

# CITY OF LAKELAND

## T E N N E S S E E



## COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended  
June 30, 2005

Prepared by:

Department of Finance and Administration

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# **INTRODUCTORY SECTION**



## *City of Lakeland*

December 28, 2005

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, 2005, 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.

Brower, Hollomon and Associates, a firm of licensed certified public accountants have audited the City of Lakeland financial statements. 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, 2005, are free of material misstatement. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2005, 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 24.1 square miles and serves a population of 8,011. 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-member Board of Commissioners, one of whom is elected as Mayor, are elected at large. The Commissioners duties are to set City policy through legislation and to supervise and evaluate the management of the City by the City Manager. The 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, solid waste collection, recreational programs, planning and zoning and administrative services. In addition, the City operates a sewer utility system.

The Shelby County School Board 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. 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 Mayor and Board Commissioners 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 8,011.

The City of Lakeland purchased 100-acres on Memphis-Arlington in 2004 at a price of \$916,971. In addition the City has built a fire station for the City of Lakeland. Shelby County Fire Department is staffing and operating the fire station. Next to the fire station is the newly constructed Windward Slopes Park. Phase I was completed in this fiscal year and Phase II is planned for the fiscal year starting July 1, 2005.

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

- 100-acre Town Center
- Windward Slopes Park
- Athletic Fields
- Beverle Reveria Road Extension

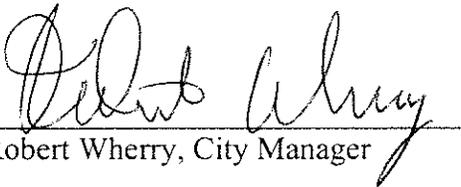
- North Canada Road Engineering
- Fletcher Trace Improvements
- Canada Road Enhancement Grant Application
- Additional Fire Station Sites

***Major initiatives***

- Construction and widening of Canada Road project started in 2004 and should be completed in 2006. The City of Lakeland and Shelby County have an agreement to each fund fifty percent of the estimated \$1,556,508 cost of this project. Shelby County is administering the construction contract.
- Design on the new Wastewater Treatment Plant is nearly completed and the construction is expected to start in 2006.
- A major update of the Comprehensive Plan is in progress and will be completed in 2006. This will be followed by a rewriting of the Development Ordinances based on changes in the Comprehensive Plan.

