,000	745,989	(49,011)
Interstate telecommunication taxes	850	850	442	(408)
Bank excise tax	9,000	9,000	3,480	(5,520)
Marriage licenses	600	600	509	(91)
Other	7,550	7,550	7,526	(24)
State funds				
Basic education	4,769,000	4,572,600	4,572,600	-
Early childhood education	187,966	189,016	189,016	-
Career ladder	56,000	56,000	48,979	(7,021)
Career ladder extended contracts	-	35,200	32,054	(3,146)
Internet connectivity	-	-	726	726
Other State grants	92,000	113,175	78,021	(35,154)
Other State education funds	7,800	49,326	47,986	(1,340)
Federal funds				
Basic education - ARRA	-	200,400	200,400	-
Title I grants	304,663	299,876	259,902	(39,974)
Other Federal through State	9,663	6,524	6,524	-
Coordinated school health - ARRA	-	92,000	92,000	-
Special education grants to state	501,252	501,257	456,659	(44,598)
Special education excess cost-disabled child	-	2,280	2,280	-
Special education preschool	11,287	11,288	11,288	-
Special education preschool - high cost	-	4,235	4,235	-
Internet connectivity - ARRA	-	3,051	3,050	(1)
School management - ARRA	-	2,673	2,673	-
Vocational Education	15,429	15,429	11,805	(3,624)
English language acquisition grant	2,481	2,518	2,518	-
Safe and drug free grant	3,346	3,313	3,313	-
Safe and drug free grant - ARRA	-	3,700	3,700	-
Education for homeless children	-	3,122	1,188	(1,934)
Rural education	22,992	28,029	28,029	-
Eisenhower professional development	58,558	58,579	54,420	(4,159)
Total Intergovernmental revenues	7,520,887	7,663,041	7,469,849	(193,192)
Other revenues				
Interest income	9,000	9,000	13,768	4,768
Contributions	7,000	14,000	18,500	4,500
Receipts from individual schools	8,000	8,000	5,862	(2,138)
Insurance recoveries	-	11,156	11,060	(96)
Rent income	3,000	3,000	-	(3,000)
TBI background fee	1,500	1,500	-	(1,500)
On-behalf payments	-	75,000	59,332	(15,668)
Revenues from contracted services	-	29,000	29,750	750
Miscellaneous revenues	10,000	10,000	13,163	3,163
Total other revenues	38,500	160,656	151,435	(9,221)
Total Revenues	7,559,387	7,823,697	7,621,284	(202,413)

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
GENERAL PURPOSE SCHOOL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL(continued)
YEAR ENDED JUNE 30, 2010**

Expenditures	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Instruction				
Regular instruction program				
Teachers	2,587,985	2,664,480	2,653,289	11,191
Career ladder program	23,000	24,321	24,045	276
Career ladder program	-	31,118	28,100	3,018
Homebound teachers	-	908	908	-
Educational assistants	128,253	117,942	95,074	22,868
Other salaries and wages	122,500	134,400	134,356	44
Certified substitute teachers	25,000	36,150	36,090	60
Non-certified substitute teachers	22,000	26,450	26,424	26
Social security	180,217	178,452	178,319	2,133
State retirement	178,379	178,431	177,444	987
Life insurance	-	6,120	5,452	668
Medical insurance	348,600	340,806	304,344	36,462
Dental insurance	4,664	5,964	5,720	244
Unemployment compensation	1,682	1,964	1,957	7
Local retirement	-	3,708	2,849	859
Employer medicare	42,146	42,266	40,774	1,512
Other fringe benefits	2,158	-	4,696	(4,696)
On-behalf payments	-	75,000	59,332	15,668
Maintenance and repair - equipment	3,000	3,000	-	3,000
Other contracted services	56,000	63,151	55,422	7,729
Instructional supplies	54,981	34,756	28,907	5,829
Textbooks	60,000	101,000	80,814	20,186
Other supplies and materials	33,600	33,903	14,221	19,682
Indirect costs	-	2,471	2,471	-
Other charges	7,000	7,083	5,636	1,447
Debt service payments	-	-	16,505	(16,505)
Regular instruction equipment	36,322	151,373	122,951	28,422
Total regular instruction program	3,917,487	4,265,217	4,103,100	162,117
Alternative instruction				
Teachers	35,794	45,245	45,245	-
Social security	2,220	2,810	2,777	33
State retirement	2,298	2,908	2,903	5
Medical insurance	9,930	8,590	4,540	4,050
Dental insurance	148	148	124	24
Unemployment insurance	22	22	20	2
Employer medicare	519	659	649	10
Instructional supplies	2,000	2,000	-	2,000
Total alternative instruction	52,931	62,382	56,258	6,124
Special education				
Teachers	470,283	451,329	451,328	1
Career ladder program	4,500	3,500	3,350	150
Educational assistants	93,314	118,972	117,541	1,431
Speech Pathology	38,177	38,177	38,177	-
Certified substitute teachers	6,000	8,355	7,565	790
Non-certified substitute teachers	10,000	10,858	10,005	851
Social security	37,381	36,391	34,520	1,871
State retirement	32,932	31,302	30,465	837
Medical insurance	97,509	91,040	90,946	94
Dental insurance	1,184	1,535	1,426	109
Unemployment compensation	408	536	518	18
Local retirement	-	2,443	1,501	942
Employer medicare	8,965	8,738	8,308	430
Other fringe benefits	262	-	-	262
Evaluation and testing	3,000	14,309	12,611	1,698
Contracts with others	8,750	2,750	1,800	950
Other contracted services	25,000	17,825	13,014	4,611
Instructional supplies	19,918	21,472	10,201	11,271
Other supplies and materials	14,401	1,401	641	760
Special education equipment	46,500	49,490	48,575	915
Total special education	918,464	910,221	882,492	27,729
Vocational education				
Other supplies and materials	3,853	1,359	1,359	-
Vocational instruction equipment	2,720	8,519	4,696	3,623
Total vocational education	6,573	9,878	6,255	3,623
Student body education				
Other salaries and wages	86,605	87,435	87,435	-
Social security	5,383	5,276	4,945	331
State retirement	5,554	5,614	5,613	1
Medical insurance	14,960	19,380	8,392	10,988
Dental insurance	148	148	-	148
Unemployment compensation	18	45	45	-
Employer medicare	1,254	1,254	1,156	98
Travel	-	500	477	23
Other contracted services	16,000	17,500	17,289	211
Other charges	7,000	14,600	23,211	(6,611)
Total student body education	136,822	151,752	148,583	3,189
Total instruction	5,034,277	5,399,450	5,196,688	202,762

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
GENERAL PURPOSE SCHOOL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL(continued)
YEAR ENDED JUNE 30, 2010**

Expenditures(continued)	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Support services				
Attendance				
Postal charges	-	300	264	36
Other contracted services	8,000	14,400	7,372	7,028
Other supplies and materials	500	500	-	500
Inservice/staff development	2,000	2,000	1,258	742
Other charges	1,000	1,000	218	782
Attendance equipment	500	200	-	200
Total attendance	12,000	18,400	9,112	9,288
Health instruction program				
Medical personnel	26,163	26,536	26,513	23
Other salaries	36,245	37,243	37,083	160
Certified substitute teachers	-	84	84	-
Non-certified substitute teachers	-	301	301	-
Social security	4,625	4,131	3,296	835
State retirement	2,327	2,346	2,346	-
Health insurance	14,866	12,349	8,802	3,547
Dental insurance	228	143	138	5
Unemployment insurance	37	42	40	2
Employer medicare	906	822	746	76
Travel	3,000	2,500	-	2,500
Other contracted services	30,000	23,600	19,054	4,546
Other supplies and materials	22,824	30,961	30,723	238
Inservice/staff development	6,500	5,236	4,766	470
Other charges	3,500	2,127	2,128	(1)
Total health instruction program	151,221	148,421	136,020	12,401
Other student support				
Career ladder program	3,000	3,000	3,000	-
Guidance personnel	92,941	94,555	94,555	-
Psychological	12,926	10,342	10,341	1
Social workers	38,510	40,760	40,759	1
Assessment personnel	-	59,958	56,194	3,764
Social security	9,137	11,562	11,449	113
State retirement	9,462	13,237	13,151	86
Medical insurance	21,715	24,781	23,783	998
Dental insurance	326	601	554	47
Unemployment compensation	75	83	78	5
Employer medicare	2,136	2,711	2,678	33
Evaluation and testing	17,000	18,400	15,018	3,382
Other contracted services	3,085	1,374	1,374	-
Inservice/staff development	5,000	4,177	4,176	1
Other charges	-	382	144	238
Total other student support	215,313	285,923	277,254	8,669
Regular instruction program				
Supervisor/Director	125,718	119,963	111,182	8,781
Career ladder program	9,000	10,000	9,668	332
Libraries	40,523	41,523	41,523	-
Other salaries	177,097	145,307	115,617	29,690
Certified substitute teachers	3,000	3,000	1,790	1,210
In-service training	42,500	70,800	70,600	200
Non-certified substitute teachers	7,000	7,000	4,900	2,100
Social security	24,463	25,023	16,810	8,213
State retirement	25,270	25,270	17,112	8,158

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
GENERAL PURPOSE SCHOOL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (continued)
YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures(continued)				
Support services(continued)				
Regular instruction program(continued)				
Medical insurance	33,250	33,250	18,923	14,327
Dental insurance	595	595	365	230
Unemployment compensation	116	176	165	11
Employer medicare	5,721	5,866	4,843	1,023
Consultants	9,000	9,000	8,979	21
Dues and memberships	-	100	70	30
Travel	5,000	4,900	3,023	1,877
Other contracted services	14,800	55,654	46,416	9,238
Library books and media	30,542	30,541	18,958	11,583
Other supplies and materials	19,032	19,470	16,946	2,524
Inservice/staff development	76,167	80,582	67,333	13,249
Other equipment	10,000	18,295	12,316	5,979
Total regular instruction program	658,794	706,315	587,539	118,776
Special Education				
Psychological personnel	41,366	41,366	41,366	-
Clerical personnel	13,611	13,611	4,091	9,520
Social security	3,408	3,408	2,771	637
State retirement	2,655	2,655	2,656	(1)
Medical insurance	7,944	7,944	3,744	4,200
Dental insurance	119	119	110	9
Unemployment compensation	22	22	31	(9)
Employer medicare	798	798	648	150
Other supplies and materials	300	300	234	66
Inservice/staff development	22,732	22,732	19,187	3,545
Indirect costs	26,331	24,223	21,390	2,833
Total special education	119,266	117,178	96,228	20,950
Total support services	1,156,614	1,276,237	1,106,153	170,084
General administration				
Board of education				
Audit services	25,000	25,000	25,000	-
Dues and subscriptions	8,000	8,000	6,709	1,291
Travel	5,000	1,800	504	1,296
Other contracted services	6,000	6,700	6,645	55
Other supplies and materials	1,500	1,500	-	1,500
Liability insurance	-	7,006	7,006	-
Surety bonds	1,500	500	-	500
Trustee's commission	19,000	19,000	19,582	(582)
Workmans compensation	18,000	13,150	13,102	48
Inservice/staff development	8,000	7,350	6,198	1,152
Criminal investigation	3,000	3,000	48	2,952
Refunds to applicants	500	500	48	452
Other charges	19,000	24,500	23,636	664
Total board of education	112,500	118,006	108,478	9,528
Office of education				
County officials	75,000	80,000	80,000	-
Career ladder program	1,000	1,000	1,000	-
Other salaries and wages	7,300	16,300	14,800	1,500
Social security	5,165	5,817	5,817	-
State retirement	4,879	6,282	6,282	-
Life insurance	160	2,215	2,194	21
Medical insurance	14,000	13,265	12,642	623
Dental insurance	148	148	139	9
Unemployment compensation	22	22	22	-
Employer medicare	1,208	1,361	1,361	-
Other fringe benefits	3,000	-	-	-
Communication	3,500	2,500	141	2,359
Dues and memberships	1,000	650	55	595
Postage	3,000	2,000	1,757	243
Travel	4,000	4,850	4,841	9
Other contracted services	3,000	2,231	1,500	731
Office supplies	4,000	4,000	2,827	1,173
Inservice/staff development	5,000	8,945	7,398	1,547
Other charges	9,000	9,000	8,901	99
Administrative equipment	3,000	3,000	-	3,000
Total office of education	147,382	163,586	151,677	11,909

The accompanying notes are an integral part of these financial statements.

CITY OF LEXINGTON, TENNESSEE
GENERAL PURPOSE SCHOOL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL(continued)
YEAR ENDED JUNE 30, 2010

Expenditures(continued)	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
General administration(continued)				
Office of principal				
Principals	125,427	132,063	132,063	-
Career ladder program	3,000	2,000	2,000	-
Accountants and bookkeepers	40,541	41,341	41,340	1
Assistant principals	54,025	57,525	57,491	34
Clerical personnel	61,120	63,120	63,118	2
Social security	17,615	16,915	16,840	75
State retirement	11,713	12,313	12,298	15
Medical insurance	40,585	32,255	32,222	33
Dental insurance	750	750	662	88
Unemployment compensation	154	184	182	2
Local retirement	-	3,415	3,399	16
Employer medicare	4,120	3,940	3,938	2
Other fringe benefits	1,604	-	-	-
Communication	1,000	300	272	28
Dues and memberships	3,000	1,089	1,080	9
Postage	2,000	1,325	1,314	11
Office supplies	2,500	1,660	1,659	1
Inservice/staff development	8,000	7,745	7,643	102
Other charges	1,500	1,500	1,318	182
Administrative equipment	-	900	878	22
Total office of principal	<u>378,654</u>	<u>380,340</u>	<u>379,717</u>	<u>623</u>
Fiscal services				
Internal audit personnel	15,000	10,500	7,225	3,275
Accountants and bookkeepers	38,000	42,500	36,049	6,451
Purchasing personnel	72,300	72,380	61,454	10,926
Clerical personnel	20,260	21,545	21,537	8
Other salaries and wages	5,000	4,175	2,489	1,686
Social security	8,577	8,577	5,988	2,589
Medical insurance	10,468	9,502	4,147	5,355
Dental insurance	260	315	245	70
Unemployment compensation	120	120	115	5
Local retirement	-	3,094	3,020	74
Employer medicare	2,094	2,094	2,016	78
Other fringe benefits	2,183	-	-	-
Dues and memberships	-	75	75	-
Other contracted services	8,000	8,000	6,689	1,311
Data processing supplies	3,000	3,000	2,345	655
Office supplies	3,000	3,000	1,068	1,932
Inservice/staff development	5,000	4,925	3,773	1,152
Administration equipment	4,000	4,000	3,501	499
Total fiscal services	<u>197,262</u>	<u>197,802</u>	<u>161,736</u>	<u>36,066</u>
Plant operations				
Janitorial services	324,000	324,000	318,444	5,556
Disposal fees	6,000	6,000	3,204	2,796
Other contracted services	21,000	21,000	12,362	8,638
Electricity	308,000	291,000	260,197	30,803
Natural gas	55,000	45,000	40,362	4,638
Water	32,000	32,000	21,480	10,520
Other supplies and materials	2,000	2,000	878	1,122
Building and contents insurance	34,273	21,116	21,018	98
Vehicle and equipment	-	6,151	6,151	-
Plant operation equipment	1,000	1,000	923	77
Total plant operations	<u>783,273</u>	<u>749,267</u>	<u>685,019</u>	<u>64,248</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
GENERAL PURPOSE SCHOOL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL(continued)
YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures(continued)				
General administration(continued)				
Plant maintenance				
Supervisor/director	-	5,603	5,603	-
Other salaries and wages	14,000	19,000	7,865	11,135
Social security	3,327	3,637	817	2,820
Medical insurance	4,576	4,576	737	3,839
Dental insurance	148	148	23	125
Unemployment compensation	27	48	43	5
Employer medicare	778	833	191	642
Maintenance and repair - buildings	89,000	97,496	15,224	82,272
Maintenance and repair - equipment	52,000	31,397	16,955	14,442
Maintenance and repair - equipment	10,000	5,000	1,510	3,490
Other contracted services	165,000	186,300	175,599	10,701
Other supplies and materials	10,000	30,000	21,380	8,620
Inservice/staff development	3,000	3,000	16	2,984
Other charges	2,000	2,000	430	1,570
Maintenance equipment	3,000	3,000	-	3,000
Capital outlay	-	-	15,001	(15,001)
Total plant maintenance	356,856	392,038	261,394	130,644
Central and other				
Computer programmers	38,500	38,500	33,567	4,933
Data processing personnel	20,500	20,500	19,824	676
Social security	3,658	3,658	3,425	233
Medical insurance	5,943	5,943	4,525	1,418
Dental insurance	148	148	138	10
Unemployment compensation	44	44	45	(1)
Local retirement	-	1,960	1,354	606
Employer medicare	850	850	801	49
Other fringe benefits	1,960	-	-	-
Dues and memberships	-	100	20	80
Maintenance and repair - equipment	13,000	13,000	12,844	156
Travel	2,000	2,000	380	1,620
Other contracted services	39,000	39,000	31,061	7,939
Other supplies and materials	11,000	11,000	10,727	273
Inservice/staff development	4,000	3,900	345	3,555
Other charges	3,000	3,000	57	2,943
Data processing equipment	6,000	6,000	4,480	1,520
Other equipment	7,000	9,660	6,074	3,586
Total central and other	156,603	159,263	129,667	29,596
Food service				
Capital outlay	-	15,995	15,995	-
Total general administration	2,132,530	2,176,297	1,893,683	282,614
Early childhood education				
Teachers	79,798	81,098	81,098	-
Educational assistants	46,935	47,860	47,860	-
Certified substitute teachers	-	320	320	-
Non-certified substitute teachers	-	1,105	1,105	-
Social security	7,857	7,317	7,317	-
State retirement	5,123	5,207	5,206	1
Medical insurance	22,550	20,046	20,047	(1)
Dental insurance	296	265	265	-
Unemployment compensation	132	134	133	1
Local retirement	-	552	551	1
Employer medicare	1,838	1,710	1,713	(3)
Other fringe benefits	552	-	-	-
Instructional supplies	7,511	3,603	3,603	-
Other supplies and materials	-	1,249	1,249	-
Indirect costs	10,374	9,492	9,491	1
Inservice/staff development	3,000	509	509	-
Other charges	2,000	965	965	-
Regular instruction equipment	-	7,584	7,583	1
Total early childhood education	187,966	189,016	189,015	1

