

**CITY OF LAKELAND, TENNESSEE**

**FINANCIAL STATEMENTS**

June 30, 2007

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## *City of Lakeland*

November 15, 2007

To the Mayor, Board of Commissioners and Citizens of Lakeland:

The Comprehensive Annual Financial Report (CAFR) of the City of Lakeland, Tennessee for the fiscal year ended June 30, 2007, is hereby submitted in accordance with the City of Lakeland Charter requirement for an independent audit by a certified public accounting firm. The financial statements are presented in conformity with generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Board (GASB) and have been audited in accordance with generally accepted auditing standards.

This report consists of management's representations concerning the finances of the City of Lakeland. Management assumes full responsibility for the completeness and reliability of all of the information presented in this report. Management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Watkins Uiberall, PLLC have audited the City of Lakeland financial statements, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2007, are free of material misstatement. The independent auditor concluded, based upon the audit, that there was a reasonable (clean) basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2007, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of the report.

### ***Profile of the Government***

The City of Lakeland, incorporated in 1977, is located in northeast Shelby County in the Southwestern part of the State. Lakeland occupies approximately 25 square miles and serves a population of 10,848. The City is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the Board of Mayor and Commissioners.

The City of Lakeland's charter provides for a Commission-City Manager form of Government. Lakeland major operational activities are handled by a City Manager, who is appointed by the Board of Commissioners. Under Lakeland's form of government, the five-members of the Board of Commissioners, one of whom is elected as Mayor, are elected at large. The Commission's duties are to set City policy through legislation and to supervise and evaluate the management of the City by the City Manager. The Board of Commissioner, among other things, is responsible for passing ordinances, adopting the budget and appointing committees. The Board of four Commissioners and the Mayor are elected to four-year terms by popular vote. One-half of the Board is elected every two years.

The City of Lakeland provides a range of municipal services including street and drainage construction and maintenance, fire protection (through the Shelby County Fire Department), ambulance services (through an interlocal agreement), solid waste collection, recreational programs, planning and zoning and administrative services. In addition, the City operates a sewer utility system.

The Shelby County School of Education provides educational services to students within the jurisdiction of the City of Lakeland. The County school system is part of the Shelby County Government of Shelby County. The Memphis Light, Gas, and Water Division of the City of Memphis provide electrical and natural gas distribution to the Lakeland service area. The City of Memphis also provides sewer service to a small portion of the City of Lakeland. These entities do not meet the established criteria for inclusion in the reporting entity and are not included in this report.

The City of Lakeland annually prepares a plan of services for the upcoming fiscal year and the estimated cost of providing those services. This plan is reviewed by the Board of Mayor and Commissioner and is formally adopted by the passage of a budget ordinance. Strict budgetary compliance is maintained by the automated accounting system to assure effective fiscal management and accountability. All requests for purchases are checked by the City Manager to assure that funds are available. Purchase Orders and contracts are encumbered prior to release to vendors. The City Manager may transfer resources within a department as required.

### ***Local Economy***

The City of Lakeland currently has a moderate economic growth and is continuing to grow. The City currently has a population of 10,848.

### ***Long-term financial planning***

The City of Lakeland annually updates and reviews the long term Capital Improvements Plan.

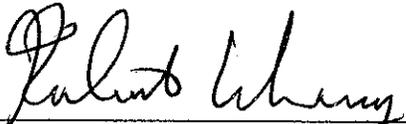
### ***Major initiatives***

- Construction and widening of Canada Road from I-40 to Highway 70 is planned as a phased in project. A grant for 80% of the project cost was obtained for this project. The design phase of this project is scheduled to start in the fall of 2007.
- A design for a Waste Water Treatment Plant has been completed and is under construction. Completion of the Waste Water Treatment Plant should be in Fall of 2007.

- Transportation Study: A Transportation Study to upgrade the current Transportation Plan was started in 2007 and is expected to be completed in 2008.
- A comprehensive effort to rewrite the City codes relating to the Subdivision and development process was started in early 2007 and expected to be completed in late 2008.
- Major street projects are planned including the extension of Beverle Revira Drive to provide improved traffic flow, fire and ambulance response and traffic safety is expected to be completed within the next fiscal year.
- Canada Road from I-40 to Highway 64 improvements will continue with the landscaping of the median completed in the next fiscal year. A grant application will be submitted for walking and bicycle trails along Canada Road from the Canada Trace Mobile Home Park to Highway 64.
- Windward Slopes Park is expected to be completed in the fall of 2007.

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the finance and administration department. We wish to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the Mayor and the Commissioners for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Lakeland's finances.

Respectfully submitted,



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Robert Wherry, City Manager

**City of Lakeland, Tennessee**  
**City Officials**  
**June 30, 2007**

**Mayor**  
Scott Carmichael

**Commissioners**  
Stephanie Anderson, Vice Mayor  
Mark Hartz, Commissioner  
Randy Nicholson, Commissioner  
Clark Plunk, Commissioner

**Appointed Officials**

City Manager	Robert Wherry
Growth Management Director	J. Higbee
Administrative Assistant	Theresa Meyer
City Attorney	David Lakin
Director of Finance	Robert Wherry
City Recorder	Sontidra Franklin
Director of Engineering / Interim City Engineer	David Smith
Supervisor of Public Works	Bristol Roberts
Supervisor of Code Enforcement	Michael Morrisett
Director of Parks/Recreation	Brenda Lockhart
Natural Resource Director	Eric Bridges



Watkins Uiberall, PLLC  
Certified Public Accountants & Financial Advisors  
Independent Member of BKR International

Sanford J. Blockman, CPA  
David B. Jones, CPA, CFP  
Steven H. Leib, CPA, PFS  
David K. Palmer, CPA  
Sherry S. Perry, CPA  
Jeffrey L. Thomason, CPA  
Michael D. Uiberall, CPA  
B. Cobene Watkins, CPA, CMPA  
William H. Watkins, Jr., CPA

## INDEPENDENT AUDITOR'S REPORT

To the Mayor and Board of Commissioners of the  
City of Lakeland, Tennessee:

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, the statements of budgetary comparison for the general fund and solid waste fund, and the aggregate remaining fund information of the City of Lakeland, Tennessee, (the "City") as of and for the year ended June 30, 2007, 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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 activity, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof, and the budgetary comparisons for the general fund and solid waste 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 our report dated December 20, 2007 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit

performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, supplementary schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Watkins Liberal, PLLC

Memphis, Tennessee  
December 20, 2007

## Management's Discussion and Analysis

This is a narrative overview and analysis of the financial activities of the City of Lakeland for the fiscal year ended June 30, 2007. Please consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and notes to the financial statements.

### Financial Highlights

- The assets of the City of Lakeland exceeded its liabilities at the close of the most recent fiscal year by \$62,617,361 (net assets). All net assets of the City of Lakeland are unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The City of Lakeland's total net assets decreased by \$2,966,136 in fiscal year 2007.
- As of June 30, 2007, the City of Lakeland's governmental funds reported combined ending fund balances of \$4,910,382, a decrease of \$502,813 as restated in comparison with the prior year.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$4,801,592 or 130 percent of total general fund expenditures.
- The City of Lakeland's total debt increased \$6,553,524 during the current fiscal year.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Lakeland's basic financial statements. The City of Lakeland's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements:** The government-wide financial statements are designed to provide readers with a broad overview of the City of Lakeland's finances, in a manner similar to a private-sector business.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Lakeland that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of

Lakeland include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City of Lakeland include the operation of the sewer facilities.

The government-wide financial statements include only the City of Lakeland itself. The City of Lakeland operates a sewer system, which is reported as a proprietary fund in the City's financial statements.