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,



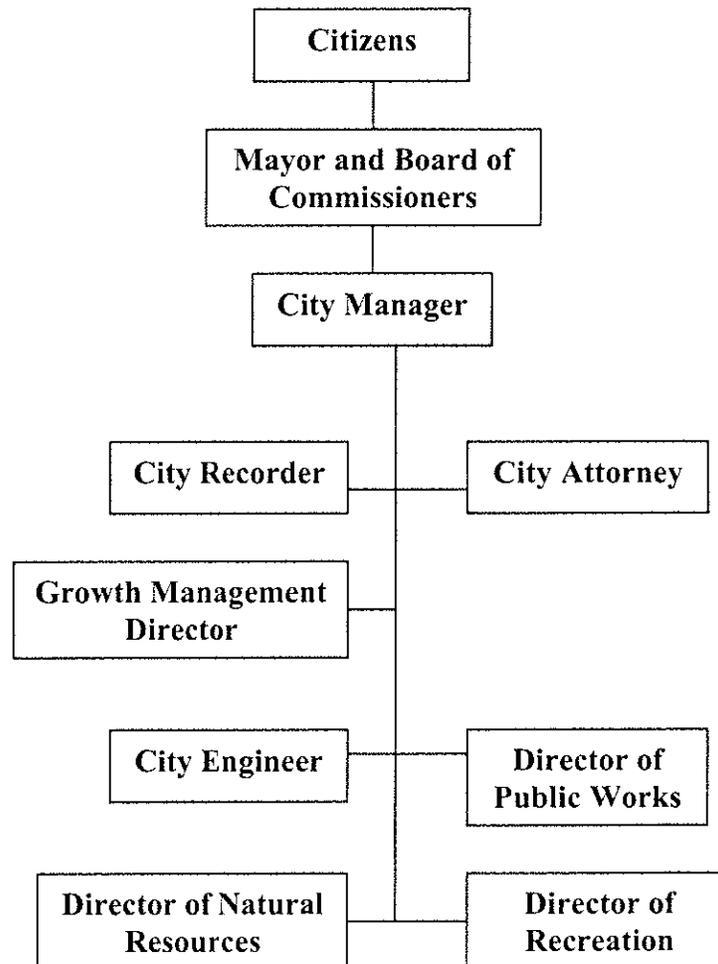
Robert Wherry, City Manager



# *City of Lakeland*

## ORGANIZATION CHART

JUNE 30, 2005



**City of Lakeland, Tennessee**  
**List of Elected and Appointed Officials**  
**June 30, 2005**

**Elected Officials**

**Mayor**

Scott Carmichael

**Commissioners**

Mark Hartz, Vice Mayor  
Judith Bennett, Commissioner  
Gerritt Verschuur, Commissioner  
Stephanie Anderson, 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 Code Enforcement	Karen Jarrett, City Engineer
Director of Public Works	Chris Masin
Director of Engineering/City Engineer	Karen Jarrett
Director of Recreation	Joy Cloud
Natural Resource Director	Eric Bridges

# **FINANCIAL SECTION**



## INDEPENDENT AUDITOR'S REPORT

To the Honorable Scott Carmichael, Mayor  
And the Board of Commissioners  
City of Lakeland, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lakeland, Tennessee (the "City"), as of and for the year ended June 30, 2005, 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 an opinion 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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of Lakeland, Tennessee, as of June 30, 2005, and the respective changes in financial position and cash flows where applicable, 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 28, 2005, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information, and the schedule of funding progress and budgetary comparison schedule-General Fund and related notes as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally, of inquires 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, combining and individual nonmajor fund financial statements, supporting schedules and the statistical data are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, supporting schedules and statistical data 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.

*Brewer, Holloman & Associates*

Memphis, Tennessee  
December 28, 2005

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Lakeland, we offer readers of the City of Lakeland's financial statements this narrative overview and analysis of the financial activities of the City of Lakeland for the fiscal year ended June 30, 2005. We encourage readers to 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 \$66,435,211 (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 increased by \$956,212 in fiscal year 2004.
- June 30, 2005, the City's governmental funds reported combined ending fund balances of \$4,223,176, an increase of \$1,867,443, in comparison with the prior year.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$4,512,037 or 127% of total general fund expenditures.

### 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 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 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., earned but unused leave).

Both of the government-wide financial statements distinguish functions of the City 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 include

general government, public safety, public works, health, culture, welfare, and recreation, and sanitation. The business-type activities of the City include the operation of the sewer facilities. The government-wide financial statements include only the City. The City 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, 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 can be divided into three categories: governmental funds and proprietary 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 governmental 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 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 maintains an Enterprise fund, which is 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 uses enterprise funds to account for its sewer activities.

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, 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'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 \$66,435,211 at the close of the most recent fiscal year.

By far the largest portion of the City of Lakeland's net assets (93.6 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is 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 \$2,072,928 of outstanding debt as of June 30, 2005.

### City of Lakeland Net Assets

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current and other assets	\$ 4,569,536	\$ 2,110,085	\$ 6,679,621
Capital assets	<u>56,392,323</u>	<u>5,782,525</u>	<u>62,174,848</u>
Total assets	<u>60,961,859</u>	<u>7,892,610</u>	<u>68,854,469</u>
Current liabilities	346,330	-	346,330
Long-term debt	<u>2,072,928</u>	-	<u>2,072,928</u>
Total liabilities	<u>2,419,258</u>	<u>-</u>	<u>2,419,258</u>
Net assets:			
Invested in capital assets	56,392,323	5,782,525	62,174,848
Unrestricted	<u>2,150,278</u>	<u>2,110,085</u>	<u>4,260,363</u>
Total net asset	<u>\$ 58,542,601</u>	<u>\$ 7,892,610</u>	<u>\$ 66,435,211</u>

At June 30, 2005, the City of Lakeland is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

**Governmental activities:** Governmental activities decreased the City of Lakeland's net assets by \$446,775. The key element in the decrease was depreciation.

### City of Lakeland Changes in Net Assets

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 450,654	\$ 282,901	\$ 733,555
Capital contributions	1,689,765	491,321	2,181,086
General Revenue:			
Taxes	1,866,899	-	1,866,899
Licenses & permits	563,075	-	563,075
Fees for services	109,242	-	109,242
Other	363,420	1,221,783	1,585,203
Total revenues	<u>5,043,055</u>	<u>1,996,005</u>	<u>7,039,060</u>
Expenses:			
General government	1,476,023	-	1,476,023
Public safety	33,322	-	33,322
Public works	3,436,517	-	3,436,517
Health, culture, welfare & recreation	190,955	-	190,955
Operating expense		593,018	593,018
Sanitation	353,013	-	353,013
Total expenses	<u>5,489,830</u>	<u>593,018</u>	<u>6,082,848</u>
Increase in net assets	(446,775)	1,402,987	956,212
Net assets beginning	27,010,126	2,393,650	29,403,776
Capital contributions	31,979,250	4,095,973	36,075,223
Net assets ending	<u>\$ 58,542,601</u>	<u>\$ 7,892,610</u>	<u>\$ 66,435,211</u>

**Business-type activities:** Business-type activities increased the City of Lakeland net assets by \$1,402,987 accounting for 100% of the total growth in government's net assets. Key elements of the increase are as follows:

- Capital contributions accounted for \$491,321 of the increase. These are capital contributions from developers.