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
GENERAL PURPOSE SCHOOL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (continued)
YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures(continued)				
Debt service				
Principal payments	105,000	82,622	65,000	17,622
Interest payments	<u>1,000</u>	<u>23,378</u>	<u>23,378</u>	<u>-</u>
Total debt service	<u>106,000</u>	<u>106,000</u>	<u>88,378</u>	<u>17,622</u>
Capital outlay				
Other capital equipment	-	-	20,989	(20,989)
Capital outlay	<u>-</u>	<u>107,527</u>	<u>141,311</u>	<u>(33,784)</u>
Total capital outlay	<u>-</u>	<u>107,527</u>	<u>162,300</u>	<u>(54,773)</u>
Total Expenditures	<u>8,617,387</u>	<u>9,254,527</u>	<u>8,636,197</u>	<u>618,330</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,058,000)</u>	<u>(1,430,830)</u>	<u>(1,014,913)</u>	<u>415,917</u>
Other financing sources and (uses)				
Transfers in	<u>1,058,000</u>	<u>1,100,000</u>	<u>1,063,000</u>	<u>(37,000)</u>
Total other financing sources and (uses)	<u>1,058,000</u>	<u>1,100,000</u>	<u>1,063,000</u>	<u>(37,000)</u>
Net change in fund balance	-	(330,830)	48,087	378,917
Fund balance - beginning of year, as previously reported	<u>1,693,325</u>	<u>1,693,325</u>	<u>1,693,325</u>	<u>-</u>
Fund balance - end of year	<u>\$ 1,693,325</u>	<u>\$ 1,362,495</u>	<u>\$ 1,741,412</u>	<u>\$ 378,917</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LEXINGTON, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS			
	GAS FUND	WATER SYSTEMS FUND	ELECTRIC DEPARTMENT	TOTALS
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 3,801,339	\$ 1,121,929	\$ 4,572,144	\$ 9,495,412
Cash and cash equivalents - restricted	-	-	473,263	473,263
Investments	-	376,912	-	376,912
Investments - restricted	-	-	200,000	200,000
Accounts receivable, net of allowance	675,503	-	2,890,383	3,565,886
Current portion of notes receivable	60,000	-	-	60,000
Grant receivables	8,189	53,523	-	61,712
Other receivables	102,168	107,045	414,383	623,596
Due from other funds	65,712	591,978	-	657,690
Inventory	215,858	233,073	289,150	738,081
Natural gas storage	683,383	-	-	683,383
Prepaid expenses	33,710	79,139	36,849	149,698
TOTAL CURRENT ASSETS	5,645,862	2,563,599	8,876,172	17,085,633
PROPERTY, PLANT AND EQUIPMENT				
Land	116,227	76,153	-	192,380
Buildings	397,349	361,275	-	758,624
Equipment	1,469,353	1,919,954	-	3,389,307
General plant	-	-	4,104,771	4,104,771
Distribution plant	13,408,986	28,190,632	44,993,018	86,590,636
Construction in progress	587,364	2,829,288	3,847,979	7,264,631
TOTAL PROPERTY, PLANT AND EQUIPMENT	15,977,279	33,377,302	52,945,768	102,300,349
Less accumulated depreciation	(7,209,062)	(14,264,104)	(18,381,383)	(39,854,549)
NET PROPERTY, PLANT AND EQUIPMENT	8,768,217	19,113,198	34,564,385	62,445,800
OTHER ASSETS				
Note receivable - TVA Home Insulation Program	-	-	265,064	265,064
Noncurrent portion of notes receivable	185,000	-	-	185,000
Deposits	-	65	-	65
Other deferred costs	-	-	86,758	86,758
Bond issue costs, net of accumulated amortization	78,882	200,517	90,856	370,255
TOTAL OTHER ASSETS	263,882	200,582	442,678	907,142
TOTAL ASSETS	\$ 14,677,961	\$ 21,877,379	\$ 43,883,235	\$ 80,438,575
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 222,051	\$ 376,242	\$ 3,386,203	\$ 3,984,496
Accrued expenses	235,207	415,251	269,996	920,454
Accrued interest	18,111	85,102	58,896	162,109
Bond premium	5,818	19,574	-	25,392
Compensated absences	-	-	1,385,434	1,385,434
Customer deposits	345,454	177,385	495,103	1,017,942
Due to other funds	655,817	68,602	-	724,419
Current portion of long-term debt	306,700	835,666	250,000	1,392,366
TOTAL CURRENT LIABILITIES	1,789,158	1,977,822	5,845,632	9,612,612
LONG-TERM LIABILITIES				
Compensated absences	-	-	179,686	179,686
Bonds and notes payable	4,161,600	9,941,393	8,390,000	22,492,993
Other post employment benefits	-	-	146,868	146,868
Advances from Home Installation Program	-	-	265,350	265,350
TOTAL LONG-TERM LIABILITIES	4,161,600	9,941,393	8,981,914	23,084,907
TOTAL LIABILITIES	5,950,758	11,919,215	14,827,546	32,697,519
NET ASSETS				
Invested in capital assets, net of related debt	4,378,799	8,536,656	26,015,241	38,930,696
Restricted for debt service	-	-	673,263	673,263
Unrestricted net assets	4,348,404	1,421,508	2,367,185	8,137,097
TOTAL NET ASSETS	8,727,203	9,958,164	29,055,689	47,741,056
TOTAL LIABILITIES AND NET ASSETS	\$ 14,677,961	\$ 21,877,379	\$ 43,883,235	\$ 80,438,575

The accompanying notes are an integral part of these financial statements.

CITY OF LEXINGTON, TENNESSEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS			
	GAS	WATER SYSTEMS	ELECTRIC	TOTALS
	FUND	FUND	DEPARTMENT	
OPERATING REVENUES				
Charges for services	\$ 7,644,765	\$ 5,024,469	\$ 40,753,580	\$ 53,422,814
Miscellaneous	5,593	38,534	732,448	776,575
TOTAL OPERATING REVENUES	<u>7,650,358</u>	<u>5,063,003</u>	<u>41,486,028</u>	<u>54,199,389</u>
OPERATING EXPENSES				
Natural gas purchases	5,139,264	-	-	5,139,264
Water purchases	-	118,481	-	118,481
Purchased for resale	-	-	32,460,150	32,460,150
Personnel expenses	1,193,443	2,139,859	-	3,333,302
Supplies	37,428	323,648	-	361,076
Utilities	28,374	408,694	-	437,068
Repairs and maintenance	91,803	704,324	1,263,386	2,059,513
Professional fees	10,457	24,313	-	34,770
Operating expenses	101,470	-	4,676,963	4,778,433
Office expense	65,281	66,216	-	131,497
Dispatch services	-	10,000	-	10,000
Transportation expense	-	75,377	-	75,377
Insurance	31,033	72,595	-	103,628
Taxes and tax equivalents	15,136	-	-	15,136
Memberships and subscriptions	-	38,131	-	38,131
Rents	14,400	14,400	-	28,800
Miscellaneous	-	2,783	-	2,783
Depreciation and amortization	491,796	756,393	1,546,129	2,794,318
TOTAL OPERATING EXPENSES	<u>7,219,885</u>	<u>4,755,214</u>	<u>39,946,628</u>	<u>51,921,727</u>
OPERATING INCOME (LOSS)	<u>430,473</u>	<u>307,789</u>	<u>1,539,400</u>	<u>2,277,662</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	24,260	6,813	95,150	126,223
Auction proceeds	-	200	-	200
Miscellaneous revenue	-	-	3,637	3,637
TEAC settlement	102,168	-	-	102,168
TN Gas Pipeline settlement	34,688	-	-	34,688
Gain on sale of asset	950	-	6,580	7,530
Insurance reimbursements	-	8,400	-	8,400
Interest expense	(161,153)	(418,416)	(361,556)	(941,125)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>913</u>	<u>(403,003)</u>	<u>(256,189)</u>	<u>(658,279)</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	431,386	(95,214)	1,283,211	1,619,383
Transfers to other funds	(99,346)	(70,783)	(947,971)	(1,118,100)
Capital contributions	25,668	488,461	-	514,129
CHANGE IN NET ASSETS	357,708	322,464	335,240	1,015,412
NET ASSETS - BEGINNING OF YEAR, as previously stated	<u>8,369,495</u>	<u>9,635,700</u>	<u>28,720,449</u>	<u>46,725,644</u>
NET ASSETS - END OF YEAR	<u>\$ 8,727,203</u>	<u>\$ 9,958,164</u>	<u>\$ 29,055,689</u>	<u>\$ 47,741,056</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LEXINGTON, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS			
	GAS FUND	WATER SYSTEMS FUND	ELECTRIC DEPARTMENT	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 7,696,603	\$ 5,029,933	\$ 41,033,221	\$ 53,759,757
Cash received from other funds for services	85,916	-	-	85,916
Other operating cash receipts	5,593	37,730	-	43,323
Cash payments to suppliers for goods and services	(5,639,243)	(1,609,449)	(36,224,148)	(43,472,840)
Cash payments to employees for services	(1,170,110)	(2,139,859)	(1,794,999)	(5,104,968)
Customer deposits received	-	-	291,761	291,761
Customer deposits refunded	-	-	(235,218)	(235,218)
Cash payments to other funds for services	(56,631)	(16,079)	-	(72,710)
NET CASH PROVIDED BY OPERATING ACTIVITIES	922,128	1,302,276	3,070,617	5,295,021
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
TEAC settlement	102,168	-	(240,000)	(137,832)
Tn Gas Pipeline settlement	34,688	-	-	34,688
Amounts paid to other funds	(99,346)	(70,783)	(947,971)	(1,118,100)
Advances from Home Insulation Program	-	-	8,368	8,368
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES	37,510	(70,783)	(1,179,603)	(1,212,876)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of fixed assets	(125,308)	(1,579,142)	(2,168,755)	(3,873,205)
Plant removal cost	-	-	(575,866)	(575,866)
Materials salvaged from retirements	-	-	80,944	80,944
Proceeds from sale of fixed assets	950	200	-	1,150
Contributed capital	32,782	493,804	-	526,586
Principal payments on long-term debt	(301,700)	(809,941)	-	(1,111,641)
Interest paid on long-term debt	(168,050)	(439,250)	-	(607,300)
Bond issue premium	(307)	-	-	(307)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(561,633)	(2,334,329)	(2,663,677)	(5,559,639)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases/redemptions of investment securities	2,448	(3,438)	-	(990)
Purchase of investments	-	-	(200,000)	(200,000)
Proceeds from sale of investments	-	-	200,000	200,000
Notes receivable - TVA Home Insulation Program	-	-	(8,172)	(8,172)
Interest on cash and investments	24,260	6,813	(257,825)	(226,752)
NET CASH PROVIDED (USED FOR) BY INVESTING ACTIVITIES	26,708	3,375	(265,997)	(235,914)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	424,713	(1,099,461)	(1,038,660)	(1,713,408)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,376,626	2,221,390	6,084,067	11,682,083
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 3,801,339	\$ 1,121,929	\$ 5,045,407	\$ 9,968,675
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Income (loss) from operating activities	\$ 430,473	\$ 307,789	\$ 1,543,577	\$ 2,281,839
Adjustments to reconcile income from operations to net cash				
Depreciation and amortization	491,796	756,393	1,541,952	2,790,141
OPEB	-	-	68,249	68,249
Insurance reimbursements	-	8,400	-	8,400
Changes in Assets and Liabilities:				
(Increase) decrease in accounts receivable	23,365	-	(234,828)	(211,463)
(Increase) decrease in other receivables	845	1,706	-	2,551
(Increase) decrease in notes receivable	55,000	-	-	55,000
(Increase) decrease in inventory	17,520	18,669	22,987	59,176
(Increase) decrease in prepaid assets	-	-	(245,376)	(245,376)
(Increase) decrease in due from other funds	(17,231)	(13,370)	-	(30,601)
(Increase) decrease in prepaid insurance	(648)	(3,368)	-	(4,016)
(Increase) decrease in natural gas storage	(26,101)	-	-	(26,101)
Increase (decrease) in accounts payable	(135,613)	192,998	317,513	374,898
Increase (decrease) in due to other funds	30,916	21,691	-	52,607
Increase (decrease) in customer deposits	11,805	(5,446)	56,543	62,902
Increase (decrease) in accrued liabilities	40,001	16,814	-	56,815
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 922,128	\$ 1,302,276	\$ 3,070,617	\$ 5,295,021
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
OPEB	\$ -	\$ -	\$ 68,249	\$ 68,249

**CITY OF LEXINGTON, TENNESSEE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010**

	<u>School Activity</u>	<u>Pension Trust Funds</u>	
	<u>Agency Fund</u>	<u>Municipal Employees</u>	<u>Electric Employees</u>
ASSETS			
Cash and cash equivalents	\$ 48,569	\$ -	\$ -
Investments:			
Mutual funds (market value)	-	4,043,371	3,527,630
Annuities (market value)	-	283,710	-
TOTAL ASSETS	<u>\$ 48,569</u>	<u>\$ 4,327,081</u>	<u>\$ 3,527,630</u>
 LIABILITIES			
Accrued liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 NET ASSETS			
Reserved for restricted accounts	48,569	-	-
Held in trust for pension benefits	<u>-</u>	<u>4,327,081</u>	<u>3,527,630</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 48,569</u>	<u>\$ 4,327,081</u>	<u>\$ 3,527,630</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
PENSION TRUST FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Pension Trust Funds</u>		<u>Total</u>
	<u>Municipal Employees</u>	<u>Electric Employees</u>	
Additions			
Contributions and other additions	\$ 273,643	\$ 538,432	\$ 812,075
Investment income	125,233	107,503	232,736
Total Additions	<u>398,876</u>	<u>645,935</u>	<u>1,044,811</u>
Deductions			
Fees	3,542	-	3,542
Dividends and interest paid	34,817	-	34,817
Benefits	76,216	525,374	601,590
Net depreciation in fair value of investments	(285,030)	(294,310)	(579,340)
Total Deductions	<u>(170,455)</u>	<u>231,064</u>	<u>60,609</u>
Net increase in plan assets	569,331	414,871	984,202
NET ASSETS - BEGINNING OF YEAR	<u>3,757,750</u>	<u>3,112,759</u>	<u>6,870,509</u>
NET ASSETS - END OF YEAR	<u>\$ 4,327,081</u>	<u>\$ 3,527,630</u>	<u>\$ 7,854,711</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1. A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity comprises the following:

Primary Government:	City of Lexington
Blended Component Units:	None

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, "The Financial Reporting Entity," and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Board or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation. Currently, the City has no blended component units.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

1. B. BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which 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 or segment and 2) grants and contributions that are

CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Capital Project Fund

The Capital Project Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes only one Capital Project Fund and it is used to account for the acquisition of capital assets with transfers made from the General Fund.

Debt Service

The Debt Service Fund accounts for the accumulation of financial resources for the payment of interest and principal on the general long-term debt of the city other than debt service payments made by enterprise funds. This fund is used to pay the debt of the post office building. The building is rented to the U.S. Postal Service. Rental payments are used for the payment of principal and interest.

Proprietary Fund

Enterprise Fund

**CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Fiduciary Funds (Not included in government-wide statements)

Agency Funds

Agency funds account for assets held by the City in a purely custodial capacity. The reporting entity includes one agency fund. Since agency funds are custodial in nature (i.e., assets equal liabilities) they do not involve the measurement of results of operations. The agency fund is as follows:

Fund	Brief Description
School Agency Fund	Accounts for student activity funds that record transactions related to resources held in fiduciary capacity for the general school population, or in some cases, for a specific segment of the school population.

Pension Trust Funds

Pension trust funds account for pension contributions, benefits, and distributions. The City has the following two funds: one for the Electric Department and another for the governmental departments and the remaining utility departments.

Major and Nonmajor Funds

The funds are further classified as major or nonmajor as follows:

Fund	Brief Description
Major: General	See above for description.
Special Revenue Fund: General Purpose School	Accounts for revenues and expenditures of the City's school.
Proprietary Fund: Natural Gas Fund	Accounts for activities of the government's natural gas distribution operations.
Water Systems Fund	Accounts for operations of the sewage facilities and the distribution of water.
Electric Department	Accounts for activities of the government's electric distribution operations.
Nonmajor Special Revenue Funds: State Street Aid	Accounts for the state gas tax revenue and the expenditures legally restricted to street maintenance.

CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

School Tax Fund	Accounts for revenues, which are primarily a portion of the State-shared sales tax revenues and transfers from the General Fund, and expenditures, which are primarily capital in nature.
School Food Service	Accounts for the school cafeteria revenues and the expenditures.
Solid Waste Collection	Accounts for the solid waste collection revenue and expenditures related to disposal services.
Dare Fund	Accounts for project revenues and expenditures related to drug awareness programs.
Police Drug Fund	Accounts for revenues and expenditures on drug fines and enforcement costs.
Debt Service Fund	See above for description.
Capital Projects Fund	See above for description.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of

CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales and use taxes, intergovernmental revenues, interest income, etc...).

The City does not allocate indirect costs.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest, which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

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

1.D. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Assets, "cash and cash equivalents" includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2.B. and 3.A.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3.H. for details of interfund transactions, including receivables and payables at year-end.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include property taxes, sales taxes, and grants. Business-type activities report utilities as their major receivables.

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Inventories and Prepaid Expense

Inventories consist primarily of supplies, valued at cost, which approximates market. Cost is determined using current costs. All City inventories are maintained on a consumption basis of accounting where items are purchased for inventory and charged to the budgetary accounts as the items are consumed. Prepaid expenses are also maintained on the consumptive basis of accounting.

Restricted Assets

Certain proceeds of bond issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Bond Discounts / Issuance Costs

In the governmental funds, bond discounts and issuance costs are treated as period costs in the year of issue. Bond issuance costs are shown as other financing uses. In the proprietary funds, bond discounts and issuance costs are deferred and amortized over the term of the bonds using the straight-line method if it does not differ materially from the interest method.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value some of the assets acquired prior to June 30, 2003.

Prior to July 1, 2002, governmental funds' infrastructure assets were not capitalized. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc.

The capitalization policy is as listed below:

1. Real property – Land	
a. Land – non depreciable	\$1
b. Land Improvements	\$5,000
2. Real property – Buildings	\$10,000
3. Motor Vehicles	
a. Cars/Light Trucks/Jeeps	\$10,000
b. Trucks/Heavy	\$25,000
c. Buses	\$10,000
d. Vans	\$10,000
4. Equipment	\$30,000
5. Personal Property	\$5,000

CITY OF LEXINGTON, TENNESSEE
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Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

	<u>Years</u>
Buildings	10-50
Equipment	5-17
Vehicles	5-7
Plant	15-50

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes payable, capital lease payables, accrued compensated absences, and post-closure landfill costs.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

The City's policies regarding vacation and personal leave time permit employees to accumulate earned but unused vacation and personal leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

Electric System

It is the System's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay has been accrued and is reflected as a current liability on the financial statements. All sick leave has been accrued and is reflected as both a current and non-current liability on the financial statements.

**CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

School System

The System's policy is to pay \$10 for every unused day of sick leave accumulated at retirement. The System's financial statements do not include a liability for compensated absences as the amount is not material.

Equity Classifications

Government-wide 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 improvements of those assets and any related unamortized bond issue costs.
- 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."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements. See Note 3.J. for additional disclosures.

1.E. REVENUES, EXPENDITURES, AND EXPENSES

Sales Tax

The City presently levies a nine and three-quarters percent sales tax on taxable sales within the City. The sales tax is collected by the Tennessee Department of Revenue and remitted to the City in the month following receipt by the Department of Revenue. The Department of Revenue receives the sales tax approximately one month after collection by vendors. The sales tax is recorded in the General Fund and the School Tax Fund. Sales tax remitted to the City in July has been accrued and are included under the caption "Due from other governments."

Property Tax

Property taxes are levied annually on the first of January. The taxes are due and payable from the following October through February in the year succeeding the tax levy. An unperfected lien attaches by statute to property on March 1 for unpaid taxes from the prior year's levy. Taxes uncollected for one year past the due date are submitted to the Chancery Court for collection. Tax liens become perfected at the time the court enters judgment. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to

**CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
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capital and related financing, noncapital financing, or investing activities. All revenues that are not generated from the daily operations are defined as non-operating.

Expenditures/ Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental funds – by Character:	Current (further classified by function)
	Debt Service
	Capital Outlay

Proprietary Fund – By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent, reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the City and its component units are subject to various federal, state, and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows.

2.A. FUND ACCOUNTING REQUIREMENTS

Fund	Required By
Police Drug Fund	State Law

2.B. DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Tennessee or political subdivision debt obligations, or surety bonds. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee.

The City's investment policies are governed by State statute. Permissible investments include direct obligations of the U.S. Government and agency securities, certificates of deposit, and savings accounts. Collateral is required for demand deposits, certificates of deposits, and repurchase agreements at 105% of all amounts not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its subdivisions. The City has no policy that further limits allowable investments.

**CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

2.C. REVENUE RESTRICTIONS

The City has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

Revenue Source	Legal Restrictions of Use
Sales Tax	Portion to fund city school program
Gasoline Excise Tax	Street purposes
Grants	Grant program expenditures

2.D. FUND EQUITY RESTRICTIONS

Deficit Prohibition

Tennessee Statutes prohibits the creation of a deficit fund balance in any individual fund. The City had no deficit fund balances at June 30, 2010.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

3.A. CASH AND INVESTMENTS

Deposits

The City's policies regarding deposits of cash are discussed in Note 1.D. The City maintains checking accounts with local banks. Also, some funds are held as certificates of deposit at local banks. Deposits are carried at cost plus accrued interest. The carrying amount of deposits is separately displayed on the balance sheet as "Cash and cash equivalents" and "investments". Investments consist of certificates of deposits at local banks whose original maturity exceeds three months.

The City's policies regarding deposits of cash are discussed in Note 2B.

General Government

As of June 30, 2010, the City's bank balances were not exposed to custodial credit risk due to being entirely covered by depository insurance (a combination of federal depository insurance with the excess covered by the State's Bank Collateral Pool).

Gas System

As of June 30, 2010, the System's bank balances were not exposed to custodial credit risk due to being entirely covered by depository insurance (a combination of federal depository insurance with the excess covered by the State's Bank Collateral Pool).

Water Systems

As of June 30, 2010, the System's bank balances were not exposed to custodial credit risk due to being entirely covered by depository insurance (a combination of federal depository insurance with the excess covered by the State's Bank Collateral Pool).

Electric System

As of June 30, 2010, the Department's bank deposits were fully collateralized or insured.

School System

Cash in bank balance represents funds on deposit in one local depository. These funds were entirely insured by FDIC or through the Bank Collateral Pool with the State of Tennessee.

**CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
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3.B. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consists of utilities receivable. Accounts receivable of the governmental activities consists of amounts due from the various local sources and county (31%). Receivables detail at June 30, 2010, is as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Accounts receivable	\$ 19,977	\$ 3,770,343	\$ 3,790,320
Allowance for doubtful accounts	<u>(4,000)</u>	<u>(204,457)</u>	<u>(208,457)</u>
Net accounts receivable	<u>\$ 15,977</u>	<u>\$ 3,565,886</u>	<u>\$ 3,581,863</u>

3.C. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, was as follows:

CITY OF LEXINGTON, TENNESSEE
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	<u>Balance 7/1/09</u>	<u>Additions/ Adjustments</u>	<u>Retirements/ Adjustments</u>	<u>Balance 6/30/10</u>
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 2,022,838	\$ -	\$ -	\$ 2,022,838
Construction in Progress	240,222	-	238,205	2,017
Total Capital assets not being depreciated	<u>2,263,060</u>	<u>-</u>	<u>238,205</u>	<u>2,024,855</u>
Capital assets being depreciated				
Buildings	27,274,685	-	-	27,274,685
Equipment	6,134,545	386,324	16,373	6,504,496
Equipment under capital lease	76,231	-	-	76,231
Infrastructure	16,096,825	-	-	16,096,825
Improvements	5,038,977	329,747	-	5,368,724
Total Capital assets being depreciated	<u>54,621,263</u>	<u>716,071</u>	<u>16,373</u>	<u>55,320,961</u>
Less accumulated depreciation for:				
Buildings	8,076,982	541,860	-	8,618,842
Equipment	3,992,037	555,474	14,772	4,532,739
Equipment under capital lease	27,844	8,783	-	36,627
Infrastructure	11,263,691	225,964	-	11,489,655
Improvements	1,890,228	253,566	-	2,143,794
Total accumulated depreciation	<u>25,250,782</u>	<u>1,585,647</u>	<u>14,772</u>	<u>26,821,657</u>
Total capital assets, being depreciated, net	<u>29,370,481</u>			<u>28,499,304</u>
Governmental activities capital assets, net	<u>\$ 31,633,541</u>			<u>\$ 30,524,159</u>
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 224,934	\$ -	\$ -	\$ 224,934
Construction in Progress	7,927,649	1,448,576	2,111,594	7,264,631
Total Capital assets not being depreciated	<u>8,152,583</u>	<u>1,448,576</u>	<u>2,111,594</u>	<u>7,489,565</u>
Capital assets being depreciated				
Buildings	1,496,019	25,660	-	1,521,679
Equipment	6,340,927	520,018	345,057	6,515,888
Plant	83,085,145	2,785,829	(902,243)	86,773,217
Total Capital assets being depreciated	<u>90,922,091</u>	<u>3,331,507</u>	<u>(557,186)</u>	<u>94,810,784</u>
Less accumulated depreciation for:				
Buildings	802,255	34,318	-	836,573
Equipment	4,640,464	342,632	345,057	4,638,039
Plant	32,783,836	2,495,580	899,479	34,379,937
Total accumulated depreciation	<u>38,226,555</u>	<u>2,872,530</u>	<u>1,244,536</u>	<u>39,854,549</u>
Total capital assets, being depreciated, net	<u>52,695,536</u>			<u>54,956,235</u>
Business-type activities capital assets, net	<u>\$ 60,848,119</u>			<u>\$ 62,445,800</u>

Depreciation expense was charged to governmental activities as follows:

Governmental Function	
General and administrative	\$ 256,454
Public safety	301,535
Public works	373,634
Health, recreation and welfare	654,024
Total depreciation expense	<u>\$1,585,647</u>

**CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

3.D. ACCOUNTS PAYABLE

Payables in the general fund and nonmajor governmental funds are composed of payables to vendors.

3.E. OPERATING LEASES

Various schools and the Board of Education have operating leases for the use of copiers. This cost is recorded as instructional and administrative expenditures. The terms of these lease arrangements vary.

3.F. PREPAID MEALS

The amount for prepaid meals on the School Food Authority Fund reflects money that students and staff have credited toward meals in the following school year. The overpayment amount may be refunded to persons or applied to that person's meal account in the following year. In the event that a student graduates, the overpayment may be refunded or applied to another family member's meal account.

3.G. LONG-TERM DEBT

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Governmental Activities

As of June 30, 2010, the governmental long-term debt of the financial reporting entity consisted of the following:

**CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

Governmental Activities

General Obligation Bonds

2003 General Obligation Refunding Bond dated September 17, 2003, through March 20, 2020, bearing interest rates of 2.50% to 4.15%. \$ 3,110,000

2003 General Obligation Refunding Bonds dated March 12, 2003, due December 1, 2003, through December 1, 2016, bearing interest rates of 1.75% to 5.40%. 1,055,000

2003 General Obligation Refunding Bonds dated March 21, 2003, due March 1, 2004, through March 1, 2012, bearing interest rates of 2.00% to 3.50%. 700,000

2004 General Obligation School Bonds dated April 1, 2004, due June 1, 2007, through June 1, 2032, bearing interest rate of 4.35%. 7,200,000

2009 Refunding and Improvement Bonds dated April 16, 2009, due October 1, 2009 through April 1, 2034, bearing interest rates of 2.00% to 5.00%, 1,405,262

2004 Qualified Zone Academy Bonds, due November 24, 2005, through November 24, 2020, bearing 0% interest. 830,817

Capital Outlay Notes

2005 capital outlay note. Interest 4.05% with final payment due September 1, 2017. 355,000

2008 capital outlay note. Interest 4.40% with final payment due July 1, 2010. 245,000

14,901,079

Other Debt

Compensated absences 1,009,854

Landfill closure costs 230,212

Total Government Activity Debt **\$ 16,141,145**

**CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

Business-type Activities

Revenue Bonds

2009 Gas Refunding Bonds, dated April 16, 2009, due October 1, 2009 through April 1, 2034, interest 2.00% to 5.00%	\$ 1,828,300
2004 Gas Revenue and Tax Refunding Bonds, dated April 16, 2004, through June 1, 2019, interest 2.00% to 4.00%.	2,640,000
2004 Water and Sewer Revenue and Tax Refunding Bonds, dated April 16, 2004, through June 1, 2019, interest 2.00% to 4.00%.	2,515,000
2009 Water and Sewer Refunding Bonds, dated April 16, 2009, due October 1, 2009 through April 1, 2034, interest 2.00% to 5.00%	6,491,437
2000 Water and Sewer Revenue and Tax Refunding Bonds, dated June 1, 2000, due September 1, 2000, through September 1, 2012, bearing interest rates of 4.20% to 5.40%.	1,110,000
2009 Water and Sewer USDA Bonds, dated June 17, 2009, due July 18, 2009, through June 18, 2047, bearing interest rate of 4.50%.	660,622
2007 Electric Department Revenue Bonds, dated April 24, 2007, due November 1, 2007 through May 1, 2032, bearing an interest rate of 4.09%.	<u>8,640,000</u>
Total Business-type Activities	<u><u>\$ 23,885,359</u></u>

**CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2010:

	<u>Balance 7/1/2009</u>	<u>Issues or Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2010</u>	<u>Due within one year</u>
<u>Governmental Type Activities</u>					
General Obligation Bonds	\$ 15,081,346	\$ -	\$ 780,267	\$ 14,301,079	\$ 805,266
Notes Payable	695,000	-	95,000	600,000	100,000
Landfill Closure Costs	230,551	-	339	230,212	-
Compensated Absences	901,152	108,702	-	1,009,854	-
Capital Leases	14,622	-	14,622	-	-
Total governmental type activities	<u>16,922,671</u>	<u>108,702</u>	<u>890,228</u>	<u>16,141,145</u>	<u>905,266</u>
<u>Business Type Activities</u>					
Revenue Bonds	<u>25,237,000</u>	<u>-</u>	<u>1,351,641</u>	<u>23,885,359</u>	<u>1,392,366</u>
<u>Electric Department</u>					
Compensated Absences				179,696	
Advances from Home Installation Program				<u>265,350</u>	
Total business type activities				<u>24,330,405</u>	
Total government	<u>\$ 42,159,671</u>	<u>\$ 108,702</u>	<u>\$ 2,241,869</u>	<u>\$ 40,471,550</u>	<u>\$ 2,297,632</u>

Other Long-term liabilities

Governmental-type compensated absences have been paid in prior years by the General Fund. Landfill post closure costs have been paid in prior years by the Solid Waste Fund.

Annual Requirements to Retire Debt Outstanding

The annual aggregate maturities for each note payable for the years subsequent to June 30, 2010 are as follows:

CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

Year Ending June 30,	<u>General Obligation Bonds</u>		<u>Revenue Bonds</u>		Principal and Interest Total
	Governmental Activities		Business-type Activities		
	Principal	Interest	Principal	Interest	
2011	\$ 805,266	\$ 563,616	\$ 1,392,366	\$ 935,707	\$ 3,696,955
2012	825,989	534,899	1,441,971	886,247	3,689,106
2013	821,711	505,149	1,496,590	833,236	3,656,686
2014	852,434	475,208	1,336,224	787,982	3,451,848
2015	883,157	443,243	1,375,875	742,573	3,444,848
2016-2020	4,384,567	1,714,689	4,901,822	3,052,908	14,053,986
2021-2025	2,012,967	1,069,882	3,728,579	2,238,608	9,050,036
2026-2030	2,406,078	613,112	4,600,305	1,399,985	9,019,480
2031-2035	1,308,910	104,180	3,271,704	398,859	5,083,653
2036-2040	-	-	119,689	63,667	183,356
2041-2045	-	-	149,828	33,532	183,360
2046-2047	-	-	70,406	3,336	73,742
Total	\$ 14,301,079	\$ 6,023,978	\$ 23,885,359	\$ 11,376,640	\$ 55,587,056

Notes Payable

Year Ending June 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>		Principal and Interest Total
	Principal	Interest	Principal	Interest	
	2011	\$ 100,000	\$ 23,368	\$ -	
2012	100,000	19,348	-	-	119,348
2013	100,000	15,328	-	-	115,328
2014	110,000	11,206	-	-	121,206
2015	45,000	6,784	-	-	51,784
2016-2019	145,000	9,012	-	-	154,012
	\$ 600,000	\$ 85,046	\$ -	\$ -	\$ 685,046

3.H. INTERFUND TRANSACTIONS AND BALANCES

Operating Transfers

	<u>TRANSFER TO</u>						Totals
	General	Dare	Capital Projects	School Tax	School Debt	General Purpose School	
TRANSFER FROM							
General	\$ -	\$ -	\$ 2,094	\$ -	\$ -	\$ 810,000	\$ 812,094
General Sinking Fund	-	-	-	273,000	-	-	273,000
Solid Waste	109,023	-	-	-	-	-	109,023
School Tax	-	-	-	-	1,091,734	253,000	1,344,734
Police Drug	-	5,000	-	-	-	-	5,000
Electric	613,304	-	-	-	-	-	613,304
Water	70,783	-	-	-	-	-	70,783
Gas	99,346	-	-	-	-	-	99,346
GRAND TOTALS	\$ 892,456	\$ 5,000	\$ 2,094	\$ 273,000	\$ 1,091,734	\$ 1,063,000	\$ 3,327,284

The transfers from General Fund to other various funds are all for operating expenses. The transfers from the Water, Natural Gas, and Electric Funds to the General Fund are for in-lieu of taxes. Transfers from the Sales Tax Fund to the School Debt Fund are for debt payments.

**CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

Interfund Receivables and Payables

DUE TO:					
	General	Solid Waste	Water Systems	Gas	Totals
DUE FROM:					
Solid Waste	\$ -	\$ -	\$ -	\$ 3,179	\$ 3,179
School tax fund	1,448	-	-	-	1,448
General fund	-	-	11,388	12,650	24,038
Gas	25,181	50,046	580,590	-	655,817
Water Systems	18,719	-	-	49,883	68,602
	\$ 45,348	\$ 50,046	\$ 591,978	\$ 65,712	\$ 753,084

Transactions arising from Water, Sewer, and Garbage Fund billing of utility services are recorded in these accounts between the Gas, Water System, and Solid Waste Funds. The amounts due to the General Fund from the Water and Gas Funds are for insurance payments made by the General Fund and not yet reimbursed by the other funds. The amount due to the General Fund from the Sales Tax fund is for debt service costs recorded on the wrong fund.

3.I. ON-BEHALF PAYMENTS

The State of Tennessee pays health insurance premiums for retired teachers on-behalf of the Lexington City School System. These payments are made by the state to the Local Government Group Insurance Plan and the Medicare Supplement Plan. Both of these plans are administered by the State of Tennessee and reported in the State's Comprehensive Annual Financial Report. Payments by the state to the Local Government Group Insurance Plan and the Medicare Supplement Plan for the year ended June 30, 2010 were \$50,902 and \$8,430, respectively. The System has recognized these on-behalf payments as revenues and expenditures in the General Purpose School Fund.

3.J. FUND EQUITY

Prior-period Adjustment – Fund Level

General Fund

The City made two prior period adjustments to correct accrued grants receivable and amounts due from other governments. This resulted in an increase in receivables of \$28,967 and an increase in net assets of \$28,967.

NOTE 4. OTHER NOTES

4.A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS

CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

Pension Plan Obligations:

Certain employees of the City, except school employees, are members of the City's contributory, defined benefit pension plan, a single-employer plan. School department information is included in another note. The plan was established by City ordinance and may be amended by such.

Summary of Plan Provisions

Effective Date: May 1, 1973

Fiscal Year Ending: 06/30/2010

Eligibility Requirements: Minimum age of 20 and 12 minimum months of service. Entry date is the first day of the month coinciding with or next following the date the requirements are met.

Normal Retirement Date: First day of the month coinciding with or next following attainment of age 60. As of January 1, 1999, all new participants must attain age 60 with 10 years of service.

Normal Retirement Benefit Formula: Monthly annuity is equal to the sum of (1) and (2) below:

- (1) 2.25% of the member's Average Monthly Earnings multiplied by years of Credited Service up to a maximum of 30 years.
- (2) 1.85% of member's Average Monthly Earnings multiplied by years of Credit Service in excess of 30 years.

For contributing members as of April 1, 1986, minimum monthly annuity is equal to 3.33% of member's Average Monthly Earnings multiplied by years of credited service subject to a maximum of 15 years. Members of the prior plan will receive a benefit no less than 40% of the average monthly earnings during the period of 5 consecutive years in which his earnings were highest or 40% of his salary at age 64, whichever is greater.

Average Monthly Earnings: The greater of (i) average of monthly compensation for the 5 consecutive years of highest compensation and (ii) monthly compensation during the year immediately preceding the participant's 60th birthday.

Credited Service: Number of years and completed months of active participation in this plan and the prior plan.

Normal Form of Benefits: Single life annuity with 120 months certain.

Maximum Annual Benefit: \$ 195,000 as adjusted per IRC Sec. 415 for retirement age other than social security retirement age and annuity form.

Employee Contributions: Monthly contributions equal to 6% of member's monthly earnings. Effective, July 1, 1999, these contributions will be made with pre-tax dollars.

Credited Interest: 5% per annum compounded annually.

Early Retirement Benefit: Minimum Age: 50; Minimum Service: 10 years; Benefit Amount: based on service and earnings at termination, reduced actuarially.

**CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

Effective November 22, 2004, any member who is actively employed by the City and is credited with at least 10 years of Credited Service may elect to retire under the terms of the City of Lexington Early Retirement Incentive Program, with the following Accrued Benefit enhancements:

- (1) Each member who meets the requirements shall be credited with an additional 5 years of Credited Service.
- (2) Each member who meets the requirements shall receive an unreduced Accrued Benefit.

Eligible members must elect to retire under the terms of the City of Lexington Early Retirement Incentive Program on or before January 10, 2005.

Late Retirement Benefit: Normal retirement benefit increased 8% per annum for each year that retirement is deferred.

Pre-Retirement Death Benefit: Member contributions credited with interest to the date of death.

Disability Benefit: Normal retirement benefit at date of disability reduced by the ratio of years of service at disability to years of service projected to normal retirement date. The benefit will commence the first day of the sixth month following determination of disability under the Social Security Act.

Vested Termination Benefit: A member who terminates employment with less than 5 years of credited service may elect to receive, at any time prior to retirement, either: i) a return of member contributions with interest to the date of payment, or ii) income payments at retirement provided by his own contributions with interest. A member who terminates employment with 5 or more years of service will be entitled to a percentage of the benefit earned based on years of credited service and average monthly earnings at separation from service. The percentage is determined as follows:

<u>Years of Credited Service</u>	<u>Percentage</u>
Less than 5	0%
5	25%
6	40%
7	55%
8	70%
9	85%
10 or more	100%

The benefit will be forfeited if the member is less than 50% vested and elects a return of employee contributions with interest before the commencement of benefits.

Actuarial Valuation

An actuarial valuation was performed on the plan as of January 1, 2010. The actuarial cost method used was the projected unit credit cost method. Under this method, annual contributions consist of normal cost plus amortization of the unfunded actuarial accrued liability (UL) over a fixed period of years, selected within the minimum (10 years) and maximum (30 years) periods. Each year the maximum contribution is determined by 10-year amortization of the UL. The minimum contribution is determined by amortization over the remaining period at date of valuation. This period is 19 years as of January 1, 2010.

The present value of the participant's projected retirement, death and withdrawal benefits, including those expected to be earned in the future, based on projected future service and compensation, is calculated. The normal cost for an active participant is equal to that present value, divided by his total prior and expected future service. The actuarial accrued liability for an individual is that present value, multiplied by the ratio of his prior service to his expected total service.

The unfunded accrued liability is the excess, if any, of the accrued liability over the plan assets.

**CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

Actuarial gains and losses arising from differences between plan experience and that predicted by the actuarial assumptions, as measured by the difference between actual and expected unfunded actuarial accrued liabilities, are amortized over 5 years.

Actuarial assumptions used for post-retirement, mortality from the 1971 Group Annuity Mortality Table with investment return of 6.0% per annum. For pre-retirement the mortality used was from the 1971 Group Annuity Mortality Table with investment return of 7.5% per annum, salary projection of 4.0% per annum, retirement age of age 62 or current age if later.

Actuarial Present Values of Accumulated Plan Benefits	January 1, 2009
Vested Benefits	
Participants currently receiving payments	\$ 233,008
Other Participants	
Active Employees	3,206,691
Deceased and Disabled Employees	82,116
Deferred Vested Terminated Employees	257,619
Total - Other Participants	3,546,426
Total Vested Benefits	3,779,434
Nonvested Benefits	1,015,220
Total Actuarial Present Values of Accumulated Plan Benefits	\$ 4,794,654

Statement of Changes in Accumulated Plan Benefits

Actuarial Present Value of Accumulated Plan Benefits at Beginning of Year	\$ 4,037,396
Increase (decrease) during the year attributable to:	
Benefits paid	(86,126)
Interest due to change in the discount period	302,805
Assumption change	-
Plan amendment	-
Benefits accumulated and actuarial gains and losses	540,579
Actuarial Present Value of Accumulated Plan Benefits at End of Year	\$ 4,794,654

Discount Assumption:

Pre-retirement	7.50%
Post-retirement	6.00%

Electric System

Plan Description

The Board provides all retirement benefits for employees through a single-employer, defined benefit plan. Under the plan, all full-time employees are eligible. The System's payroll for employees covered by the plan for the year ended June 30, 2010, was \$2,280,295 and the total payroll for the year was \$2,841,345.

All employees of the System become participants on the first day of the calendar month on or immediately after completion of one year of service and attainment of age 20. The Plan provides normal retirement benefits at age 60. Effective March 1, 2000, the monthly annuity is equal to the sum of 2.25% of the members Average Monthly Earnings multiplied by years of Credited Service for the member's first 30 years of Credited Service and 1.85% of the member's Average Monthly Earnings, multiplied by years of Credited Service in excess of 30 years. For contributing members as of April 1, 1986, minimum monthly annuity will

**CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

equal to 3.33% of member's Average Monthly Earnings multiplied by years of Credited Service subject to a maximum of 15 years. A member of the plan will receive a benefit of no less than 40% of the average of monthly earnings during the period of 5 consecutive years in which his earnings were highest or 40% of his salary at age 64, whichever is greater. Average Monthly Earnings means the greater of (1) the average of monthly compensation for the 5 consecutive years of highest compensation, and (2) monthly compensation during the year immediately preceding the participant's 60th birthday. Maximum annual compensation is \$185,000. A reduced retirement benefit is available to employees upon early retirement.

Funding Policy

System employees are required to contribute 6% of their monthly earnings on a monthly basis. Recommended contributions to the plan are determined each year as part of the Actuarial Valuation process. The Projected Unit cost method is used under this plan. Under this method, annual contributions consist of normal cost plus amortization of the unfunded actuarial accrued liability over a fixed period of years, selected within the minimum (10 years) and maximum (5 to 30 years) periods permitted by law.

Annual Pension Cost

For the year ended June 30, 2010, the System's annual pension cost of \$402,898 was made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of July 1, 2009. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8.5% a year and (b) 4.5% projected salary increases.

<u>Year Ended June 30,</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 246,417	146.83%	\$ 95,275
2005	291,565	105.82%	76,928
2006	355,927	86.13%	126,840
2007	393,254	93.06%	155,902
2008	411,050	89.56%	201,085
2009	434,982	89.52%	246,671
2010	577,370	69.78%	421,143

School Department

Professional Staff:

Plan Description

The Lexington City School System contributes to the State Employee, Teachers, and Higher Education Employees Plan (SETHEPP), 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 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 while the member was in 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

**CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

provisions are established in state statute found in Title 8, Chapters 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are 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 maximum 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.

Funding Policy

Most teachers are required by state statute to contribute 5% of salary to the plan. The employer contribution rate for Lexington City School System is established at an actuarially determined rate. The rate for the fiscal year ending June 30, 2010, was 6.42% of annual covered payroll. The employer contribution requirement for Lexington City School System is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2010, 2009, and 2008, were \$275,349, \$277,178, and \$265,835, respectively, equal to the required contributions for each year.

Non-Professional Staff:

The non-professional staff members of the System may elect a retirement plan option. The Lexington City School Board authorized funds for a 403-b tax sheltered individual annuity plan for each of the 25 qualifying individuals. The system would match a minimum of \$300 for the individual staff's \$300, for a total of \$600 required as a minimum contribution by Horace Mann or Investco Funds Group, Denver, Co., authorized carriers to provide the plan. The system would match 3.5% of staff total yearly salary, with minimum match of \$300. Total contributions by the system amounted to \$ 15,665 for the 09-10 school year.

4.B. POST EMPLOYMENT HEALTHCARE PLAN – Electric System

Plan Description – Lexington Electric System sponsors a single-employer post-retirement benefit plan. The plan provides medical, dental, cancer and death benefits to eligible retirees and their spouses.

Funding Policy – The System intends to continue its policy of funding OPEB liabilities on a pay-go basis and to not pre-fund any unfunded annual required contributions as determined under GASB 45.

Annual OPEB Cost and Net OPEB Obligation – The System's annual other post-retirement benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the System's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the System's net OPEB obligation.

CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

Components of Net OPEB Obligation

Annual required contribution	\$ 253,057
Interest on Net OPEB obligation	3,145
Adjustment to annual required contribution	<u>(3,295)</u>
Annual OPEB cost (expense)	252,907
Contributions and subsidy	<u>(184,656)</u>
Increase in net obligation	68,251
Net OPEB obligation (BOY)	78,619
Net OPEB (asset) obligation (EOY)	<u><u>\$ 146,870</u></u>

The System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2010 and the following two years are as follows:

Fiscal Year Ended	Annual OPEB Cost	OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 252,905	73.00%	\$ 146,868

Funded Status and Funding Progress – As of July 1, 2008, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$3,355,294 and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAT) of \$3,355,294. The covered payroll (annual payroll of active employees covered by the plan) was \$2,192,591 and the ratio of the UAAL to the covered payroll was 153.0%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on substantive plan (the plan as understood by the employer and the plan members) and includes the type of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2008 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is a blended rate

CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan assets at the valuation date, and an annual healthcare cost trend rate of 9.5% initially, reduced by decrements to an ultimate rate of 5% after ten years. The actuarial value of assets was determined using a standard balanced portfolio expectation for retirement plan asset returns. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at July 1, 2008 was 30 years.

4.C. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in the Tennessee Municipal League Risk Management Pool, a public entity risk pool, for errors and omissions, automobile liability and physical damage, workers compensation, and employees' liability. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the three past fiscal years. The Tennessee Municipal League Risk Management Pool has been self-sustaining through member premiums. Members consist of local jurisdiction municipalities and utility districts in the state. Members are responsible for a pro-rata portion of claims which exceed the Pool's reserves. No additional assessments have ever been made by the Pool to its members as a result of losses experienced.

School System

The System participates in the Tennessee Boards Risk Management Trust (TSB-RMT), which is a public entity risk pool established by the Tennessee Boards Association, an association of member school districts. The System pays an annual premium to the TSB-RMT for its general liability, property, casualty and worker's compensation insurance coverage. The creation of the TSB-RMT provides for it to be self-sustaining through member premiums. The TSB-RMT reinsures through commercial insurance companies for claims exceeding \$100,000 for each insured event.

Electric System

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2010 the System purchased commercial insurance for all of the above risks. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in the amount of coverage provided.

4.D. LANDFILL POSTCLOSURE COSTS

In prior years the City has jointly operated a landfill with Henderson County. This landfill is now closed. State and federal laws and regulations required the City to place a final cover on its landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The City will report a portion of postclosure care costs as an operating expense in each fiscal year. The City has recognized postclosure costs of \$230,212 as a long-term liability in the statement of net assets. These amounts are based on what it would currently cost to perform all postclosure care. Actual cost may be higher due to inflation or deflation, technology, or applicable laws or regulations.

**CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

4.E. COMMITMENTS AND CONTINGENCIES

The City is a defendant in various lawsuits brought against it. The City cannot predict the outcome of these cases and it is possible losses could be incurred. The amount of such possible losses cannot be determined.

Electric System

The electric system has a power contract with the Tennessee Valley Authority (TVA) whereby the electric system purchases all its electric power from TVA and is subject to certain restrictions as provided for in the power contract. Such restrictions include, but are not limited to, prohibitions against furnishings, advancing, lending, pledging or otherwise diverting system funds, revenues or property to other operations of the county and the purchase or payment of, or providing security for indebtedness on other obligations applicable to such other operations.