**Fund financial statements:** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Lakeland, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Lakeland can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds:** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Lakeland maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund. Data from the other two government's funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report. The City of Lakeland adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds:** The City of Lakeland maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Lakeland uses enterprise fund to account for its Sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Lakeland's various functions. The City of Lakeland uses internal service funds to account for its fleet of vehicles and for its management information systems. Because both of these services predominantly benefit governmental rather than

business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the sewer activities of the City of Lakeland, which is considered to be a major fund.

**Fiduciary funds:** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Lakeland's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**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.

**Other information:** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information.

#### **Government-wide Financial Analysis:**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Lakeland, assets exceeded liabilities by \$62,617,361 at the close of June 30, 2007.

By far the largest portion of the City of Lakeland's net assets (88.6 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City of Lakeland uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Lakeland's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The City has \$9,719,566 of outstanding debt as of June 30, 2007.

The following provides a summary of the City's net assets at June 30, 2007.

### Summary of Net Assets

	<u>Governmental</u> <u>Activities</u>		<u>Business Type</u> <u>Activities</u>		<u>Totals</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 5,512,247	\$ 5,673,101	\$ 3,851,034	\$ 3,054,794	\$ 9,363,281	\$ 8,727,895
Capital Assets	<u>51,989,646</u>	<u>53,791,952</u>	<u>13,246,320</u>	<u>7,000,138</u>	<u>65,235,966</u>	<u>60,792,090</u>
<b>Total Assets</b>	<u>57,501,893</u>	<u>59,465,053</u>	<u>17,097,354</u>	<u>10,054,932</u>	<u>74,599,247</u>	<u>69,519,985</u>
Current Liabilities	739,865	386,784	2,058,455	52,002	2,798,320	438,786
Long-term debt	<u>2,707,220</u>	<u>2,492,096</u>	<u>6,476,346</u>	<u>1,199,023</u>	<u>9,183,566</u>	<u>3,691,119</u>
<b>Total Liabilities</b>	3,447,085	2,878,880	8,534,801	1,251,025	11,981,886	4,129,905
Net asset:						
Invested Capital Assets	49,144,426	53,791,952	6,371,974	7,000,138	55,516,400	60,792,090
Unrestricted	<u>4,910,382</u>	<u>2,794,221</u>	<u>2,190,579</u>	<u>1,803,769</u>	<u>7,100,961</u>	<u>4,597,990</u>
<b>Total Net Asset</b>	<u>\$ 54,054,808</u>	<u>\$ 56,586,173</u>	<u>\$ 8,562,553</u>	<u>\$ 8,803,907</u>	<u>\$ 62,617,361</u>	<u>\$ 65,390,080</u>

At the end of the current fiscal year, the City is able to report positive balances in all categories of net assets.

The City's net assets decreased by \$2,966,136 during the current fiscal year. Of this amount, \$2,724,782 represented a decrease in the net assets from governmental activities and \$241,354 represented a decrease in the net assets from business-type activities.

The following provides a summary of activities for the City during the fiscal year ended June 30, 2007.

### Summary of Change of Net Assets

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Totals</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Program Revenues						
Charges for services	\$ 1,011,821	\$ 862,988	\$ 578,266	\$ 312,124	\$ 1,590,087	\$ 1,175,112
Operating grants & Contributions	249,383	226,144	-	-	249,383	226,144
General Revenues						
Local Taxes	1,239,575	1,800,246	-	-	1,239,575	1,800,246
Intergovernmental	806,599	905,147	-	-	806,599	905,147
Interest on investment	251,764	246,279	170,089	-	421,853	246,279
Other	13,034	-	-	1,422,465	13,034	1,422,465
Transfers	-	-	-	-	-	-
<b>Total Revenues</b>	<b>3,572,176</b>	<b>4,040,804</b>	<b>748,355</b>	<b>1,734,589</b>	<b>4,320,531</b>	<b>5,775,393</b>
Expenses						
General Government	1,931,583	1,652,767	-	-	1,931,583	1,652,767
Public Safety	49,964	34,461	-	-	49,964	34,461
Public Works	4,046,357	3,925,248	-	-	4,046,357	3,925,248
Parks & Recreation	269,054	316,467	-	-	269,054	316,467
Business Type Sewer	-	-	<u>989,709</u>	<u>823,292</u>	<u>989,709</u>	<u>823,292</u>
<b>Total Expenses</b>	<b><u>6,296,958</u></b>	<b><u>5,928,943</u></b>	<b><u>989,709</u></b>	<b><u>823,292</u></b>	<b><u>7,286,667</u></b>	<b><u>6,752,235</u></b>
Change in Net Assets	(2,724,782)	(1,888,139)	(241,354)	911,297	(2,966,136)	(976,842)
Net Assets Beginning	<u>56,779,590</u>	<u>58,474,312</u>	<u>8,803,907</u>	<u>7,892,610</u>	<u>65,583,497</u>	<u>66,366,922</u>
Net Assets End of Year	<u>\$ 54,054,808</u>	<u>\$ 56,586,173</u>	<u>\$ 8,562,553</u>	<u>\$ 8,803,907</u>	<u>\$ 62,617,361</u>	<u>\$ 65,390,080</u>

### **Governmental Activities**

Governmental activities decreased the City's net assets by \$2,724,782.

### **Business-Type Activities**

Business-type activities decreased the City's net assets by \$241,354. The key elements of this decrease are as follow:

Interest expense on long-term debt was \$167,190.

Depreciation expense for sewer accounted for \$238,879 of total decrease.

### **Financial Analysis of the City's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements.

### **Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City of Lakeland's governmental funds reported combined ending fund balances of \$4,910,382, which was a decrease of \$479,936 in comparison with the prior year. Approximately 98% of this amount, \$4,801,592, constitutes unreserved fund balance, which is available for spending at the City's discretion. Included in unreserved fund balance is \$108,790 which has been designated by the Board of Commissioners for use in the related special revenue funds.

The key elements of the decrease \$502,813 is as follows:

\$251,864 principal and interest payment of loans form City of Clarksville Public Building Authority through the Tennessee Municipal League

\$1,054,601 representing expenditures in excess of revenues received. The increase in expenditures was due the construction of Fletcher Trace Parkway \$735,072 which funded through the fund balance and the completion of Canada Road \$400,999 which was loan funded.

The General Fund is the principal operating fund of the City. At the end of the current fiscal year, the fund balance of the General Fund was \$4,801,592, all of which was unreserved. The General Fund balance represents approximately 130% of the total General Fund expenditures and transfers out. The fund balance of the City's General Fund decreased by \$479,936 as a result of the current year operations.

Special revenue funds have a fund balance of \$108,790. This amount is unreserved but board designated for special revenue fund expenditures. The combined fund balance for all special revenue funds decreased by \$22,877, due mainly to increases in operating expenses and capital outlays in State Street Aid Fund and Solid Waste Fund.

### **Proprietary Funds**

The City's proprietary funds provide the same type information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the sewer fund at the end of the year amounted to \$2,190,579 respectively. Other factors concerning the financial position of this fund has already been addressed in the discussion of the City's business-type activities.

### **Capital Assets and Debt Administration**

#### **Capital Assets**

The City's investment in capital assets for its governmental and business type activities as of June 30, 2007, amounts to \$65,235,966 (net of accumulated depreciation) an increase of \$4,443,876 from prior year. This investment in capital assets includes land, buildings and improvements, furnishing and equipment, and construction in process. The infrastructure (roads, bridges, sidewalks, etc.) of the City for expenditures prior to the implementation of GASB 34 have not been capitalized and included in this balance.