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

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

**Governmental funds:** The focus of the City of Lakeland'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 a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,223,176, an increase of \$1,867,443, in comparison with the prior year. All fund balance is unreserved.

**Proprietary funds:** The City of Lakeland's proprietary funds provide the same type of 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 \$7,892,610. Other factors concerning the finances have already been addressed in the discussion of the City's business-type activities.

## **Capital Asset and Debt Administration**

**Capital assets:** The City's investment in capital assets for its governmental and business type activities as of June 30, 2005, amounts to \$78,167,083. The investment in capital assets includes land, building and systems, improvements, machinery and equipment, park facilities, roads, highways, bridges and construction in process. The total increase in City's investment in capital assets for the current fiscal year was 5%.

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

- Construction of Fire Station and Park
- Various street and road improvements
- Contributions of infrastructure & sewer collection from completed developments.

## City of Lakeland Capital Assets

	Governmental Activities	Business-type Activities	Total
Land	\$ 4,974,876	\$ 80,682	\$ 5,055,558
Buildings	1,950,916	-	1,950,916
Machinery & equipment	1,154,717	-	1,154,717
Infrastructure	63,348,498	-	63,348,498
Collections systems		6,657,394	6,657,394
Construction in progress	-	-	-
Total	\$ 71,429,007	\$ 6,738,076	\$78,167,083

### Budget Discussion

In preparing the City of Lakeland's budget for the 2005 fiscal year it was determined that revenues would increase due to additional draw down on debt and expenses would increase due to capital expenditures for infrastructure improvements.

The City of Lakeland approved an operating budget of \$5,036,800 for fiscal year 2004. As shown in the Statement of Revenues, Expenditures and Changes in Fund Balance revenues and expenditures were less than the budgeted amount. The difference in expenditures were due to capital outlays for the purchase of land, construction of a fire station and widening of Canada Road were not all completed in this fiscal year. The difference in revenues was due to unexpected increase in refuse collection fees & state street aid.

### 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.

# **FINANCIAL SECTION**

**Statement of Net Assets - Assets**  
**June 30, 2005**

	<u>Primary Government</u>		
	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 715,824	\$ 254,227	\$ 970,051
Investments	3,496,238	1,814,662	5,310,900
Receivables			
Accounts	42,580	41,196	83,776
Intergovernmental	314,894	-	314,894
Due from other funds	-	-	-
Property, plant and equipment (net)	<u>56,392,323</u>	<u>5,782,525</u>	<u>62,174,848</u>
Total assets	<u>\$ 60,961,859</u>	<u>\$ 7,892,610</u>	<u>\$ 68,854,469</u>

The accompanying notes are an integral part of these statements.

**Statement of Net Assets - Liabilities and Net Assets**  
**June 30, 2005**

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Liabilities:			
Accounts payable	\$ 131,511	\$ -	\$ 131,511
Due to/from other funds	-	-	-
Refundable deposits	177,070	-	177,070
Accrued vacation	<u>37,749</u>	<u>-</u>	<u>37,749</u>
Total liabilities	<u>346,330</u>	<u>-</u>	<u>346,330</u>
Long-term debt	<u>2,072,928</u>	<u>-</u>	<u>2,072,928</u>
Net Assets:			
Contributed capital	34,567,611	4,095,973	38,663,584
Retained earnings (deficit)			-
Reserved for street aid	-		-
Unreserved	-	3,796,637	3,796,637
Unreserved, designated	-	-	-
for parks	52,228	-	52,228
Unreserved, undesignated	<u>23,922,762</u>	<u>-</u>	<u>23,922,762</u>
Total net assets	<u>58,542,601</u>	<u>7,892,610</u>	<u>66,435,211</u>
Total liabilities and net assets	<u>\$ 60,961,859</u>	<u>\$ 7,892,610</u>	<u>\$ 68,854,469</u>

The accompanying notes are an integral part of these statements.