CITY OF LEXINGTON, TENNESSEE
SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS - EMPLOYEE RETIREMENT SYSTEM
JUNE 30, 2010

GENERAL GOVERNMENT

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll ((b-a)/c)
1/1/2010	\$ 4,474,711	\$ 6,579,039	\$ 2,104,328	68.01%	\$4,628,511	45.46%
1/1/2009	3,364,586	5,714,387	2,349,801	58.88%	4,221,025	55.67%
1/1/2008	3,450,120	4,708,371	1,258,251	73.28%	3,644,686	34.52%
1/1/2007	2,721,571	4,206,514	1,484,943	64.70%	3,541,656	41.93%
1/1/2006	2,186,366	3,609,216	1,422,850	60.58%	3,108,489	45.77%
1/1/2005	3,665,785	4,636,744	970,959	79.06%	3,239,833	29.97%
1/1/2004	3,254,596	4,145,005	890,409	78.52%	3,006,230	29.62%
1/1/2003	2,795,414	3,544,790	749,376	78.86%	2,822,430	26.55%
1/1/2002	2,490,137	3,786,279	1,296,142	65.77%	2,812,189	46.09%
1/1/2001	2,141,166	4,618,085	2,470,919	46.36%	2,662,594	92.80%
1/1/2000	1,679,234	3,311,849	1,632,615	50.70%	2,264,326	72.10%
1/1/1999	1,449,348	2,748,240	1,298,892	52.74%	1,452,080	89.45%

Schedule of Employer Contribution

Year Ended June 30,	Annual Required Contribution	Actual Contribution	Percentage Contributed
2010	\$ 386,982	\$ 320,248	82.76%
2009	261,914	381,582	145.69%
2008	290,636	242,848	83.56%
2007	247,300	267,291	108.08%
2006	213,923	213,923	100.00%
2005	195,826	232,628	118.79%
2004	185,129	185,129	100.00%
2003	344,002	552,880	160.72%
2002	334,398	345,000	103.17%
2001	198,966	341,442	171.61%
2000	166,126	105,860	63.72%
1999	203,893	203,893	100.00%
1998	195,470	276,898	142.00%

ELECTRIC DEPARTMENT

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll ((b-a)/c)
7/1/2009	\$ 3,735,311	\$ 7,168,167	\$ 3,432,856	52.11%	\$2,280,295	150.54%
7/1/2008	3,548,113	6,140,101	2,591,988	57.79%	2,058,102	125.94%
7/1/2007	2,926,987	5,279,482	2,352,495	55.44%	2,085,068	112.83%
7/1/2006	2,300,623	4,840,881	2,540,258	47.52%	1,965,177	129.26%
7/1/2005	1,783,470	4,273,195	2,489,725	41.74%	1,886,617	131.97%
7/1/2004	4,768,022	6,281,761	1,513,739	75.90%	2,304,175	65.70%
7/1/2003	4,025,893	5,443,842	1,417,949	73.95%	2,078,093	68.23%
7/1/2002	3,908,143	5,646,201	1,738,058	69.22%	2,149,132	80.87%

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2010**

Schedule of Funding Progress

Information relating to the City's pension can be found in the Notes to Financial Statements at Note 4.A. The schedule of funding progress is designed to reflect the pension plan's success over time in setting aside assets sufficient to cover its actuarial accrued liability.

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds.

The City adopts its budget in accordance with the State's legal requirement which is the level of classification detail at which expenditures may not legally exceed appropriations. The Police Drug Fund and the School Food Service Fund had expenditures that exceeded legal appropriations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to May 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- The proposed budget is published in the local newspaper with invitations for the public to attend the budget hearings.
- Prior to July 1, the budget is legally adopted by the Mayor and City Council through adoption of the appropriation ordinance upon two readings.
- The Mayor is responsible for controlling expenditures of the various agencies of the City government within the appropriated amounts. No expenditures shall be made in excess of the appropriations.

Budgeted amounts of the revenues and expenditures presented for the General and Special Revenue Funds are shown as originally adopted and after final amendments by the City Council. Budget appropriations lapse at year end. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, of the General Fund and the General Purpose School Fund are presented as fund financial statements.

CITY OF LEXINGTON, TENNESSEE
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2010

	Special Revenue					Debt Service		Capital Projects	Total Other	
	State Street Aid	School Tax Fund	School Food Service Fund	Solid Waste Collection Fund	Dare Fund	Police Drug Fund	General Sinking Fund	School Debt Fund	Post Office Fund	Governmental Funds
ASSETS										
Cash and cash equivalents	\$ 18,756	\$ 46,772	\$ 87,547	\$ -	\$ 4,754	\$ 172,864	\$ 402	\$ -	\$ 41,081	\$ 372,176
Other receivables	-	-	-	-	-	-	-	-	-	-
Grant receivables	-	-	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	50,046	-	-	-	-	-	50,046
Prepaid insurance	-	-	-	16,410	-	-	-	-	-	16,410
Inventory	-	-	27,689	-	-	-	-	-	-	27,689
Due from other governments	35,080	94,702	-	-	-	-	-	-	-	129,782
TOTAL ASSETS	<u>\$ 53,836</u>	<u>\$ 141,474</u>	<u>\$ 115,236</u>	<u>\$ 66,456</u>	<u>\$ 4,754</u>	<u>\$ 172,864</u>	<u>\$ 402</u>	<u>\$ -</u>	<u>\$ 41,081</u>	<u>\$ 596,103</u>
LIABILITIES AND FUND BALANCES										
LIABILITIES										
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Bank overdrafts	-	-	-	-	-	-	-	-	-	-
Accrued liabilities	-	-	-	6,150	-	-	-	-	-	6,150
Deferred income	-	-	5,332	-	-	18,759	-	-	-	24,091
Due to other funds	-	1,448	-	3,179	-	-	-	-	-	4,627
TOTAL LIABILITIES	<u>-</u>	<u>1,448</u>	<u>5,332</u>	<u>9,329</u>	<u>-</u>	<u>18,759</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,868</u>
FUND BALANCES										
Reserved for inventory	-	-	27,689	-	-	-	-	-	-	27,689
Unreserved	53,836	140,026	82,215	57,127	4,754	154,105	402	-	41,081	533,546
TOTAL FUND BALANCES	<u>53,836</u>	<u>140,026</u>	<u>109,904</u>	<u>57,127</u>	<u>4,754</u>	<u>154,105</u>	<u>402</u>	<u>-</u>	<u>41,081</u>	<u>561,235</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 53,836</u>	<u>\$ 141,474</u>	<u>\$ 115,236</u>	<u>\$ 66,456</u>	<u>\$ 4,754</u>	<u>\$ 172,864</u>	<u>\$ 402</u>	<u>\$ -</u>	<u>\$ 41,081</u>	<u>\$ 596,103</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LEXINGTON, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	State Street Aid Fund	School Tax Fund	School Food Service Fund	Solid Waste Collection Fund	Dare Fund	Police Drug Fund	Debt Service		Capital Projects Post Office Fund	Total Other Governmental Funds
							General City Sinking Fund	School Debt Fund		
Revenues:										
Taxes	\$ -	\$ 1,113,675	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,113,675
Intergovernmental	195,361	-	401,877	-	-	-	-	-	-	597,238
Charges for services	-	-	188,193	632,559	-	-	-	-	-	820,752
Fines, forfeitures, and penalties	-	-	-	-	-	135,468	-	-	-	135,468
Other revenue	141	22,272	38,093	-	20	3,101	196,784	-	296	260,707
Total Revenues	195,502	1,135,947	628,163	632,559	20	138,569	196,784	-	296	2,927,840
Expenditures:										
Current:										
Public works	183,162	-	-	524,914	-	-	-	-	38	708,114
Public safety	-	-	-	-	2,432	20,843	-	-	-	23,275
Health, welfare and recreation	-	2,157	580,601	-	-	-	4,055	-	-	586,813
Capital outlay	-	-	34,535	-	-	183,440	-	-	-	217,975
Debt Service	-	-	-	-	-	-	184,087	1,091,734	-	1,275,821
Total Expenditures	183,162	2,157	615,136	524,914	2,432	204,283	188,142	1,091,734	38	2,811,998
Revenues over Expenditures	12,340	1,133,790	13,027	107,645	(2,412)	(65,714)	8,642	(1,091,734)	258	115,842
Other Financing Sources (Uses)										
Operating transfer in	-	273,000	-	-	5,000	-	-	1,091,734	2,094	1,371,828
Operating transfer (out)	-	(1,344,734)	-	(109,023)	-	(5,000)	(273,000)	-	-	(1,731,757)
Total Other Financing Sources and (Uses)	-	(1,071,734)	-	(109,023)	5,000	(5,000)	(273,000)	1,091,734	2,094	(359,929)
Net Change in Fund Balances	12,340	62,056	13,027	(1,378)	2,588	(70,714)	(264,358)	-	2,352	(244,087)
Fund Balance at Beginning of Year	41,496	77,970	89,969	58,505	2,166	224,819	264,760	-	38,729	798,414
Change in reserve for Inventory	-	-	6,908	-	-	-	-	-	-	6,908
Fund Balance at Beginning of Year	41,496	77,970	96,877	58,505	2,166	224,819	264,760	-	38,729	805,322
Fund Balance at End of Year	\$ 53,836	\$ 140,026	\$ 109,904	\$ 57,127	\$ 4,754	\$ 154,105	\$ 402	\$ -	\$ 41,081	\$ 561,235

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
STATE STREET AID FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental:				
State gas and motor fuel tax	\$ 188,300	\$ 188,300	\$ 195,361	\$ 7,061
Other revenues				
Interest income	1,000	1,000	141	(859)
Total revenues	<u>189,300</u>	<u>189,300</u>	<u>195,502</u>	<u>6,202</u>
Expenditures:				
Public Works:				
Street lighting	226,800	226,800	183,162	43,638
Total expenditures	<u>226,800</u>	<u>226,800</u>	<u>183,162</u>	<u>43,638</u>
Revenues over (under) Expenditures	<u>(37,500)</u>	<u>(37,500)</u>	<u>12,340</u>	<u>49,840</u>
Other financing sources and uses:				
Transfers out	-	-	-	-
Total Other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(37,500)	(37,500)	12,340	49,840
Fund Balance at Beginning of Year	<u>41,496</u>	<u>41,496</u>	<u>41,496</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 3,996</u>	<u>\$ 3,996</u>	<u>\$ 53,836</u>	<u>\$ 49,840</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
SCHOOL TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Local option sales tax	\$ 1,170,250	\$ 1,170,250	\$ 1,113,675	\$ (56,575)
Other revenues:				
Interest income	8,000	8,000	18,435	10,435
Miscellaneous	-	-	3,837	3,837
Total Revenues	1,178,250	1,178,250	1,135,947	(42,303)
Expenditures:				
Health, Welfare and Recreation:				
Operating costs	9,500	9,500	2,157	7,343
Total Expenditures	9,500	9,500	2,157	7,343
Revenues over (under) Expenditures	1,168,750	1,168,750	1,133,790	(34,960)
Other financing sources and uses:				
Transfers in	275,000	275,000	273,000	(2,000)
Transfers out	(1,518,644)	(1,518,644)	(1,344,734)	173,910
Total Other financing sources and uses	(1,243,644)	(1,243,644)	(1,071,734)	171,910
Net Change in Fund Balances	(74,894)	(74,894)	62,056	136,950
Fund Balance at Beginning of Year	77,970	77,970	77,970	-
Fund Balance at End of Year	\$ 3,076	\$ 3,076	\$ 140,026	\$ 136,950

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
SCHOOL FOOD SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Payment for lunches				
Student	\$ 130,000	\$ 130,000	\$ 104,705	\$ (25,295)
Adult	30,000	30,000	29,987	(13)
Payment for breakfast				
Student	15,000	15,000	13,309	(1,691)
USDA - lunch programs	225,000	225,000	239,854	14,854
USDA - breakfast programs	77,000	77,000	81,670	4,670
USDA - commodities	-	-	36,266	36,266
USDA - other	4,000	4,000	10,711	6,711
USDA - equipment grant	27,000	27,000	27,000	-
State matching funds	6,900	6,900	6,376	(524)
A La Carte sales	46,000	46,000	40,192	(5,808)
Revenues from individual schools	35,000	37,500	35,887	(1,613)
Interest income	350	350	741	391
Other revenues	-	-	1,465	1,465
Total Revenues	<u>596,250</u>	<u>598,750</u>	<u>628,163</u>	<u>29,413</u>
Expenditures				
Food supplies	247,400	244,392	266,036	(21,644)
Personnel expenditures				
Supervisor/director	24,000	24,000	23,800	200
Cafeteria personnel	183,601	186,628	186,628	-
Other salaries and wages	6,000	6,964	6,964	-
Social security	13,250	13,250	12,090	1,160
Medical insurance	37,400	37,400	33,597	3,803
Dental insurance	592	687	686	1
Unemployment compensation	325	363	362	1
Retirement	-	4,082	2,989	1,093
Employer medicare	3,100	3,100	2,828	272
Other fringe benefits	4,082	-	-	-
Operations and maintenance				
Maintenance and repair	9,000	4,500	4,244	256
Nonfood supplies				
Food preparation supplies	20,500	20,500	19,940	560
Office supplies	3,000	3,000	2,380	620
Uniforms	1,575	1,575	1,064	511
Other supplies and materials	7,500	12,000	8,264	3,736
Other				
Travel	700	700	157	543
Other contracted services	5,000	5,000	4,979	21
Inservice/staff development	2,000	3,379	3,378	1
Other charges	225	230	215	15
Equipment	27,000	34,536	34,535	1
Total Expenditures	<u>596,250</u>	<u>606,286</u>	<u>615,136</u>	<u>(8,850)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(7,536)</u>	<u>13,027</u>	<u>20,563</u>
Fund Balance at Beginning of Year, as originally stated	89,969	89,969	89,969	-
Change in reserve for inventory	<u>-</u>	<u>-</u>	<u>6,908</u>	<u>6,908</u>
Fund Balance at Beginning of Year, as restated	<u>89,969</u>	<u>89,969</u>	<u>96,877</u>	<u>6,908</u>
Fund Balance at End of Year	<u>\$ 89,969</u>	<u>\$ 82,433</u>	<u>\$ 109,904</u>	<u>\$ 27,471</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
SOLID WASTE COLLECTION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for Services:				
Collection charges	\$ 629,717	\$ 629,717	\$ 601,197	\$ (28,520)
Landfill use fees	40,154	40,154	31,362	(8,792)
Other revenues:				
Miscellaneous income	-	-	-	-
Total revenues	<u>669,871</u>	<u>669,871</u>	<u>632,559</u>	<u>(37,312)</u>
Expenditures				
Public Works:				
Salaries	221,190	221,190	224,448	(3,258)
Payroll taxes	16,921	16,921	16,144	777
Hospital and health insurance	46,977	46,977	48,546	(1,569)
Workers compensation insurance	14,588	14,588	13,551	1,037
Unemployment insurance	490	490	882	(392)
Utilities	1,507	1,507	1,168	339
Telephone	484	484	463	21
Consultant's services	2,000	2,000	-	2,000
Tires, flats, etc.	4,500	4,500	1,686	2,814
R&M vehicles	3,500	3,500	10,785	(7,285)
R&M machinery and equipment	3,000	3,000	1,589	1,411
R&M buildings	250	250	229	21
R&M other	2,000	2,000	-	2,000
Office supplies	300	300	148	152
Operating supplies	500	500	748	(248)
Janitorial supplies	250	250	212	38
Clothing and uniforms	2,450	2,450	2,414	36
Fuel supplies	31,122	31,122	24,580	6,542
Consumable tools	300	300	80	220
Safety supplies	750	750	809	(59)
Insurance	4,640	4,640	7,328	(2,688)
Tipping fees	157,442	157,442	149,680	7,762
Permit fees	2,500	2,500	2,000	500
Soil testing	5,500	5,500	3,459	2,041
Bad debt expense	6,000	6,000	9,417	(3,417)
New cell	15,000	15,000	4,548	10,452
Total expenditures	<u>544,161</u>	<u>544,161</u>	<u>524,914</u>	<u>19,247</u>
Revenues over (under) expenditures	<u>125,710</u>	<u>125,710</u>	<u>107,645</u>	<u>(18,065)</u>
Other financing sources and uses:				
Transfers in (out)	<u>(125,710)</u>	<u>(125,710)</u>	<u>(109,023)</u>	<u>16,687</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>(1,378)</u>	<u>(1,378)</u>
Fund Balance at Beginning of Year	<u>58,505</u>	<u>58,505</u>	<u>58,505</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 58,505</u>	<u>\$ 58,505</u>	<u>\$ 57,127</u>	<u>\$ (1,378)</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
DARE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other revenues:				
Donations	\$ -	\$ -	\$ 20	\$ 20
Total revenues	<u>-</u>	<u>-</u>	<u>20</u>	<u>20</u>
Expenditures:				
Public Safety:				
Employee education	400	400	-	400
Public relations	3,250	3,250	1,776	1,474
Travel	750	750	-	750
Office supplies	100	100	84	16
Operating supplies	500	500	572	(72)
Total expenditures	<u>5,000</u>	<u>5,000</u>	<u>2,432</u>	<u>2,568</u>
Revenues over (under) expenditures	<u>(5,000)</u>	<u>(5,000)</u>	<u>(2,412)</u>	<u>2,588</u>
Other financing sources and uses:				
Transfers in	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>2,588</u>	<u>2,588</u>
Fund Balance at Beginning of Year	<u>2,166</u>	<u>2,166</u>	<u>2,166</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 2,166</u>	<u>\$ 2,166</u>	<u>\$ 4,754</u>	<u>\$ 2,588</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LEXINGTON, TENNESSEE
POLICE DRUG FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Fines, forfeitures, and penalties:				
Drug related fines	\$ 97,708	\$ 97,708	\$ 135,468	\$ 37,760
Intergovernmental revenues:				
Unauthorized substance tax	5,000	-	-	-
Other revenues:				
Interest income	3,500	3,500	1,101	(2,399)
Miscellaneous income	-	-	2,000	2,000
Total revenues	106,208	101,208	138,569	37,361
Expenditures:				
Public Safety:				
Vehicle tow (seized property)	5,000	5,000	935	4,065
Telephone	-	-	1,453	(1,453)
Educational supplies	5,000	5,000	2,350	2,650
Repair and maintenance	5,000	5,000	2,338	2,662
Operating costs	20,000	20,000	9,617	10,383
Other costs	5,000	5,000	4,150	850
Capital outlay	61,105	61,105	183,440	(122,335)
Total expenditures	101,105	101,105	204,283	(103,178)
Revenues over (under) expenditures	5,103	103	(65,714)	(65,817)
Other financing sources and uses:				
Transfer out	(5,000)	(5,000)	(5,000)	5,000
Total other financing sources and uses	(5,000)	(5,000)	(5,000)	5,000
Net change in fund balances	103	(4,897)	(70,714)	(60,817)
Fund Balance at Beginning of Year	224,819	224,819	224,819	-
Fund Balance at End of Year	\$ 224,922	\$ 219,922	\$ 154,105	\$ (60,817)