Major capital asset events during the fiscal year included the following:

- Various street and road improvements
- Contributions of infrastructure & sewer collection from completed development

### Summary of Capital Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$6,514,094	\$6,514,094	\$ 80,682	\$ 80,682	\$6,594,776	\$6,594,776
Building & Improvement	1,973,574	1,973,574	7,617,278	7,617,278	9,590,852	9,590,852
Machinery & Equipment	916,451	889,381	-	-	916,451	889,381
Improvements Other	2,545,374	1,872,148	-	-	2,545,374	1,872,148
Vehicles	-	-	45,007	45,007	45,007	45,007
Construction in Progress	960,532	124,816	6,943,609	458,548	7,904,141	583,364
Infrastructure	60,727,341	60,727,341	-	-	60,727,341	60,729,341
Less accumulated Depreciation	<u>(21,647,720)</u>	<u>(18,309,402)</u>	<u>(1,440,256)</u>	<u>(1,201,377)</u>	<u>(23,087,976)</u>	<u>(19,510,779)</u>
<b>Total Capital Assets</b>	<u>\$51,989,646</u>	<u>\$53,791,952</u>	<u>\$13,246,320</u>	<u>\$7,000,138</u>	<u>\$65,235,966</u>	<u>\$60,792,090</u>

Additional information on the City's capital assets can be found in Note 4 to the financial statements on pages 29 – 30.

### Summary of Outstanding Debt

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
General obligation loans	<u>\$2,845,220</u>	<u>\$2,425,557</u>	<u>\$6,874,346</u>	<u>\$ 740,475</u>	<u>\$9,719,556</u>	<u>\$3,166,032</u>
<b>Total Long-Term Debt</b>	<u>\$2,845,220</u>	<u>\$2,425,557</u>	<u>\$6,874,346</u>	<u>\$ 740,475</u>	<u>\$9,719,556</u>	<u>\$3,166,032</u>

Information related to the City's long-term debt can be found in Note 4 to the financial statements on pages 30 - 31 of this report.

## **Budget Discussion**

In preparing the City of Lakeland's budget for the 2007-2008 fiscal year it was determined that revenues would increase substantially due to the increase in population over State Shared Funds from previous years.

The City tries to ensure that development etc. pays for itself (so existing residents and businesses do not subsidize new development) without overcharging for development by charging development and building fees. The City budgets relatively conservatively, and even one medium size development would have a major effect on revenues.

The City of Lakeland has approved an operating budget of \$4,641,880 and capital improvements of \$2,098,000 to be funded by fund balance (cash account). The total budget for the 2007-2008 is \$6,739,880.

## **Requests for Information**

This financial report is designed to provide a general overview of the City of Lakeland's finances for all those with an interest in the government's finances. Question concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Lakeland, Office of Finance, 10001 U.S. Highway 70 Lakeland, Tennessee 38002.

**CITY OF LAKELAND, TENNESSEE**

**STATEMENT OF NET ASSETS**

June 30, 2007

	Primary Government		Total
	Governmental Activities	Business-type Activity	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 4,781,737	\$ 3,244,451	\$ 8,026,188
Receivables			
Accounts	31,537	34,644	66,181
Interest	85,271	67,019	152,290
Due from other governments	542,442	-	542,442
Restricted cash	71,260	504,920	576,180
Capital assets, not being depreciated	7,474,626	7,024,291	14,498,917
Capital assets, being depreciated, net	44,515,020	6,222,029	50,737,049
<b>Total assets</b>	<b>57,501,893</b>	<b>17,097,354</b>	<b>74,599,247</b>
<b>LIABILITIES</b>			
Accounts payable	202,156	1,038,619	1,240,775
Retainage payable	88,987	621,836	710,823
Accrued expenses	53,765	-	53,765
Deferred revenue	24,832	-	24,832
Customer deposits	227,070	-	227,070
Due to other governments	5,055	-	5,055
Noncurrent liabilities:			
Due within one year	138,000	398,000	536,000
Due in more than one year	2,707,220	6,476,346	9,183,566
<b>Total liabilities</b>	<b>3,447,085</b>	<b>8,534,801</b>	<b>11,981,886</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	49,144,426	6,371,974	55,516,400
Unrestricted	4,910,382	2,190,579	7,100,961
<b>Total net assets</b>	<b>\$ 54,054,808</b>	<b>\$ 8,562,553</b>	<b>\$ 62,617,361</b>

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

CITY OF LAKELAND, TENNESSEE

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2007

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activity	Total
<b>Functions/Programs</b>							
<b>Primary government:</b>							
Governmental Activities:							
General government	\$ 1,931,583	\$ 196,854	\$ -	\$ -	\$ (1,734,729)	\$ -	\$ (1,734,729)
Public safety	49,964	-	15,484	-	(34,480)	-	(34,480)
Public works	4,046,357	755,097	233,899	-	(3,057,361)	-	(3,057,361)
Parks and recreation	269,054	59,870	-	-	(209,184)	-	(209,184)
Total governmental activities	<u>6,296,958</u>	<u>1,011,821</u>	<u>249,383</u>	<u>-</u>	<u>(5,035,754)</u>	<u>-</u>	<u>(5,035,754)</u>
Business-type activity:							
Sewer	989,709	578,266	-	-	-	(411,443)	(411,443)
Total business-type activity:	<u>989,709</u>	<u>578,266</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(411,443)</u>	<u>(411,443)</u>
Total primary government	<u>\$ 7,286,667</u>	<u>\$ 1,590,087</u>	<u>\$ 249,383</u>	<u>\$ -</u>	<u>(5,035,754)</u>	<u>(411,443)</u>	<u>(5,447,197)</u>
General revenues:							
Local taxes					1,239,575	-	1,239,575
Intergovernmental					806,599	-	806,599
Interest on investments					251,764	170,089	421,853
Other					13,034	-	13,034
Total general revenues and transfers					<u>2,310,972</u>	<u>170,089</u>	<u>2,481,061</u>
Change in net assets					<u>(2,724,782)</u>	<u>(241,354)</u>	<u>(2,966,136)</u>
Net assets - beginning, as restated					<u>56,779,590</u>	<u>8,803,907</u>	<u>65,583,497</u>
Net assets - ending					<u>\$ 54,054,808</u>	<u>\$ 8,562,553</u>	<u>\$ 62,617,361</u>

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

**CITY OF LAKELAND, TENNESSEE**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

June 30, 2007

	General Fund	Solid Waste	Other Governmental Fund - State Street Aid	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,781,737	\$ -	\$ -	\$ 4,781,737
Receivables				
Accounts	31,537	-	-	31,537
Interest	85,271	-	-	85,271
Due from other funds	-	108,790	-	108,790
Due from other governments	542,442	-	-	542,442
Restricted cash	71,260	-	-	71,260
<b>Total assets</b>	<b>\$ 5,512,247</b>	<b>\$ 108,790</b>	<b>\$ -</b>	<b>\$ 5,621,037</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 202,156	\$ -	\$ -	\$ 202,156
Retainage payable	88,987	-	-	88,987
Accrued liabilities	53,765	-	-	53,765
Deferred revenue	24,832	-	-	24,832
Refundable deposits	227,070	-	-	227,070
Due to other governments	5,055	-	-	5,055
Due to other funds	108,790	-	-	108,790
<b>Total liabilities</b>	<b>710,655</b>	<b>-</b>	<b>-</b>	<b>710,655</b>
Fund balances:				
Unreserved, reported in:				
General fund	4,801,592	-	-	4,801,592
Special revenue funds	-	108,790	-	108,790
<b>Total fund balances</b>	<b>4,801,592</b>	<b>108,790</b>	<b>-</b>	<b>4,910,382</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,512,247</b>	<b>\$ 108,790</b>	<b>\$ -</b>	<b>\$ 5,621,037</b>

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

CITY OF LAKELAND, TENNESSEE

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
GOVERNMENTAL FUNDS

June 30, 2007

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Amounts reported for governmental activities in the statement of net assets are different because:

Total governmental fund balances	\$ 4,910,382
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	51,989,646
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,845,220)</u>
Net assets of governmental activities	<u>\$ 54,054,808</u>

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

**CITY OF LAKELAND, TENNESSEE**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2007

	General Fund	Solid Waste Fund	Other Governmental Fund - State Street Aid	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 1,239,575	\$ -	\$ -	\$ 1,239,575
Licenses and permits	196,854	-	-	196,854
Intergovernmental	806,599	-	233,899	1,040,498
Charges for services	144,620	670,347	-	814,967
State grants	15,484	-	-	15,484
Interest income	251,764	-	-	251,764
Other	13,034	-	-	13,034
Total revenues	<u>2,667,930</u>	<u>670,347</u>	<u>233,899</u>	<u>3,572,176</u>
<b>EXPENDITURES</b>				
Current				
General government	1,696,316	-	-	1,696,316
Capital projects	1,220,269	-	-	1,220,269
Public safety	49,964	-	-	49,964
Public works	47,084	693,224	245,647	985,955
Parks and recreation	422,409	-	-	422,409
Debt Service				
Principal	133,000	-	-	133,000
Interest and fiscal charges	118,864	-	-	118,864
Total expenditures	<u>3,687,906</u>	<u>693,224</u>	<u>245,647</u>	<u>4,626,777</u>
Excess (deficiency) of revenues over (under) expenditures	(1,019,976)	(22,877)	(11,748)	(1,054,601)
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of debt	551,788	-	-	551,788
Transfers in	-	-	11,748	11,748
Transfers out	<u>(11,748)</u>	-	-	<u>(11,748)</u>
Total other financing sources and uses	<u>540,040</u>	-	<u>11,748</u>	<u>551,788</u>
Net change in fund balances	(479,936)	(22,877)	-	(502,813)
Fund balances - beginning, as restated	<u>5,281,528</u>	<u>131,667</u>	-	<u>5,413,195</u>
Fund balances - ending	<u>\$ 4,801,592</u>	<u>\$ 108,790</u>	<u>\$ -</u>	<u>\$ 4,910,382</u>

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

CITY OF LAKELAND, TENNESSEE

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2007

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Amounts reported for governmental activities in the statement of net activities  
are different because:

Net change in fund balance - total governmental funds \$ (502,813)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Contributions of capital assets are not recognized in the governmental funds but are recognized as revenue when received in the statement of activities. This is the amount by which depreciation exceeded capital outlays and contributions in the current period. (1,802,306)

The issuance of long-term debt (e.g. notes payable) 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. This amount is the net effect of these differences in the treatment of long-term debt. (419,663)

Change in net assets of governmental funds \$ (2,724,782)

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

**CITY OF LAKELAND, TENNESSEE**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET AND ACTUAL – GENERAL FUND**

For the Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		Variance with Final Budget - Positive (Negative)
	<u>Original and Final</u>	<u>Actual Amounts</u>	
<b>REVENUES</b>			
Taxes	\$ 1,460,000	\$ 1,239,575	\$ (220,425)
Licenses and permits	579,000	196,854	(382,146)
Intergovernmental	641,000	806,599	165,599
Charges for services	55,000	144,620	89,620
State grants	-	15,484	15,484
Interest income	120,000	251,764	131,764
Other	25,000	13,034	(11,966)
Total revenues	<u>2,880,000</u>	<u>2,667,930</u>	<u>(212,070)</u>
<b>EXPENDITURES</b>			
Current			
General government	1,753,150	1,696,316	56,834
Capital projects	1,940,000	1,220,269	719,731
Public safety	84,500	49,964	34,536
Public works	57,350	47,084	10,266
Parks and recreation	469,950	422,409	47,541
Debt Service			
Principal	170,000	133,000	37,000
Interest and fiscal charges	80,000	118,864	(38,864)
Total expenditures	<u>4,554,950</u>	<u>3,687,906</u>	<u>867,044</u>
Excess (deficiency) of revenues over (under) expenditures	(1,674,950)	(1,019,976)	654,974
<b>OTHER FINANCING SOURCES (USES)</b>			
Issuance of debt	-	551,788	551,788
Transfers out	-	(11,748)	(11,748)
Net change in fund balance	<u>\$ (1,674,950)</u>	<u>(479,936)</u>	<u>\$ 1,195,014</u>
Fund balance - beginning of year, as restated		<u>5,281,528</u>	
Fund balance - end of year		<u>\$ 4,801,592</u>	

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

CITY OF LAKELAND, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET AND ACTUAL – SOLID WASTE FUND

For the Year Ended June 30, 2007

	Budgeted Amounts <u>Original and Final</u>	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>			
Charges for services	\$ 450,000	\$ 670,347	\$ 220,347
<b>EXPENDITURES</b>			
Public works	<u>459,700</u>	<u>693,224</u>	<u>(233,524)</u>
Net change in fund balance	<u>\$ (9,700)</u>	<u>(22,877)</u>	<u>\$ (13,177)</u>
Fund balance - beginning of year		<u>131,667</u>	
Fund balance - end of year		<u>\$ 108,790</u>	

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

**CITY OF LAKELAND, TENNESSEE**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUND**

June 30, 2007

	<u>Sewer Fund</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 3,244,451
Receivables	
Customers	34,644
Interest	67,019
Restricted cash	504,920
Total current assets	<u>3,851,034</u>
Capital assets:	
Capital assets, not being depreciated	7,024,291
Capital assets, being depreciated - net	6,222,029
Total capital assets	<u>13,246,320</u>
Total assets	<u>17,097,354</u>
 <b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	1,038,619
Retainage payable	621,836
Current portion of notes payable	398,000
Total current liabilities	<u>2,058,455</u>
Noncurrent liabilities:	
Notes payable, net of current portion	6,476,346
Total liabilities	<u>8,534,801</u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	6,371,974
Unrestricted	2,190,579
Total net assets	<u>\$ 8,562,553</u>

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

**CITY OF LAKELAND, TENNESSEE**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND**

For the Year Ended June 30, 2007

	Sewer Fund
Operating revenues:	
Sewer service fee	\$ 379,266
Service connections fees	99,500
Other	99,500
Total operating revenues	578,266
Operating expenses:	
Personnel expenses	327,065
General and administrative	256,575
Depreciation	238,879
Total operating expenses	822,519
Operating income (loss)	(244,253)
Nonoperating revenues (expenses):	
Interest income	170,089
Interest and agent fee expense	(167,190)
Total non-operating revenues (expenses)	2,899
Income (loss) before contributions	(241,354)
Capital contributions - tap fees	-
Capital contributions - development fees	-
Change in net assets	(241,354)
Total net assets - beginning	8,803,907
Total net assets - ending	\$ 8,562,553

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

**CITY OF LAKELAND, TENNESSEE**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND**

For the Year Ended June 30, 2007

	Sewer Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users	\$ 570,511
Payments to suppliers	(256,575)
Payments to employees	(327,065)
Net cash provided (used) by operating activities	(13,129)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from issuance of capital debt	5,748,473
Loan issuance costs paid	(77,000)
Restricted cash deposits	(452,918)
Acquisition and construction of capital assets	(4,876,608)
Interest paid on capital debt	(163,340)
Net cash provided (used) by capital and related financing activities	178,607
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest income received	127,086
Net increase (decrease) in cash and cash equivalents	292,564
Cash and cash equivalents - beginning of the year	2,951,887
Cash and cash equivalents - end of the year	\$ 3,244,451
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ (244,253)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation	238,879
Change in assets and liabilities	
Receivables	
Customers	(7,755)
Net cash used by operating activities	\$ (13,129)

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

**CITY OF LAKELAND, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2007

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**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Lakeland, Tennessee (the City) was incorporated in 1977 as a municipal corporation governed by an elected mayor and four-member board of commissioners.