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
DEBT SERVICE - SINKING FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other revenues:				
Rent - U. S. Post Office	\$ 196,000	\$ 196,000	\$ 196,000	\$ -
Interest income	4,500	4,500	784	(3,716)
Total revenues	<u>200,500</u>	<u>200,500</u>	<u>196,784</u>	<u>(3,716)</u>
Expenditures:				
Health, Welfare and Recreation:				
Insurance	4,175	4,175	4,055	120
Repair and maintenance	1,000	1,000	-	1,000
Debt Service:				
Principal payments	125,000	125,000	125,000	-
Interest payments	58,105	58,105	58,105	-
Paying agent fees	500	500	982	(482)
Total expenditures	<u>188,780</u>	<u>188,780</u>	<u>188,142</u>	<u>638</u>
 Revenues over (under) expenditures	 <u>11,720</u>	 <u>11,720</u>	 <u>8,642</u>	 <u>(4,354)</u>
Other financing sources and uses:				
Transfer out	(275,000)	(275,000)	(273,000)	(275,000)
 Net change in fund balances	 <u>(263,280)</u>	 <u>(263,280)</u>	 <u>(264,358)</u>	 <u>(279,354)</u>
Fund Balance at Beginning of Year	<u>264,760</u>	<u>264,760</u>	<u>264,760</u>	<u>-</u>
 Fund Balance at End of Year	 <u>\$ 1,480</u>	 <u>\$ 1,480</u>	 <u>\$ 402</u>	 <u>\$ (279,354)</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
DEBT SERVICE - SCHOOL DEBT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other revenues	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Debt Service:				
Principal payments	476,473	476,473	628,538	(152,065)
Interest payments	461,960	461,960	461,851	109
Paying agent fees	-	-	1,345	(1,345)
Total expenditures	<u>938,433</u>	<u>938,433</u>	<u>1,091,734</u>	<u>(153,301)</u>
Revenues over (under) expenditures	<u>(938,433)</u>	<u>(938,433)</u>	<u>(1,091,734)</u>	<u>(153,301)</u>
Other financing sources and uses:				
Transfer in	<u>938,433</u>	<u>938,433</u>	<u>1,091,734</u>	<u>153,301</u>
Net change in fund balances	-	-	-	-
Fund Balance at Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
CAPITAL PROJECTS - POST OFFICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other revenues:				
Interest income	\$ -	\$ -	\$ 271	271
Miscellaneous income	-	-	25	25
Total Revenues	<u>-</u>	<u>-</u>	<u>296</u>	<u>25</u>
Expenditures:				
Public works:				
Repair and maintenance	6,980	6,980	38	6,942
Health, welfare and recreation:				
Operating costs	5,300	5,300	-	5,300
Capital outlay	16,450	16,450	-	16,450
Total Expenditures	<u>28,730</u>	<u>28,730</u>	<u>38</u>	<u>21,750</u>
Revenues over (under) Expenditures	(28,730)	(28,730)	258	21,775
Other financing sources and uses:				
Transfers in	-	-	2,094	2,094
Net Change in Fund Balances	(28,730)	(28,730)	2,352	23,869
Fund Balance at Beginning of Year	<u>38,729</u>	<u>38,729</u>	<u>38,729</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 9,999</u>	<u>\$ 9,999</u>	<u>\$ 41,081</u>	<u>\$ 23,869</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LEXINGTON, TENNESSEE
SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE
JUNE 30, 2010

Levy for Year	Tax Rate	Assessed Value	Original Tax Levy	Outstanding Taxes Beginning	Taxes Levied	Releases and Adjustments	Collections	Outstanding Taxes Ending
2010	0.86	\$ 157,556,477	\$ 1,354,999	\$ -	\$ 1,354,999	\$ -	\$ -	\$ 1,354,999
2009	0.86	160,348,230	1,378,984	1,353,950	25,034	(4,994)	1,300,133	73,857
2008	0.86	157,854,649	1,357,547	59,915	-	1,718	48,317	13,316
2007	0.86	161,370,663	1,387,770	4,888	-	329	4,693	524
2006	0.86	163,746,473	1,408,213	1,016	-	4,576	4,927	665
2005	0.71	166,009,807	1,156,947	353	-	-	-	353
2004	0.75	147,415,262	1,084,969	8,005	-	-	-	8,005
2003	0.75	140,461,875	1,081,818	6,420	-	-	-	6,420
2002	0.75	135,825,925	1,018,798	7,620	-	-	3,983	3,637
2001	0.75	129,764,140	1,018,037	91	-	-	-	91
2000	0.75	128,382,065	963,002	221	-	-	46	175
1999	0.87	120,471,045	903,637	23	-	(23)	-	-
1998	0.87	94,544,930	822,515	-	-	-	-	-
1997	0.87	92,463,355	804,439	-	-	-	-	-
1996	0.99	81,129,171	705,836	4	-	(4)	-	-
1995	0.99	64,640,652	640,078	7	-	(7)	-	-
1991	1.25	44,804,158	560,056	7	-	(7)	-	-
1990	1.25	46,647,710	582,183	2	-	(2)	-	-
1989	1.25	43,933,491	549,172	34	-	(34)	-	-
1988	1.25	31,528,560	394,107	129	-	(129)	-	-
Prior				18	-	(18)	-	-
				<u>\$ 1,442,703</u>	<u>\$ 1,380,033</u>	<u>\$ 1,405</u>	<u>\$ 1,362,099</u>	<u>\$ 1,462,042</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LEXINGTON, TENNESSEE
SCHEDULE OF LONG-TERM DEBT REQUIREMENTS - GENERAL LONG-TERM DEBT
JUNE 30, 2010

Year Ending June 30,	Capital Outlay - 2005		Schools Capital Outlay - 2009		2004 - QZAB Bonds		Refunding Bond Series 2003		Refunding Bond Series 2003		Bond Series 2004		Bond Series 2009		Bond Series 2003		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 40,000	\$ 13,568	\$ 60,000	\$ 9,600	\$ 75,529	\$ -	\$ 130,000	\$ 52,110	\$ 345,000	\$ 24,500	\$ 215,000	\$ 313,200	\$ 39,737	\$ 55,661	\$ -	\$ 110,125	\$ 905,266	\$ 506,934
2012	40,000	11,946	60,000	7,400	75,529	-	135,000	45,615	355,000	12,425	220,000	303,847	40,460	54,667	-	110,125	925,989	554,247
2013	40,000	10,328	60,000	5,000	75,529	-	140,000	36,670	-	-	230,000	294,277	41,162	54,077	335,000	110,125	921,711	520,477
2014	45,000	8,606	65,000	2,600	75,529	-	150,000	31,050	-	-	235,000	284,272	41,905	53,151	350,000	106,735	962,434	486,414
2015	45,000	6,784	-	-	75,529	-	155,000	22,815	-	-	245,000	274,050	42,628	51,893	365,000	94,485	928,157	450,027
2016	45,000	4,981	-	-	75,529	-	165,000	14,175	-	-	255,000	263,392	44,072	50,614	380,000	81,345	964,601	414,487
2017	50,000	3,039	-	-	75,529	-	160,000	4,660	-	-	265,000	252,300	44,795	49,292	395,000	67,265	1,010,324	376,775
2018	50,000	1,013	-	-	75,529	-	-	-	-	-	270,000	240,772	46,240	47,949	410,000	52,077	851,769	341,811
2019	-	-	-	-	75,529	-	-	-	-	-	285,000	229,027	47,685	46,503	430,000	35,882	838,214	311,412
2020	-	-	-	-	75,529	-	-	-	-	-	295,000	216,630	48,130	44,119	445,000	18,467	864,659	279,216
2021	-	-	-	-	75,527	-	-	-	-	-	305,000	203,797	51,298	42,154	-	-	431,825	245,951
2022	-	-	-	-	-	-	-	-	-	-	320,000	190,530	53,465	40,102	-	-	373,465	230,632
2023	-	-	-	-	-	-	-	-	-	-	330,000	176,610	54,910	37,964	-	-	384,910	214,574
2024	-	-	-	-	-	-	-	-	-	-	345,000	162,255	57,600	35,768	-	-	402,800	194,023
2025	-	-	-	-	-	-	-	-	-	-	360,000	147,247	59,987	33,455	-	-	419,967	180,702
2026	-	-	-	-	-	-	-	-	-	-	375,000	131,588	62,858	30,992	-	-	437,858	162,570
2027	-	-	-	-	-	-	-	-	-	-	395,000	115,275	65,747	28,310	-	-	460,747	143,585
2028	-	-	-	-	-	-	-	-	-	-	410,000	98,093	69,360	25,434	-	-	479,360	123,527
2029	-	-	-	-	-	-	-	-	-	-	430,000	80,258	72,250	22,400	-	-	502,250	102,656
2030	-	-	-	-	-	-	-	-	-	-	450,000	61,552	75,663	19,220	-	-	525,663	80,772
2031	-	-	-	-	-	-	-	-	-	-	470,000	41,977	79,475	15,806	-	-	549,475	57,783
2032	-	-	-	-	-	-	-	-	-	-	495,000	21,533	83,810	12,230	-	-	578,810	33,763
2033	-	-	-	-	-	-	-	-	-	-	-	-	88,145	8,356	-	-	88,145	8,356
2034	-	-	-	-	-	-	-	-	-	-	-	-	92,480	4,278	-	-	92,480	4,278
	<u>\$ 355,000</u>	<u>\$ 60,246</u>	<u>\$ 245,000</u>	<u>\$ 24,600</u>	<u>\$ 630,817</u>	<u>\$ -</u>	<u>\$ 1,055,000</u>	<u>\$ 209,295</u>	<u>\$ 700,000</u>	<u>\$ 36,925</u>	<u>\$ 7,200,000</u>	<u>\$ 4,102,482</u>	<u>\$ 1,405,262</u>	<u>\$ 864,625</u>	<u>\$ 3,110,000</u>	<u>\$ 810,651</u>	<u>\$ 14,901,079</u>	<u>\$ 6,109,024</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
SCHEDULE OF LONG-TERM DEBT REQUIREMENTS - WATER SYSTEMS
JUNE 30, 2010**

Year Ending June 30,	2000 Refunding Bonds		Series 2004 Revenue Bonds		2009 Refunding Bonds		USDA Bonds		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 356,000	\$ 49,904	\$ 290,000	\$ 82,030	\$ 183,562	\$ 257,213	\$ 7,104	\$ 29,567	\$ 826,666	\$ 418,714
2012	370,000	30,688	300,000	74,055	188,900	253,542	7,431	29,241	664,331	387,526
2013	385,000	10,395	315,000	65,055	190,238	249,804	7,772	28,889	898,010	354,153
2014	-	-	520,000	55,805	193,575	245,524	8,129	28,542	721,704	329,671
2015	-	-	535,000	38,705	198,912	239,716	8,503	28,169	740,415	308,590
2016	-	-	555,000	19,980	203,568	233,808	8,830	27,778	767,481	281,568
2017	-	-	-	-	208,925	227,700	9,302	27,370	216,227	255,070
2018	-	-	-	-	213,600	221,494	9,729	26,942	223,329	248,435
2019	-	-	-	-	220,275	214,818	10,176	26,495	230,451	241,313
2020	-	-	-	-	226,960	203,804	10,644	26,028	237,594	229,832
2021	-	-	-	-	238,963	194,726	11,133	25,539	248,096	220,265
2022	-	-	-	-	246,975	186,248	11,644	25,028	258,619	210,276
2023	-	-	-	-	253,650	175,369	12,179	24,493	265,829	199,862
2024	-	-	-	-	267,000	165,223	12,739	23,933	279,739	189,156
2025	-	-	-	-	277,012	154,542	13,324	23,348	290,336	177,890
2026	-	-	-	-	290,363	143,116	13,936	22,738	304,299	165,862
2027	-	-	-	-	303,712	130,776	14,576	22,098	318,288	152,872
2028	-	-	-	-	320,400	117,489	15,246	21,426	335,646	138,914
2029	-	-	-	-	333,750	100,471	15,946	20,726	349,696	124,197
2030	-	-	-	-	350,437	88,766	16,679	19,993	367,118	108,779
2031	-	-	-	-	367,125	73,016	17,445	19,227	384,570	92,243
2032	-	-	-	-	387,150	56,496	18,246	18,425	405,398	74,921
2033	-	-	-	-	407,175	38,590	19,084	17,587	426,259	56,177
2034	-	-	-	-	427,200	19,758	19,961	16,710	447,161	36,468
2035	-	-	-	-	-	-	20,878	15,793	20,878	15,793
2036	-	-	-	-	-	-	21,837	14,834	21,837	14,834
2037	-	-	-	-	-	-	22,840	13,831	22,840	13,831
2038	-	-	-	-	-	-	23,890	12,782	23,890	12,782
2039	-	-	-	-	-	-	24,987	11,684	24,987	11,684
2040	-	-	-	-	-	-	26,135	10,536	26,135	10,536
2041	-	-	-	-	-	-	27,336	9,336	27,336	9,336
2042	-	-	-	-	-	-	28,592	8,080	28,592	8,080
2043	-	-	-	-	-	-	29,905	6,767	29,905	6,767
2044	-	-	-	-	-	-	31,279	5,393	31,279	5,393
2045	-	-	-	-	-	-	32,716	3,956	32,716	3,956
2046	-	-	-	-	-	-	34,219	2,453	34,219	2,453
2047	-	-	-	-	-	-	36,187	883	36,187	883
2011	\$ 1,110,000	\$ 90,987	\$ 2,615,000	\$ 335,430	\$ 6,491,437	\$ 3,994,028	\$ 660,622	\$ 696,628	\$ 10,777,059	\$ 5,117,071

The accompanying notes are an integral part of these financial statements.

CITY OF LEXINGTON, TENNESSEE
SCHEDULE OF LONG-TERM DEBT REQUIREMENTS - NATURAL GAS FUND
JUNE 30, 2010

Year Ending June 30,	Series 2004 Revenue Bonds		2009 Refunding Bonds		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 255,000	\$ 91,173	\$ 51,700	\$ 72,444	\$ 306,700	\$ 163,617
2012	265,000	84,160	52,640	71,410	317,640	155,570
2013	275,000	76,210	53,580	70,356	328,580	146,566
2014	280,000	67,685	54,520	69,152	334,520	136,837
2015	290,000	58,445	55,460	67,516	345,460	125,961
2016	300,000	48,295	57,340	65,852	357,340	114,147
2017	310,000	37,420	58,280	64,132	368,280	101,552
2018	325,000	25,950	60,160	62,384	385,160	88,334
2019	340,000	13,600	62,040	60,504	402,040	74,104
2020	-	-	63,920	57,402	63,920	57,402
2021	-	-	66,740	54,844	66,740	54,844
2022	-	-	69,560	52,175	69,560	52,175
2023	-	-	71,440	49,392	71,440	49,392
2024	-	-	75,200	46,534	75,200	46,534
2025	-	-	78,020	43,526	78,020	43,526
2026	-	-	81,780	40,308	81,780	40,308
2027	-	-	85,540	36,832	85,540	36,832
2028	-	-	90,240	33,090	90,240	33,090
2029	-	-	94,000	29,142	94,000	29,142
2030	-	-	98,700	25,006	98,700	25,006
2031	-	-	103,400	20,564	103,400	20,564
2032	-	-	109,040	15,912	109,040	15,912
2033	-	-	114,680	10,868	114,680	10,868
2034	-	-	120,320	5,565	120,320	5,565
	<u>\$2,640,000</u>	<u>\$ 502,938</u>	<u>\$ 1,828,300</u>	<u>\$ 1,124,910</u>	<u>\$ 4,468,300</u>	<u>\$ 1,627,848</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LEXINGTON, TENNESSEE
SCHEDULE OF LONG-TERM DEBT REQUIREMENTS - LEXINGTON ELECTRIC DEPARTMENT
JUNE 30, 2010

Year Ending June 30,	Series 2007 Revenue Bonds	
	Principal	Interest
2011	\$ 250,000	\$ 353,376
2012	260,000	343,151
2013	270,000	332,517
2014	280,000	321,474
2015	290,000	310,022
2016	305,000	298,161
2017	315,000	285,687
2018	330,000	272,803
2019	345,000	259,306
2020	355,000	245,195
2021	370,000	230,676
2022	390,000	215,543
2023	405,000	199,592
2024	420,000	183,028
2025	440,000	165,849
2026	455,000	147,854
2027	475,000	129,244
2028	495,000	109,817
2029	515,000	89,571
2030	535,000	68,507
2031	560,000	46,626
2032	580,000	23,722
	<u>\$ 8,640,000</u>	<u>\$ 4,631,721</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LEXINGTON, TENNESSEE
SCHEDULE OF OUTSTANDING DELINQUENT TAXES FILED WITH CHANCERY COURT
JUNE 30, 2010

<u>Tax Year</u>	<u>Outstanding Balance</u>
2009	\$ 73,857
2008	13,316
2007	524
2006	665
2005	353
2004	8,005
2003	6,420
2002	3,637
2001	91
2000	174
Total	<u>\$ 107,042</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
SCHEDULE OF UTILITY RATES IN FORCE
JUNE 30, 2010**

GAS FUND					
Residential Rate	Minimum	Base Rate	+	PGA Rate	
First 500 cubic feet (minimum)	\$ 6.70				
Over 500 cubic feet: Inside city (per MCF)		\$ 1.60	+	current PGA	= Rate Per Cubic Foot
Outside city (per MCF)		\$ 2.30	+	current PGA	= Rate Per Cubic Foot
 Small Commercial Rate					
First 500 cubic feet (minimum)	\$ 7.50				
Over 500 cubic feet: Inside city (per MCF)		\$ 2.40	+	current PGA	= Rate Per Cubic Foot
Outside city (per MCF)		\$ 3.20	+	current PGA	= Rate Per Cubic Foot
 Medium Commercial Rate					
First 500 cubic feet (minimum)	\$ 24.85				
Over 500 cubic feet: Inside city (per MCF)		\$ 2.60	+	current PGA	= Rate Per Cubic Foot
Outside city (per MCF)		\$ 3.40	+	current PGA	= Rate Per Cubic Foot
 Large Commercial Rate					
First 500 cubic feet (minimum)	\$ 124.60				
Over 500 cubic feet: Inside city (per MCF)		\$ 2.70	+	current PGA	= Rate Per Cubic Foot
Outside city (per MCF)		\$ 3.50	+	current PGA	= Rate Per Cubic Foot
 Transport (Customer buys from 3rd party)		\$ 1.88			
 Number of customers at year end:	8,884				

PGA (Purchased Gas Adjustment) - This rate is set monthly from calculations based on the average total costs associated with natural gas purchases. During the 2009/2010 fiscal year the PGA varied from a low of \$4.95 to a high of \$6.61 with an average rate of \$5.89.