As required by accounting principles generally accepted in the United States of America, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. However, currently there are no component units.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statements of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. 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 the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the governmental-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement focus, basis of accounting, and financial statement presentation**

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

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Licenses and permits, charges for services, fines and forfeitures, and miscellaneous revenues (except for investment earnings) are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the primary operating fund of the City and accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Solid Waste Fund accounts for the receipts and expenditures related to sanitation services.

The City reports the following non-major governmental fund:

The State Street Aid Fund accounts for the receipts and expenditures of the City's share of the proceeds from the state gasoline tax.

The City reports the following major proprietary fund:

The Sewer Fund accounts for the activities of the City's collection, transportation, treatment and disposition of wastewater.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government – wide financial statements.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in

connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer fund are charges to customers for sales and services. The sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the sewer fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

## **D - Assets, liabilities and fund equity**

### *1. Deposits and investments*

The City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents. All certificates of deposit are considered to be cash and cash equivalents.

### *2. Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade receivables are shown net of an allowance for uncollectibles. However, there is no allowance due to subsequent receipt.

### *3. Restricted assets*

Certain cash and cash equivalents of the City are classified as restricted assets on the balance sheet because they are maintained in separate accounts and/or their use is limited by certain agreements and contracts with third parties. Restricted balances include escrow for construction contractors established to fund retainages of outstanding construction projects.

### *4. Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., streets, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. The government reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

Roads and bridges	30 years
Buildings and building improvements	15-40 years
Land improvements	20 years
Machinery, equipment and heavy vehicles	5 years
Automobiles	5 years

#### 5. *Compensated absences*

It is the government's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

#### 6. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Note issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize note issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### 7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### 8. *Use of Estimates*

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect

certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds." The details of this difference are as follows:

Notes payable	\$ 2,860,095
Less: Deferred charge for issuance costs (to be amortized over life of debt)	<u>(14,875)</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ 2,845,220</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of the difference are as follows:

Capital outlay	\$ 1,536,012
Depreciation expense	<u>(3,338,318)</u>
Net adjustment to decrease net change in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (1,802,306)</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g. notes payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debts 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 and similar items when first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this difference are as follows:

Debt issued or incurred:	
Issuance of notes payable	\$ 551,788
Amortization of issuance costs	875
Principal repayment on notes payable	<u>(133,000)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 419,663</u>

### **NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

#### **A. Budgetary information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The revenues and expenditures accounted for in all governmental fund types are controlled by a formal integrated budgetary accounting system. The mayor and board of commissioners approve annually the budgets for these funds. Budgetary control is maintained at the government wide level by total expenditures and expenditures may not exceed funds budgeted, which constitute the legal spending limit. Management may not amend the budget without approval of the governing body.

#### **B. Excess of expenditures over appropriations**

For the year ended June 30, 2007, the solid waste fund's expenditures exceeded appropriations by \$233,524.

#### **C. Deficit fund equity**

As of June 30, 2007, no funds had a deficit fund equity.

### **NOTE 4 - DETAILED NOTES ON ALL FUNDS**

#### **A. Deposits and investments**

At year end, the City's carrying amount of deposits was \$8,602,368 and the bank balance was \$8,764,129. Of the bank balance, \$300,000 was covered by the Federal Deposit Insurance Corporation with the remaining balance of \$8,464,129 being collateralized with the State of Tennessee Bank Collateral Pool with securities held by the pledging financial institution's trust department or agent in the City's name.

State statutes authorize the City to invest in bonds, notes or treasury bills of the United States of America or any of its agencies, certificates of deposit, repurchase agreements utilizing obligations of the United States of America or its agencies as the underlying securities, state pooled investment funds, money market mutual funds, and mortgage-backed securities. Statutes require that (1) deposits have securities as collateral whose market value is equal to 105 percent of the value of the deposits, less so

much of such amount as is insured by federal deposit insurances and (2) securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase agreement. Tennessee Code Annotated Sections 9-4-105 and 9-4-404 state that collateralization coverage for cash deposits may be computed based on average daily balances of the preceding month. City deposit policies follow the State statutes.

**B. Receivables**

Receivables as of year-end for the City's individual major funds, including the applicable allowances for the uncollectible accounts, are as follows:

	General Fund	Sewer Fund	Total
Receivables:			
Taxes	\$ 31,537	\$ -	\$ 31,537
Interest	85,271	67,019	152,290
Accounts receivable	-	34,644	34,644
Gross receivables	<u>116,808</u>	<u>101,663</u>	<u>218,471</u>
Less: allowance for doubtful accounts	-	-	-
Net total receivables	<u>\$ 116,808</u>	<u>\$ 101,663</u>	<u>\$ 218,471</u>

Amounts due from other governments represent the normal amounts due from state and county governments for shares revenues and tax allocations.

**C. Capital assets**

Capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 6,514,094	\$ -	\$ -	\$ 6,514,094
Construction in progress	124,816	960,532	(124,816)	960,532
Total capital assets, not being depreciated	<u>6,638,910</u>	<u>960,532</u>	<u>(124,816)</u>	<u>7,474,626</u>
Capital assets, being depreciated:				
Buildings and improvements	1,973,574	-	-	1,973,574
Improvements other than buildings	1,872,148	548,410	124,816	2,545,374
Machinery and equipment	889,381	27,070	-	916,451
Infrastructure	60,727,341	-	-	60,727,341
Total capital assets, being depreciated	<u>65,462,444</u>	<u>575,480</u>	<u>124,816</u>	<u>66,162,740</u>
Less accumulated depreciation for:				
Buildings and improvements	(184,835)	(50,676)	-	(235,511)
Improvements other than buildings	(328,304)	(180,604)	-	(508,908)
Machinery and equipment	(553,545)	(82,892)	-	(636,437)
Infrastructure	(17,242,718)	(3,024,146)	-	(20,266,864)
Total accumulated depreciation	<u>(18,309,402)</u>	<u>(3,338,318)</u>	<u>-</u>	<u>(21,647,720)</u>
Total capital assets, being depreciated, net	<u>47,153,042</u>	<u>(2,762,838)</u>	<u>124,816</u>	<u>44,515,020</u>
Governmental activities capital assets, net	<u>\$ 53,791,952</u>	<u>\$ (1,802,306)</u>	<u>\$ -</u>	<u>\$ 51,989,646</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activity:</b>				
Capital assets, not being depreciated:				
Land	\$ 80,682	\$ -	\$ -	\$ 80,682
Construction in progress	458,548	6,485,061	-	6,943,609
Total capital assets, not being depreciated	<u>539,230</u>	<u>6,485,061</u>	-	<u>7,024,291</u>
Capital assets, being depreciated:				
Sewer plant and improvements	7,617,278	-	-	7,617,278
Vehicles and equipment	45,007	-	-	45,007
Total capital assets, being depreciated	<u>7,662,285</u>	-	-	<u>7,662,285</u>
Less accumulated depreciation for:				
Sewer plant and improvements	(1,183,374)	(229,878)	-	(1,413,252)
Vehicles and equipment	(18,003)	(9,001)	-	(27,004)
Total accumulated depreciation	<u>(1,201,377)</u>	<u>(238,879)</u>	-	<u>(1,440,256)</u>
Total capital assets, being depreciated, net	<u>6,460,908</u>	<u>(238,879)</u>	-	<u>6,222,029</u>
Business-type activity capital assets, net	<u>\$ 7,000,138</u>	<u>\$ 6,246,182</u>	<u>\$ -</u>	<u>\$ 13,246,320</u>

Depreciation expense was charged to function / programs of the primary government as follows:

<b>Governmental Activities:</b>	
General government	\$ 170,830
Public Works	3,095,383
Parks and recreation	72,105
Total depreciation expense - governmental activities	<u>\$ 3,338,318</u>
 <b>Business-Type Activities:</b>	
Sewer	<u>\$ 238,879</u>

#### D. Interfund receivables, payables, and transfers

As of June 30, 2007, the general fund has a payable to the solid waste fund for \$108,790. This is a result of the general fund maintaining all cash deposits for the governmental funds.

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations.

#### E. Long Term Debt

##### *General obligation loans payable*

On July 26, 2004, the City entered into a 20 year loan agreement with the Public Building Authority of the City of Clarksville, Tennessee ("Clarksville PBA") through the Tennessee Municipal League (the "League") for \$3,500,000. The principal on this loan is paid annually while the interest is paid monthly based on a variable interest rate determined monthly by the remarketing agent. At June 30, 2007 the interest rate on this loan was 3.87%.

On June 30, 2006, the City entered into a 20 year loan agreement to borrow \$11,000,000 from the Clarksville PBA through the League. The principal on this loan is paid annually while the interest is paid monthly based on a variable interest rate determined monthly by the remarketing agent. At June 30, 2007 the interest rate on this loan was 3.87%.

*Changes in long-term liabilities*

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance -	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Notes payable	\$ 2,441,307	\$ 551,788	\$ (133,000)	\$ 2,860,095	\$ 138,000
Less deferred amounts:					
For issuance costs	(15,750)	-	875	(14,875)	-
Governmental-type activity long-term liabilities	<u>\$ 2,425,557</u>	<u>\$ 551,788</u>	<u>\$ (132,125)</u>	<u>\$ 2,845,220</u>	<u>\$ 138,000</u>
<b>Business-type activities:</b>					
Notes payable	\$ 740,475	\$ 6,207,021	\$ -	\$ 6,947,496	\$ 398,000
Less deferred amounts:					
For issuance costs	-	(77,000)	3,850	(73,150)	-
Business-type activity long-term liabilities	<u>\$ 740,475</u>	<u>\$ 6,130,021</u>	<u>\$ 3,850</u>	<u>\$ 6,874,346</u>	<u>\$ 398,000</u>

Annual debt service requirements to maturity based on current interest rates are as follows:

Years Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 138,000	\$ 110,686	\$ 398,000	\$ 268,868
2009	142,000	105,345	414,000	253,465
2010	147,000	99,850	430,000	237,444
2011	153,000	94,161	447,000	220,803
2012	158,000	88,240	465,000	203,504
2013-2017	875,000	345,222	2,620,000	732,687
2018-2022	1,041,000	163,526	2,173,496	196,208
2023	206,095	7,976	-	-
	<u>\$ 2,860,095</u>	<u>\$ 1,015,006</u>	<u>\$ 6,947,496</u>	<u>\$ 2,112,979</u>

The City is not subject to any state or other law that limits the amount of net bonded debt a City may have outstanding, therefore, there is no legal debt margin or computation thereof. The City's full faith, credit, and unlimited taxing authority are pledged to the repayment of all general obligation note principal and interest.

## **NOTE 5 – EMPLOYEE RETIREMENT SYSTEM**

### **A. Plan Description**

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

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

### **B. Funding Policy**

Lakeland requires employees to contribute 5% of earnable compensation.

Lakeland is required to contribute at an actuarially determined rate. The rate for the fiscal year ending June 30, 2007 was 6.65% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Lakeland is established and may be amended by the TCRS Board of Trustees.

### **C. Annual Pension Cost**

For the year ending June 30, 2007, Lakeland's annual pension cost of \$49,695 to TCRS was equal to Lakeland's required and actual contributions. The required contribution was determined as part of the July 1, 2005 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5% annual increase in the Social Security wage base, and (d) projected post retirement increases of 3% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five year period. Lakeland's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2005 was -0- years. An actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 2006.

## D. Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Following is a summary of the three-year trend for the years ended June 30:

Trend Information			
Fiscal Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2007	\$ 49,695	100%	\$ -
June 30, 2006	\$ 36,709	100%	\$ -
June 30, 2005	\$ 20,745	100%	\$ -

### Required Supplementary Information Schedule of Funding Progress for Lakeland

Actuarial Valuation Date	Actuarial Value of Assets  (a)	Actuarial Accrued Liability (AAL)  (b)	Unfunded AAL (UAAL)  (b) - (a)	Funded Ratio  (a/b)	Covered Payroll  ((b-a)/c)	UAAL as a % of Covered Payroll
July 1, 2005	\$ 69,000	\$ 69,000	\$ -	100.00%	\$ 416,000	0.00%
July 1, 2003	-	-	-	0.00%	-	0.00%
July 1, 2001	-	-	-	0.00%	-	0.00%

## NOTE 6 - COMMITMENTS AND CONTINGENCIES

The City has entered into lease agreements with various governmental units and organizations. The terms of these leases vary and require only nominal token payments, if any. Annual lease payments are not material.

Several lawsuits against the City are ongoing. The ultimate outcome of the actions is not determinable; however, City officials believe that the outcome of these proceedings, either singularly or in the aggregate, will not have a materially adverse effect on the accompanying general purpose financial statements.

## NOTE 7 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City decided it was more economically feasible to join a public entity risk pool as opposed to purchasing commercial insurance for general liability, auto liability, errors and omissions, and auto physical damage coverage. The City joined the Tennessee Municipal League Risk Pool (the Pool), which is a public entity risk pool established in 1979 by the Tennessee Municipal League. The City pays annual premiums to the Pool and its general

liability, auto liability, real and personal property damage, workmen's compensation, and errors and omissions policies. The Pool provides the specified coverage and pays all claims from its member premiums charged or through reinsurance policies. The City's premiums are calculated based on its prior claims history. It is the policy of the City of purchase commercial insurance for the risks of employee dishonesty. The City has not incurred any losses in excess of commercial insurance coverage for the past three fiscal years.