WATER SYSTEMS

<u>WATER</u>	
Inside City Limits	
0-2,000 gallons	\$ 10.10
All over 2,000 gallons (per 1,000 gallons)	1.87
 Outside City Limits	
0-2,000 gallons	\$ 18.50
All over 2,000 gallons (per 1,000 gallons)	3.25
 Number of customers at year end:	9,562
 <u>SEWER</u>	
Minimum charge	\$ 12.50
Per 1,000 gallons of water used	3.25
Small commercial rates	10.50
Medium commercial rates	34.50
Large commercial rates	59.50
All over 2,000 gallons (per 1,000 gallons)	3.25
 Number of customers at year end:	3,357

The accompanying notes are an integral part of these financial statements.

CITY OF LEXINGTON, TENNESSEE
SCHEDULE OF UTILITY RATES IN FORCE - CONTINUED
JUNE 30, 2010

Electric Department

Residential Rate Schedule - RS	
Customer Charge - per delivery point per month	\$ 7.37
Energy Charges - cents per kWh	0.08377
<u>General Power Rate Schedule - GSA</u>	
GSA-1 (0.50 kw)	
Customer Charge - per delivery point per month	\$ 12.96
Energy Charges - per kWh	0.09491
GSA-2 (51-1,000 kw)	
Customer charge - per delivery point per month	\$ 89.03
Demand charge - per kw per month - First 50 kW	-
- Additional kW	13.62
Energy charge - per kw - First 15,000 kWh	0.09491
- Additional kWh	0.04913
GSA-3 (1,000-5,000 kw)	
Customer charge - per delivery point per month	\$ 223.58
Demand charge - per kw per month - First 1,000 kW	13.48
- Excess over 1,000 kW	15.52
Energy charge - per kW	0.05085
<u>GSB</u>	
Customer charge - per delivery point per month	\$ 1,500.00
Demand charge - per kW per month	15.40
Energy charge - per kWh - First 620 hours use of demand	0.04132
- Additional kWh	0.03372
<u>GSC</u>	
Customer charge - per delivery point per month	\$ 1,500.00
Demand charge - per kW per month	14.89
Energy charge - per kWh - First 620 hours use of demand	0.04132
- Additional kWh	0.03372
<u>GSD</u>	
Customer charge - per delivery point per month	\$ 1,500.00
Demand charge - per kW per month	18.24
Energy charge - per kWh	0.03314
<u>MSB1</u>	
Customer charge - per delivery point per month	\$ 1,500.00
Demand charge - per kw per month	13.27
Energy charge - per kWh - First 620 hours use of demand	0.03722
- Additional kWh	0.03074
<u>MSB2</u>	
Customer charge - per delivery point per month	\$ 1,500.00
Demand charge - per kw per month	12.59
Energy charge - per kWh - First 620 hours use of demand	0.03545
- Additional kWh	0.02932
<u>MSC</u>	
Customer charge - per delivery point per month	\$ 1,500.00
Demand charge - per kw per month	11.12
Energy charge - per kWh - First 620 hours use of demand	0.03899
- Additional kWh	0.03337
<u>LS</u>	
Customer charge - per delivery point per month	\$ 17.75
Energy charge	0.06134

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE
SCHEDULE OF UNACCOUNTED FOR WATER
JUNE 30, 2010**

(All amounts in gallons)

A Water Treated and Purchased:		
B	Water Pumped (potable)	1,115,110,000
C	Water Purchased	28,989,500
D	Total Water Treated and Purchased	1,144,099,500
 E Accounted for Water:		
F	Water Sold	774,042,300
G	Metered for Consumption (in house usage)	0
H	Fire Department Usage	241,189
I	Flushing	16,950,483
J	Tank Cleaning/Filling	0
K	Street Cleaning	21300
L	Bulk Sales	0
M	Water Bill Adjustments/plus or (minus)	0
N	Total Accounted for Water	791,255,272
O	Unaccounted for Water	352,844,228
P	Percent Unaccounted for Water	30.84%
Q	Other	None

Explain Other: N/A

All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

The accompanying notes are an integral part of these financial statements.

CITY OF LEXINGTON, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Accrued Revenue at July 1, 2009	Receipts	Expenditures	Accrued Revenue at June 30, 2010
FEDERAL AWARDS						
Department of Justice						
Office of Criminal Justice Programs (Bryna grant)	N/A	2009-SB-B9-0326	\$ -	\$ 32,358	\$ 32,358	\$ -
COPS - Community Oriented Policing Services	N/A	2009RKWX0806	-	29,600	36,944	7,144
Bulletproof Vest Partnership Program	N/A	-	-	4,978	4,978	-
			<u>-</u>	<u>67,136</u>	<u>74,280</u>	<u>7,144</u>
Department of Military						
FEMA	97.036	1909-DR-TN	-	-	31,142	31,142
Department of Economic and Community Development						
Water Systems Improvement - CDBG	14.228	GG-08-26663-00	20,327	447,637	433,312	5,802
Department of Transportation - Gas System						
412 West to Madison County Line	N/A	HPP-STP-20(28)	9,198	9,482	377	91
412 East to Decatur County Line	N/A	STP-20(29)	2,114	2,114	-	-
Lexington Bypass	N/A	STP-459(1)	933	14,629	20,156	6,480
Department of Transportation - Water Systems						
412 West to Madison County Line	N/A	HPP-STP-20(28)	9,892	12,311	2,550	131
412 East to Decatur County Line	N/A	STP-20(29)	12,674	-	5,566	16,260
Lexington Bypass	N/A	STP-459(1)	8,264	24,461	35,983	19,786
Department of Transportation - General Government						
Governor's Highway Safety Office - Network Coordinator	20.600	Z-10-220025	-	13,384	13,384	-
Governor's Highway Safety Office - Alcohol Saturation Patrol Project	20.600	Z-09-214626-00	-	2,602	2,602	-
Governor's Highway Safety Office - Network Coordinator	20.600	Z-09-214353-00	-	10,000	10,000	-
			<u>43,073</u>	<u>88,983</u>	<u>90,638</u>	<u>44,728</u>
TOTAL FEDERAL AWARDS			<u>63,400</u>	<u>603,956</u>	<u>629,372</u>	<u>86,816</u>
STATE FINANCIAL ASSISTANCE						
Tennessee Department of Transportation - Gas System						
412 West to Madison County Line	N/A	HPP-STP-20(28)	2,299	2,371	95	23
412 East to Decatur County Line	N/A	STP-20(29)	526	528	-	-
Lexington Bypass	N/A	STP-459(1)	233	3,658	5,040	1,615
Tennessee Department of Transportation - Water Systems						
412 West to Madison County Line	N/A	HPP-STP-20(28)	2,473	3,079	638	32
412 East to Decatur County Line	N/A	STP-20(29)	3,169	-	1,395	4,594
Lexington Bypass	N/A	STP-459(1)	2,066	6,115	6,997	4,948
State Law Enforcement Supplement						
	-	-	-	16,200	16,200	-
State Fire Grant Supplement						
	-	-	-	7,800	7,800	-
TOTAL STATE AWARDS			<u>10,768</u>	<u>39,751</u>	<u>40,165</u>	<u>11,182</u>
TOTAL FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE			<u>\$ 74,168</u>	<u>\$ 643,707</u>	<u>\$ 669,537</u>	<u>\$ 99,998</u>

Memo: "Accrued" is due from grantor.
"Deferred" is unexpended revenue.

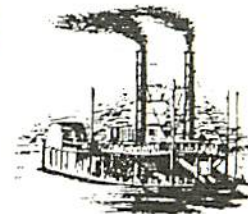
Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Town of Lexington, Tennessee, and is presented on the accrual basis of accounting.

Note 2: Single Audit

Single Audit reports required by OMB Circular A-133 have been filed as part of the individual audit reports of Lexington City Schools. The awards that Lexington City Schools received have not been included in the above schedule.

The accompanying notes are an integral part of these financial statements.



**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**

To the Mayor and City Aldermen
City of Lexington
Lexington, Tennessee

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Lexington, Tennessee, as of and for the year ended June 30, 2010, which collectively comprise the City of Lexington, Tennessee's basic financial statements and have issued our report thereon dated February 11, 2011. We did not audit the financial statements of Lexington Electric System. Those financial statements were audited by other auditors whose report was furnished to us, and in our opinion, insofar as it relates to Lexington Electric System, is based on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lexington, Tennessee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lexington Tennessee's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lexington, Tennessee's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as; Lexington Gas System 1995-08, 1995-10, 2000-01, 2007-01; Lexington Water System 2000-07, 2003-12, 2007-01, 2007-02; SAF 2007-01; and General Government 1998-17 and 2008-01 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Lexington Gas System 2009-01; Lexington Water System 2000-03, 2001-02, 2001-03, 2001-05, 2003-11; SAF 2008-03, SAF 2009-01, GW 2007-01; and General Government 2006-02 to be significant deficiencies.

Compliance and Other Matters

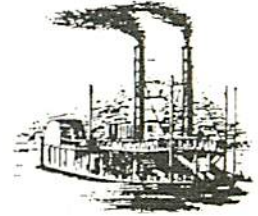
As part of obtaining reasonable assurance about whether City of Lexington, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items Lexington Water System 2000-02; School Food Authority 2007 - 03; SAF 2008 - 03; and General Government 2004-06 and 2008-02.

The City of Lexington, Tennessee's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Lexington, Tennessee's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of 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.

William, Jenold, Arthur's Nichol, PLLC

February 11, 2011



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

To the Mayor and City Aldermen
Lexington, Tennessee

Compliance

We have audited the compliance of the City of Lexington, Tennessee, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The City of Lexington, Tennessee's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City'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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Lexington, Tennessee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Lexington, Tennessee's compliance with those requirements.

In our opinion, the City of Lexington, Tennessee, complied, in all material respects, with the requirements referred to above that are applicable to each of their major federal programs for the year ended June 30, 2010. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of the City of Lexington, Tennessee, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the 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 internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over*

compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City of Lexington, Tennessee's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Lexington, Tennessee's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, federal awarding agencies, and government regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

Williams, Jerald, Arthur & Nichols, PLLC

February 11, 2011

**CITY OF LEXINGTON, TENNESSEE
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2010**

LEXINGTON GAS SYSTEM

1995-08 WORK ORDERS AND INVENTORY

Corrective action has not been taken on this finding.

1995-10 CASH RECEIPTS

Corrective action has not been taken on this finding.

1998-01 NONPAYMENT OF INTERFUND RECEIVABLES/PAYABLES

Corrective action has been taken on this finding.

2001-01 RECONCILING ACCOUNTS

Corrective action has not been taken on this finding.

2004-01 COLLATERAL ON INVESTMENTS

Corrective action has been taken on this finding.

2007-01 NO INVENTORY OF FIXED ASSETS

Corrective action has not been taken on this finding.

2007-02 FINANCIAL STATEMENTS MATERIALLY MISSTATED

Corrective action has been taken on this finding.

2009-01 PURCHASE ORDERS/APPROVALS ON INVOICES

Corrective action has not been taken on this finding.

LEXINGTON WATER SYSTEM

2000-02 NONPAYMENT OF INTERFUND RECEIVABLES/PAYABLES

Corrective action has not been taken on this finding.

2000-03 PURCHASE ORDERS

Corrective action has not been taken on this finding.

2000-07 INADEQUATE SEGREGATION OF DUTIES

Corrective action has not been taken on this finding.

2001-02 DUE TO/FROM ACCOUNTS NOT RECONCILED

Corrective action has not been taken on this finding.

2001-03 RECONCILIATIONS OF VARIOUS GENERAL LEDGER ACCOUNTS

Corrective action has not been taken on this finding.

2001-05 MISCLASSIFICATION OF ITEMS

Corrective action has not been taken on this finding.

2003-08 WORKORDERS

Corrective action has been taken on this finding.

2003-11 PAYROLL DEFICIENCIES

Corrective action has not been taken on this finding.

2003-12 INVENTORY

Corrective action has not been taken on this finding.

2004-01 COLLATERAL ON INVESTMENTS

Corrective action has been taken on this finding.

2007-01 NO INVENTORY OF FIXED ASSETS

Corrective action has not been taken on this finding.

2007-02 FINANCIAL STATEMENTS MATERIALLY MISSTATED

Corrective action has not been taken on this finding.

SCHOOL FOOD AUTHORITY

2007 – 03 EXPENDITURES EXCEEDED BUDGET

Corrective action has not been taken on this finding.

2009 – 01 IMPROPER PURCHASE ORDERS

Corrective action has been taken on this finding.

2009 – 02 DAILY RECEIPTS NOT POSTED CORRECTLY

Corrective action has been taken on this finding.

2009 – 03 IMPREST ACCOUNT NOT PROPERLY RECORDED

Corrective action has been taken on this finding.

SCHOOL ACTIVITY FUNDS

SAF 2007 – 01 INADEQUATE SEGREGATION OF DUTIES

Corrective action has not been taken on this finding.

SAF 2008 – 01 INADEQUATE SUPPORT FOR DISBURSEMENTS

Corrective action has been taken on this finding.

SAF 2008 – 03 DEFICIT BALANCES

Corrective action has not been taken on this finding.

SAF 2009 – 01 PURCHASE ORDERS

Corrective action has not been taken on this finding.

SAF 2009 – 02 MISCLASSIFICATION OF REVENUES AND EXPENSES

Corrective action has been taken on this finding.

SAF 2009 – 03 TICKET RECONCILIATIONS

Corrective action has been taken on this finding.

SAF 2009 – 04 CONCESSIONS REPORTS NOT PREPARED

Corrective action has been taken on this finding.

GENERAL PURPOSE SCHOOL FUND

2007 – 03 EXPENDITURES EXCEEDED BUDGET

Corrective action has been taken on this finding.

GOVERNMENT-WIDE FINANCIALS

GW 2007 – 01 CAPITAL ASSETS

Corrective action has not been taken on this finding.

GENERAL GOVERNMENT

1998-07 SEGREGATION OF DUTIES

Corrective action has not been taken on this finding.

2005-06 EXPENDITURES EXCEEDED BUDGET

Corrective action has not been taken on this finding.

2006-02 UNTIMELY RECEIPTING OF BUILDING PERMIT FEES

Corrective action has not been taken on this finding.

2008-01 FINANCIAL STATEMENTS MATERIALLY MISSTATED

Corrective action has not been taken on this finding.

2008-02 NONPAYMENT OF INTERFUND RECEIVABLES

Corrective action has not been taken on this finding.

2009-01 PURCHASE ORDERS

Corrective action has been taken on this finding.

SECTION III – Federal Award Findings and Questioned Costs

NONE

**CITY OF LEXINGTON, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010**

SECTION I – Summary of Auditors’ Results

- (a) Type of report issued on the financial statements:
Unqualified
- (b) The audit of the financial statements disclosed reportable conditions in internal control, some of which were considered material weaknesses.
- (c) The audit did disclose noncompliance issues which are not material to the financial statements.
- (d) The audit did not disclose any reportable conditions in internal control over major programs.
- (e) Type of report issued on compliance for major programs: Unqualified.
- (f) The audit did not disclose any findings required to be reported under Circular A-133, Section 510(a).
- (g) Major programs:
CFDA 14.228 – Water Systems Improvement - CDBG
- (h) Dollar threshold used to distinguish between Type A and Type B programs:
\$300,000
- (i) The auditee did not qualify as a low-risk auditee.

SECTION II – Financial Statement Findings

LEXINGTON GAS SYSTEM

1995-08 WORK ORDERS AND INVENTORY

Finding: Work orders are being maintained but are inadequate. Due to inadequate inventory costing controls the materials costs on work orders and inventory are misstated. Also, the person responsible for maintenance and storage of materials in the storeroom is also responsible for the recordkeeping of inventory.

Recommendation: Maintain inventory on a software module which tracks the average costs of materials. Also, this should be integrated with a work order module that is interfaced with the general ledger. Someone separate from the storekeeper should have responsibility for maintaining the recordkeeping function of inventory. The physical maintenance of assets should always be separate from recordkeeping of those same assets.

1995-10 CASH RECEIPTS

Finding: Some employees who receive cash also have access to and maintain the accounts receivable ledger and the general ledger.

Recommendation: Follow the guidelines shown in Internal Control and Compliance Manual for Tennessee Municipalities (ICCM), Title 3, Chapter 1, Sections 1, 2, 4, and 6 which state that municipal officials should ensure that responsibility for each step of cash handling and recording is clearly established. If possible, the employees who receive cash collections should be different from those who maintain the books and records. Anytime custody of money changes from one employee to another, the money should be counted by both employees, a receipt should be issued by the recipient of the funds, and both employees should sign, indicating concurrence with the amount transferred. Each cashier should be assigned a separate cash drawer that is accessible only to that cashier.

2000-01 RECONCILING ACCOUNTS

Finding: There were some general ledger accounts which were not being reconciled on a monthly basis including grants receivable, fixed assets and accrued interfund receivables and payables. We did see some improvements from the prior year.

Recommendation: Reconcile general ledger accounts on a monthly basis.

2007-01 NO INVENTORY OF FIXED ASSETS

Finding: The System did not take an annual physical inventory of fixed assets.

Recommendation: An annual inventory should be taken of all fixed assets.

2009-01 PURCHASE ORDERS/APPROVAL ON INVOICES

Finding: Purchase orders were not issued properly. Some disbursements lacked purchase orders and some purchase orders were completed after receiving the invoice. Also, there were some invoices which lacked proper approval.

Recommendation: We recommend that all purchase orders be complete as to date, amount, and description of purchase before being purchased. Also, the System should follow its purchasing policy and obtain the proper approval on invoices.

LEXINGTON WATER SYSTEM

2000-02 NONPAYMENT OF INTERFUND RECEIVABLES

Finding: Interfund receivables that were on the financial statements at June 30, 2009, were still present at June 30, 2010. These receivables should be resolved within one year's time.

Recommendation: Retire this receivable during the year and periodically review to ensure that future receivables are paid timely.

2000-03 PURCHASE ORDERS

Finding: Purchase orders were not issued properly. Incomplete purchase orders were being issued.

Recommendation: We recommend that all purchase orders be complete as to date, amount, and description of purchase before being issued.

2000-07 INADEQUATE SEGREGATION OF DUTIES

Finding: There is not sufficient division of duties. Workflow is not established so that one employee's work is automatically verified by another employee working independently.

Recommendation: Municipal officials should enforce division of duties to provide a system of checks and balances so that no one person has control over a transaction from beginning to end. Workflow should be established so that one employee's work is automatically verified by another employee working independently. When possible, different persons should be responsible for the authorization, recordkeeping (posting), custodial (cash and materials handling), and review procedures, to prevent manipulation of records and minimize the possibility of collusion.

2001-02 DUE TO/FROM ACCOUNTS NOT RECONCILED

Finding: The System has a couple of due to and from other funds that are not reconciled monthly to make sure they agree with amounts recorded by the other funds.

Recommendation: Reconcile subsidiary accounts monthly to ensure proper financial statement reporting.

2001-03 RECONCILIATIONS OF VARIOUS GENERAL LEDGER ACCOUNTS

Finding: The System does not perform monthly reconciliations of subsidiary ledgers to the general ledger. The following accounts should be reconciled: grant receivables, capital assets, customer deposits, and accrued payroll.

Recommendation: All subsidiary ledgers should be reconciled to the general ledger on a monthly basis.

2001-05 MISCLASSIFICATION OF ITEMS

Finding: There were various misclassifications of revenues and expenses as well as balance sheet accounts with inaccurate postings. Items must be recorded properly to ensure that accurate financial reports are issued.

Recommendation: We recommend accounting personnel record all transactions in the proper accounts.

2003-11 PAYROLL DEFICIENCIES

Finding: No one is reviewing the accrued leave report.

Recommendation: We recommend that procedures be followed in the payroll cycle to include approval accrued leave reports.

2003-12 INVENTORY

Finding: There is not an adequate system in place to monitor, track, and provide a full accounting of all inventory transactions. Workorders are being maintained but are inadequate. Due to inadequate costing controls, the materials costs on workorders and inventory are misstated. Also, the person responsible for maintenance and storage of materials in the storeroom is also responsible for the recordkeeping of inventory.

Recommendation: Maintain inventory on a software module which tracks the average costs of materials. Also, this should be integrated with a work order module that is interfaced with the general ledger. Someone separate from the storekeeper should have responsibility for maintaining the recordkeeping function of inventory. The physical maintenance of assets should always be separate from recordkeeping of those same assets.

2007-01 NO INVENTORY OF FIXED ASSETS

Finding: The System did not take a physical inventory of its fixed assets.

Recommendation: An annual inventory should be taken of all fixed assets.

2007-02 FINANCIAL STATEMENTS MATERIALLY MISSTATED

Finding: The System had materially misstated its financial statements. Numerous adjustments were required to correct the financial statements.

Recommendation: We recommend the System make the necessary adjustments to reconcile its accounts prior to year end.

SCHOOL FOOD AUTHORITY

2007 – 03 EXPENDITURES EXCEEDED BUDGET

Finding: Expenditures exceeded budgeted appropriations in the School Food Authority Fund. The System should not expend un-appropriated funds. However, if circumstances suggest that expenditures are expected to exceed appropriations, the budget should be amended.

Recommendation: Closely monitor expenses and adequately budget for expenditures to avoid overruns.

SCHOOL ACTIVITY FUNDS

SAF 2007 – 01 INADEQUATE SEGREGATION OF DUTIES

Finding: The duties of receiving cash, reconciling bank statements, preparing checks, and posting all transactions are handled by each individual school's bookkeeper.

Section 4, Title 2, Page 4-6 of the TISUAPM details the minimum recommended internal controls. It explains that a good internal control structure cannot exist when the same person who receives cash also prepares the deposit slips, makes deposits, and reconciles the bank statement. Someone other than the person recording the cash receipts and preparing the deposit slips should make the deposit and reconcile the bank statement.

Schools Still Deficient From the Prior Period Audit Finding: Caywood Elementary and Lexington Middle School.

Recommendation: An effective internal control system provides for adequate segregation of duties. Therefore, we recommend that the principals review the current level of control and modify where deemed necessary. At a minimum, a second person should be selected to make deposits and reconcile the bank statements.

SAF 2008 – 03 DEFICIT BALANCES

Finding: One school had a deficit fund balance in a restricted account.

Section 4, Title 1, Page 4-2 of the TISUAPM states that a deficit fund balance is not allowable.

School Still Deficient From the Prior Period Audit Finding: Lexington Middle School.

Recommendation: We recommend that all deficit fund balances be eliminated as soon as possible.

SAF 2009 – 01 PURCHASE ORDERS

Finding: Some disbursements were made without having a properly executed purchase order.

Section 5, Title 3, Page 5-12 of the TISUAPM details the requirements on the use of purchase orders.

School Still Deficient From the Prior Period Audit Finding: Caywood Elementary School.

Recommendation: Require all disbursements to be supported by a properly completed purchase order, if applicable.

GENERAL PURPOSE SCHOOL FUND

NONE

GOVERNMENT-WIDE FINANCIALS

GW 2007 – 01 CAPITAL ASSETS

Finding: The System did not have a complete listing of all capital asset.

Recommendation: We recommend the System take an annual inventory of all its capital assets and compute the required depreciation.

GENERAL GOVERNMENT

1998-17 SEGREGATION OF DUTIES

Finding: There is not sufficient division of duties in the general government operations. Work flow is not established so that one employee's work is automatically verified by another employee working independently.

Recommendation: Municipal officials should enforce division of duties to provide a system of checks and balances so that no one person has control over a transaction from beginning to end. Work flow should be established so that one employee's work is automatically verified by another employee working independently. When possible, different persons should be responsible for the authorization, recordkeeping (posting), custodial (cash and materials handling), and review procedures, to prevent manipulation of records and minimize the possibility of collusion. In order to adequately control

investments, we recommend that the person who is responsible for reconciling the bank accounts monthly also reconcile the investments. This will ensure that at least two individuals are involved in the handling of investments.

2005 – 06 EXPENDITURES EXCEEDED BUDGET

Finding: Expenditures exceeded budgeted appropriations in the State Street Aid Fund. The City should not expend unappropriated funds. However, if circumstances suggest that expenditures are expected to exceed appropriations, the budget should be amended.

Recommendation: Closely monitor expenses and adequately budget for expenditures to avoid overruns.

2006-02 UNTIMELY RECEIPTING OF BUILDING PERMIT FEES

Finding: We noted that some building permit fees were not submitted for receipt at City Hall at the time of collection.

Recommendation: We recommend that all City revenues are collected and receipted at City Hall at the time of collection.

2008-01 FINANCIAL STATEMENTS MATERIALLY MISSTATED

Finding: The City had materially misstated the financial statements on various funds. Adjustments were required to correct the financial statements.

Recommendation: We recommend the City make the necessary adjustments to reconcile its accounts prior to year end.

2008-02 NONPAYMENT OF INTERFUND RECEIVABLES

Finding: Interfund receivables that were on the financial statements at June 30, 2008, were still present at June 30, 2009. These receivables should be resolved within one year's time.

Recommendation: Retire this receivable during the year and periodically review to ensure that future receivables are paid timely.

SECTION III – Federal Award Findings and Questioned Costs

NONE

**CITY OF LEXINGTON, TENNESSEE
CORRECTIVE ACTION PLAN
JUNE 30, 2010**

LEXINGTON GAS SYSTEM

FINDING 1995-08 WORK ORDERS AND INVENTORY

Corrective action planned

We will have someone separate from the storekeeper take responsibility for maintaining the recordkeeping function of inventory. We will also work on getting a inventory maintenance software to account for inventory.

Anticipated completion date

We are still working on setting up procedures to do this.

Responsible party

General Manager of Utility Systems

FINDING 1995-10 CASH RECEIPTS

Corrective action planned

Each cashier will be assigned a separate cash drawer that is accessible only to that cashier.

Anticipated completion date

Within the next fiscal year.

Responsible party

General Manager of Utility Systems

FINDING 2000-01 RECONCILING ACCOUNTS

Corrective action planned

We will reconcile these accounts.

Anticipated completion date

Within the next fiscal year.

Responsible party

General Manager of Utility Systems

FINDING 2007-01 NO INVENTORY OF FIXED ASSETS

Corrective action planned

We will take an annual inventory of all fixed assets.

Anticipated completion date

Within the next fiscal year.

Responsible party

General Manager of Utility Systems

FINDING 2009-01 PURCHASE ORDERS/APPROVAL ON INVOICES

Corrective action planned

We will issue properly completed purchase orders and the System will follow its purchasing policy and obtain the proper approval on invoices.

Anticipated completion date

Within the next fiscal year.

Responsible party

General Manager of Utility Systems

LEXINGTON WATER SYSTEM

FINDING 2000-02 NONPAYMENT OF INTERFUND RECEIVABLES

Corrective action planned

We will eliminate interfund receivables within one year of origination.

Anticipated completion date

Within the next fiscal year.

Responsible party

General Manager of Utility Systems

FINDING 2000-03 PURCHASE ORDERS

Corrective action planned

We will issue properly completed purchase orders and the System will follow its purchasing policy and obtain the proper approval on invoices.

Anticipated completion date

Within the next fiscal year.

Responsible party

General Manager of Utility Systems

FINDING 2000-07 INADEQUATE SEGREGATION OF DUTIES

Corrective action planned

When possible, different persons should be responsible for the authorization, recordkeeping (posting), custodial (cash and materials handling), and review procedures, to prevent manipulation of records and minimize the possibility of collusion.

Anticipated completion date

Within the next fiscal year.

Responsible party

General Manager of Utility Systems

FINDING 2001-02 DUE TO/FROM ACCOUNTS NOT RECONCILED

Corrective action planned

We will reconcile subsidiary accounts monthly to ensure proper financial statement reporting.

Anticipated completion date

We have already begun to correct this finding.

Responsible party

General Manager of Utility Systems

FINDING 2001-03 RECONCILIATIONS OF VARIOUS GENERAL LEDGER ACCOUNTS

Corrective action planned

We will reconcile all subsidiary to the general ledger on a monthly basis.

Anticipated completion date

Within the next fiscal year.

Responsible party

General Manager of Utility Systems

FINDING 2001-05 MISCLASSIFICATION OF ITEMS

Corrective action planned

We will be diligent in posting items to the general ledger to ensure accurate recording.

Anticipated completion date

Within the next fiscal year.

Responsible party
General Manager of Utility Systems

FINDING 2003-11 PAYROLL DEFICIENCIES

Corrective action planned
We will have the appropriate party review and approve accrued leave reports.

Anticipated completion date
Within the next fiscal year.

Responsible party
General Manager of Utility Systems

FINDING 2003-12 INVENTORY

Corrective action planned
We will have someone separate from the storekeeper take responsibility for maintaining the recordkeeping function of inventory. We will also work on getting a inventory maintenance software to account for inventory.

Anticipated completion date
Within the next fiscal year.

Responsible party
General Manager of Utility Systems

FINDING 2007-01 NO INVENTORY OF FIXED ASSETS

Corrective action planned
We will take a physical inventory of fixed assets.

Anticipated completion date
Within the next fiscal year.

Responsible party
General Manager of Utility Systems

FINDING 2007-02 FINANCIAL STATEMENTS MATERIALLY MISSTATED

Corrective action planned
We will make the necessary adjustments to reconcile accounts prior to year end.

Anticipated completion date
Within the next fiscal year.

Responsible party
General Manager of Utility Systems

SCHOOL FOOD AUTHORITY

FINDING 2007 – 03 EXPENDITURES EXCEEDED BUDGET

Corrective action planned
Finding relates to school system not including the commodities received by the school food authority through the USDA Commodities Program in the school system's accounting system as revenue and expenditures nor including the estimated annual amount in the school system's annual budget of estimated revenues and expenditures. The school system has annually reported the commodities as required to the Department of Education in the annual report, *AFR, USDA Commodities Report*, through the Department's E Reporting System.

As requested by the audit staff, the system will amend the FY2010.2011 budget to include appropriations for the estimated USDA Commodities Program proceeds and make the necessary entries to recognize the total commodities in the school food authority accounting system for inclusion

in the system's annual financial reports. The school system will coordinate commodities reporting with the Department of Education fiscal consultant.

Anticipated completion date

Immediately

Responsible party

Director of Schools and Food Authority Supervisor

SCHOOL ACTIVITY FUNDS

FINDING SAF 2007 – 01 INADEQUATE SEGREGATION OF DUTIES

Corrective action planned

School System has employed full-time bookkeeper at each school and provided training program through attendance at workshops, accounting system vendor and in-house support from central finance office. Principals will review procedures and develop plans to implement segregation of duties within the constraints of the limited office staff.

Anticipated completion date

Immediately

Responsible party

Each individual school's principal

FINDING SAF 2008 – 03 DEFICIT BALANCES

Corrective action planned

School bookkeepers have received training on accounting for restricted funds and the importance of maintaining the accounting records in compliance with the *Tennessee Internal School Uniform Accounting Manual*.

Anticipated completion date

Immediately

Responsible party

Each individual school's principal

FINDING 2009 – 01 PURCHASE ORDERS

Corrective action planned

School bookkeepers have received training on purchasing procedures and the importance of maintaining all purchasing and accounting records in compliance with the *Tennessee Internal School Uniform Accounting Manual*.

Anticipated completion date

Immediately

Responsible party

Each individual school's principal

GOVERNMENT-WIDE FINANCIALS

FINDING GW 2007 – 01 CAPITAL ASSETS

Corrective action planned

The System will establish have a complete listing of all capital assets and compute depreciation.

Anticipated completion date

Immediately

Responsible party

City Recorder

GENERAL GOVERNMENT

FINDING 1998-17 SEGREGATION OF DUTIES

Corrective action planned

When possible, different persons should be responsible for the authorization, recordkeeping (posting), custodial (cash and materials handling), and review procedures, to prevent manipulation of records and minimize the possibility of collusion.

Anticipated completion date

Immediately

Responsible party

City Recorder

FINDING 2004 – 06 EXPENDITURES EXCEEDED BUDGET

Corrective action planned

We will closely monitor expenses and adequately budget for expenditures to avoid overruns.

Anticipated completion date

Within the next fiscal year

Responsible party

City Recorder

FINDING 2006-02 UNTIMELY RECEIPTING OF BUILDING PERMIT FEES

Corrective action planned

Building permit fees will be submitted for receipt at City Hall at the time of collection.

Anticipated completion date

Immediately

Responsible party

City Recorder

FINDING 2008-01 FINANCIAL STATEMENTS MATERIALLY MISSTATED

Corrective action planned

The City will make the necessary adjustments to reconcile its accounts prior to year end.

Anticipated completion date

Immediately

Responsible party

City Recorder

FINDING 2008-02 NONPAYMENT OF INTERFUND RECEIVABLES

Corrective action planned

We will eliminate interfund receivables within one year of origination.

Anticipated completion date

Within the next fiscal year.

Responsible party

City Recorder