**NOTE 8 – PRIOR PERIOD ADJUSTMENTS**

**A. General Fund**

A prior period adjustment has been made to the general fund to record various receivables at June 30, 2006, to recognize a liability to the State of Tennessee for gross receipts tax, and to close the state street aid fund deficit into the general fund. The state street aid is funded with state revenue with any deficit covered through transfers from the city. The state street aid fund should show no ending fund balance. The details are as follows:

Fund balance at June 30, 2006, as previously reported	\$ 5,888,748
To record various receivables at June 30, 2006	132,508
To recognize a liability to the State of Tennessee for gross receipts taxes collected	(5,630)
To close the state street aid fund deficit into the general fund	<u>(734,098)</u>
Fund balance at June 30, 2006, as restated	<u>\$ 5,281,528</u>

**B. Other Governmental Fund - State Street Aid**

As noted above, the state street aid fund should not show a deficit balance because any deficits are covered by transfer from the city. The details of the prior period adjustment are as follows:

Fund balance (deficit) at June 30, 2006, as previously reported	\$ (734,098)
To close the state street aid fund deficit into the general fund	<u>734,098</u>
Fund balance at June 30, 2006, as restated	<u>\$ -</u>

**C. Governmental Activities**

Governmental activities beginning net assets have been restated to record various receivables and a payable as noted above, to correct a note payable balance at June 30, 2006, and to capitalize loan closing costs that were expensed in a prior year. The details of the adjustments are as follows:

Net assets at June 30, 2006, as previously reported	\$ 56,586,173
To record various receivables at June 30, 2006	132,508
To recognize a liability to the State of Tennessee for gross receipts taxes collected	(5,630)
To correct note payable balance at June 30, 2006	50,789
To capitalize closing costs related to issuance of note payable, net of amortization of \$1,750	<u>15,750</u>
Net assets at June 30, 2006, as restated	<u>\$ 56,779,590</u>

**CITY OF LAKELAND, TENNESSEE**

**SCHEDULE OF REVENUES – BUDGET AND ACTUAL – GENERAL FUND**

For the Year Ended June 30, 2007

	Budgeted Amounts <u>Original and Final</u>	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>TAXES</b>			
Local sales tax	\$ 1,212,000	\$ 952,190	\$ (259,810)
Wholesale beer tax	90,000	97,199	7,199
Business tax	70,000	72,032	2,032
CATV franchise tax	88,000	89,271	1,271
Hotel/Motel tax	-	28,883	28,883
Total taxes	<u>1,460,000</u>	<u>1,239,575</u>	<u>(220,425)</u>
<b>LICENSES AND PERMITS</b>			
Building permit fees	103,000	120,597	17,597
Inspection fees	195,000	4,830	(190,170)
Plat approval fees	50,000	33,480	(16,520)
Drainage control fees	175,000	500	(174,500)
Land disturbance fees	20,000	1,548	(18,452)
Tennessee One Call fees	10,000	10,700	700
Others	26,000	25,199	(801)
Total licenses and permits	<u>579,000</u>	<u>196,854</u>	<u>(382,146)</u>
<b>INTERGOVERNMENTAL</b>			
State of Tennessee shared taxes			
Sales tax	530,000	596,881	66,881
Beer tax	5,000	5,563	563
Income tax	33,000	110,965	77,965
Transportation tax	18,000	18,164	164
TEMA reimbursement	-	8,547	8,547
Receipts in lieu of tax - TVA	55,000	66,479	11,479
Total intergovernmental	<u>641,000</u>	<u>806,599</u>	<u>165,599</u>
<b>CHARGES FOR SERVICES</b>			
In-lieu of payments	-	85,750	85,750
Recreation fees	55,000	58,870	3,870
Total charges for services	<u>55,000</u>	<u>144,620</u>	<u>89,620</u>
<b>STATE GRANTS</b>			
	-	15,484	15,484
<b>INTEREST INCOME</b>			
	120,000	251,764	131,764
<b>OTHER REVENUE</b>			
	25,000	13,034	(11,966)
<b>TOTAL GENERAL FUND REVENUES</b>			
	<u>\$ 2,880,000</u>	<u>\$ 2,667,930</u>	<u>\$ (212,070)</u>

**CITY OF LAKELAND, TENNESSEE**

**SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL – GENERAL FUND**

For the Year Ended June 30, 2007

	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
	Original and Final	Actual Amounts	
<b>GENERAL GOVERNMENT</b>			
Personnel compensation	\$ 975,500	\$ 943,967	\$ 31,533
Fringe benefits	271,000	300,069	(29,069)
Office communication expense	34,000	27,846	6,154
Utility services	34,800	41,112	(6,312)
Professional services	281,000	250,882	30,118
Repair/travel/insurance	136,350	124,443	11,907
Other services	20,500	7,997	12,503
Total general government	<u>1,753,150</u>	<u>1,696,316</u>	<u>56,834</u>
<b>CAPITAL PROJECTS</b>	<u>1,940,000</u>	<u>1,220,269</u>	<u>719,731</u>
<b>PUBLIC SAFETY</b>			
Ambulance services	29,000	30,300	(1,300)
Other services, machinery, and equipment	55,500	19,664	35,836
Total public safety	<u>84,500</u>	<u>49,964</u>	<u>34,536</u>
<b>PUBLIC WORKS</b>			
Gasoline, oil, and vehicle repair	52,000	42,680	9,320
Other professional services, electric, and miscellaneous	5,350	4,404	946
Total public works	<u>57,350</u>	<u>47,084</u>	<u>10,266</u>
<b>PARKS AND RECREATION</b>			
Contracted services	25,000	25,630	(630)
Parks and recreation improvements	300,000	294,529	5,471
Other expenses	144,950	102,250	42,700
Total parks and recreation	<u>469,950</u>	<u>422,409</u>	<u>47,541</u>
<b>DEBT SERVICE</b>			
Principal	170,000	133,000	37,000
Interest and fiscal charges	80,000	118,864	(38,864)
Total debt service	<u>250,000</u>	<u>251,864</u>	<u>(1,864)</u>
 Total expenditures	 <u>\$ 4,554,950</u>	 <u>\$ 3,687,906</u>	 <u>\$ 867,044</u>

**CITY OF LAKELAND, TENNESSEE**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES --  
BUDGET AND ACTUAL - NONMAJOR GOVERNMENTAL FUND**

For the Year Ended June 30, 2007

	<u>Other Governmental Fund - State Street Aid</u>		
	<u>Budgeted Amounts</u>		<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original and Final</u>	<u>Actual Amounts</u>	
<b>REVENUES</b>			
Intergovernmental	\$ 230,000	\$ 233,899	\$ 3,899
<b>EXPENDITURES</b>			
Repairs and maintenance	329,500	192,503	136,997
Grass mowing	36,000	33,714	2,286
Street lighting	13,800	12,444	1,356
Other	16,050	6,986	9,064
Total expenditures	<u>395,350</u>	<u>245,647</u>	<u>149,703</u>
Excess (deficiency) of revenues over (under) expenditures	(165,350)	(11,748)	153,602
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	<u>-</u>	<u>11,748</u>	<u>(11,748)</u>
Net change in fund balance	<u>\$ (165,350)</u>	<u>-</u>	<u>\$ 165,350</u>
Fund balance - beginning of year, as restated		<u>-</u>	
Fund balance - end of year		<u>\$ -</u>	

**CITY OF LAKELAND, TENNESSEE**

**SCHEDULE OF NOTES PAYABLE  
FUTURE MATURITIES (INCLUDING INTEREST)**

June 30, 2007

<u>Fiscal Year</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2004 Note Payable - Public Building Authority - Clarksville</u>		<u>2006 Note Payable - Public Building Authority - Clarksville</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 138,000	\$ 110,686	\$ 398,000	\$ 268,868
2009	142,000	105,345	414,000	253,465
2010	147,000	99,850	430,000	237,444
2011	153,000	94,161	447,000	220,803
2012	158,000	88,240	465,000	203,504
2013	163,000	82,125	484,000	185,508
2014	169,000	75,817	503,000	166,777
2015	175,000	69,277	523,000	147,311
2016	181,000	62,504	544,000	127,071
2017	187,000	55,499	566,000	106,018
2018	194,000	48,263	588,000	84,114
2019	201,000	40,755	612,000	61,359
2020	208,000	32,976	636,000	37,674
2021	215,000	24,926	337,496	13,061
2022	223,000	16,606	-	-
2023	206,095	7,976	-	-
	<u>\$ 2,860,095</u>	<u>\$ 1,015,005</u>	<u>\$ 6,947,496</u>	<u>\$ 2,112,979</u>

CITY OF LAKELAND, TENNESSEE

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

For the Year Ended June 30, 2007

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<u>Grantor Agency</u>	<u>Contract Number</u>	<u>Beginning (Accrued) Deferred</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending (Accrued) Deferred</u>
<u>TN Dept. of Environment and Conservation</u> Urban Forestry Grant	Z06026234	<u>\$ -</u>	<u>\$ 15,484</u>	<u>\$ 15,484</u>	<u>\$ -</u>

Basis of Presentation:

The accompanying Schedule of State Financial Assistance summarizes the expenditures of the City of Lakeland, Tennessee under programs of the state government for the year ended June 30, 2007. The schedule is presented using the modified basis of accounting.

**CITY OF LAKELAND, TENNESSEE**

**SCHEDULE OF INSURANCE**

June 30, 2007

<u>Insurance Company</u>	<u>Type of Coverage</u>	<u>Description</u>
TML Risk Management - TMP-3192-04	Property Insurance	100% replacement \$2,587,068 buildings and personal property, \$22,492 electronic data processing equipment, \$112,061 mobile equipment, \$2,699,129 boiler, machinery, automatic coverages. \$1,000 deductible for all coverages.
TML Risk Management - TMP-067-04	Crime Coverages	\$150,000 employee dishonesty, \$150,000 forgery or alteration, \$100,000 theft disappearance or destruction, \$100,000 computer fraud. \$500 deductible employee dishonesty, \$1,000 deductible forgery or alteration.
	General Liability and Personal Injury	\$130,000/\$500,000 bodily injury tort liability, \$50,000 property damage tort liability, \$50,000 fire damage, \$50,000 each, impounded property, \$1,000 per person, \$10,000 per accident medical payment, \$1,000,000 each, other loss \$50,000 non-monetary defense loss.
	Automobile Liability	\$130,000/\$350,000 bodily injury, \$50,000 property damage, \$1,000,000 per occurrence, \$1,000 per person, \$10,000 per accident medical payments
	Uninsured Motorist	\$60,000 per occurrence bodily injury, \$50,000 property damage
	Comprehensive	\$500 deductible per occurrence
	Collision	\$500 deductible per occurrence
	Errors or Omissions	\$1,000,000 per occurrence, \$1,000 deductible
TML Risk Management - TWC-0394-02	Workman's Compensation	\$130,000 bodily injury each accident, \$350,000 bodily injury by policy limit, \$130,000 each employee by disease.
American States Insurance Company - EX-972377	Recorded Bond	\$20,000
American States Insurance Company - 5996088	City Manager - Bond	\$20,000
American States Insurance Company - EX-977661	Mayor - Bond	\$20,000
American States Insurance Company - 5996090	City Clerk/Deputy City Recorder - Bond	\$10,000
American States Insurance Company - E981436	Bookkeeper - Bond	\$10,000

**CITY OF LAKELAND, TENNESSEE**  
**SCHEDULE OF SEWER AND SANITATION RATES**

June 30, 2007

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Sewer Rates:

Based on Gallons of Water Used

Rate

Residential

\$0.717 per CCF  
\$12.00 minimum per month  
\$30.00 maximum per month

Commercial

\$1.00 per CCF  
\$45.00 minimum per month  
\$1,000.00 maximum per month

Sanitation Rates:

Type

Monthly  
Charge

Residential

\$16.15



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Mayor and Board of Commissioners of the  
City of Lakeland, Tennessee:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the statements of budgetary comparison for the general fund and solid waste fund, and the aggregate remaining fund information of the City of Lakeland, Tennessee (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 20, 2007. 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's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is

more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses and shown as 2007-1, 2007-2, 2007-3, and 2007-4 to be a significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-2, 2007-3, and 2007-4 to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated December 20, 2007.

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

This report is intended solely for the information and use of the Mayor, Board of Commissioners, management, the State of Tennessee, 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.

Watkins Liberal, PLLC

Memphis, Tennessee  
December 20, 2007

CITY OF LAKELAND, TENNESSEE

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2007

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2007-1 – Prior Period Adjustment for Receivables and Payables

During the current year audit, it was determined that cutoff procedures related to receivables and payables did not appear to be complete at June 30, 2006. Business taxes payable to the State of Tennessee were not properly recorded. In addition, receivables for franchise fees and wholesale beer taxes had not been properly recorded. Recording of receivables and payables in the appropriate period is essential to ensure proper financial reporting.

We recommend that accounts payable invoices received after the end of the year be reviewed to determine the period in which the invoice is related. In cases, where the invoice is for the prior year, we recommend the payable be recorded as of the end of the prior year. In addition, for items that have not yet been invoiced but for which the item or expense has occurred prior to year end, we recommend that an estimate of these charges be accrued at the end of the year. Any revenues earned in the period should be recorded.

*City's Response: Receivables and payables will be reviewed at year-end to ensure proper accounting with reporting in the proper period.*

2007-2 – Recording of Receivables and Payable

Accounts receivable and accounts payable were not recorded at year end. Some revenue, expenses and related receivable or payable amounts are not being recorded on the accrual basis. Cutoff procedures are essential to ensure that revenues and expenses are recorded in the period in which they are earned or due. Audit entries were made to properly record ending receivable and payable balances. Accounts payable was under-accrued by approximately \$184,000, accrued payroll and vacation was under-accrued by approximately \$53,800, and interest receivable was under-accrued by approximately \$85,000. Under-accruals found in the sewer fund included interest receivable of approximately \$43,000, accounts receivable of \$7,754, and accounts payable and retainage related to construction in progress of \$1,155,534.

As noted above, we recommend that accounts payable invoices received after the end of the year be reviewed to determine the period in which the invoice is related. In cases, where the invoice is for the prior year, we recommend the payable be recorded as of the end of the prior year. In addition, for items that have not yet been invoiced but for which the item or expense has occurred prior to year end, we recommend that an estimate of these charges be accrued at the end of the year. Any revenues earned in the period should be recorded.

*City's Response: Receivables and payables will be reviewed at year-end to ensure proper reporting.*

CITY OF LAKELAND, TENNESSEE

SCHEDULE OF FINDINGS AND RESPONSES (Continued)

For the Year Ended June 30, 2007

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2007-3 – Capitalization of Capital Assets in the Sewer Fund

The Sewer Fund is an enterprise fund which requires the recording of capital assets on its balance sheet. Fixed asset related expenses are being recorded in expense accounts rather than being recorded in the appropriate capital asset grouping. For example, approximately \$5,400,000 of construction in progress charges related to the new water plant was expensed during the year rather than capitalized. The result is that expenses are being overstated and the true operations of the Sewer Fund are not being reflected in its financial statements. An adjusting entry was made to capitalize the assets.

We recommend that all known amounts for capital asset additions be capitalized when the expenditure is made. In addition, details of all repairs and maintenance accounts and supplies accounts should be reviewed to ensure that no other fixed asset additions have been expensed.

*City's Response: We will monitor expenditures for capital assets in the Sewer Fund and record as capital assets when necessary.*

2007-4 – Recording of Audit Adjusting Entries

The audit entries from the prior year were not all recorded at the conclusion of the prior year's audit. This resulted in several adjustments being made at the start of the current year's audit to get the fund balances to agree to the balances in the prior year financial statements. It is essential that all entries be recorded so that fund balances will roll between periods.

We recommend that all audit adjustments be recorded in the general ledger system upon completion of the audit. This would lead to more accurate financial reporting throughout the year.

*City's Response: The prior auditor did not supply the City with adjusting entries made during the audit, however, we will make all audit adjusting entries at the conclusion of the current audit.*