Statement of Activities  
June 30, 2005

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			
	Charges For Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Expenses						
<b>Functions/Programs</b>						
<b>Primary government:</b>						
Expenditures:						
General government	\$ 1,476,023	\$ -	\$ -	\$ (1,476,023)	\$ -	\$ (1,476,023)
Public safety	33,322	-	-	(33,322)	-	(33,322)
Public works	3,436,517	-	210,840	(3,225,677)	-	(3,225,677)
Health, culture, welfare and recreation	190,955	-	-	(190,955)	-	(190,955)
Sanitation	353,013	450,654	-	97,641	-	97,641
Total governmental activities	5,489,830	450,654	210,840	(4,828,336)	-	(4,828,336)
Business-type activities						
Operating expenses	593,018	282,901	-	-	(310,117)	(310,117)
Total primary government	\$ 6,082,848	\$ 733,555	\$ 210,840	(4,828,336)	(310,117)	(5,138,453)
General revenues:						
Taxes			267,427	-		267,427
Licenses and permits			563,075	-		563,075
Intergovernmental			1,599,472	-		1,599,472
Fees for services			109,242	-		109,242
Capital contribution			1,689,765	491,321		2,181,086
Other			152,580	1,221,783		1,374,363
Total general revenues			4,381,561	1,713,104		6,094,665
Changes in net assets			(446,775)	1,402,987		956,212
Net assets - beginning			27,010,126	2,393,650		29,403,776
Capital Contributions			31,979,250	4,095,973		36,075,223
Net assets - ending			\$ 58,542,601	\$ 7,892,610		\$ 66,435,211

The accompanying notes are an integral part of these statements.

**Balance Sheet - Assets**  
**Government Funds**  
**June 30, 2005**

	<u>General</u>	<u>Special Revenue</u>	<u>Total Government Funds</u>
Assets:			
Cash and cash equivalents	\$ 715,824	\$ -	\$ 715,824
Investments	3,496,238	-	3,496,238
Receivables			
Interest	42,580	-	42,580
Intergovernmental	314,894	-	314,894
Due from other funds	<u>147,729</u>	<u>-</u>	<u>147,729</u>
 Total assets	 <u>\$4,717,265</u>	 <u>\$ -</u>	 4,717,265

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

Capital assets used in governmental activities  
are not financial resources and , therefore,  
are not reported in the funds.

56,244,594

Net assets of governmental activities

\$ 60,961,859

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

**Balance Sheet - Liabilities and Fund Equity -  
Government Funds  
June 30, 2005**

	<u>General</u>	<u>Special Revenue</u>	<u>Total Government Funds</u>
<b>Liabilities:</b>			
Accounts payable	\$ 131,511	\$ -	\$ 131,511
Due to/from other funds		147,759	147,759
Refundable deposits	177,070	-	177,070
Accrued compensation	<u>37,749</u>	<u>-</u>	<u>37,749</u>
 Total liabilities	 <u>346,330</u>	 <u>147,759</u>	 <u>494,089</u>
<b>Fund equity:</b>			
Reserved for street aid	-	(288,861)	(288,861)
Unreserved, designated for parks	52,228		
Unreserved, undesignated	<u>4,318,707</u>	<u>141,102</u>	<u>4,459,809</u>
 Total fund equity	 <u>4,370,935</u>	 <u>(147,759)</u>	 <u>4,170,948</u>
 Total liabilities and fund equity	 <u>\$ 4,717,265</u>	 <u>\$ -</u>	 <u>\$ 4,665,037</u>
 Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and , therefore, are not reported in the funds.			<u>56,296,822</u>
 Net assets of governmental activities			 <u>\$ 60,961,859</u>

The accompanying notes are an integral part of these statements.

**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2005**

	<u>General</u>	<u>Special Revenue</u>	<u>Total Government Funds</u>	<u>Budget</u>	<u>(Favorable) Unfavorable</u>
<b>Revenues:</b>					
Taxes	\$ 267,427	\$ -	\$ 267,427		
Licenses and permits	563,075	-	563,075		
Intergovernmental	1,599,472	-	1,599,472		
Fees for services	109,242	661,494	770,736		
Other	<u>152,580</u>	<u>-</u>	<u>152,580</u>		
Total revenues	<u>2,691,796</u>	<u>661,494</u>	<u>3,353,290</u>	<u>2,766,800</u>	<u>586,490</u>
<b>Expenditures:</b>					
General government	1,411,713	-	1,411,713		
Public safety	33,322	-	33,322		
Public works	90,012	644,610	734,622		
Health, culture, welfare and recreation	118,515	-	118,515		
Capital outlay	1,260,603	-	1,260,603		
Operating expenses	<u>-</u>	<u>-</u>	<u>-</u>		
Total expenditures	<u>2,914,165</u>	<u>644,610</u>	<u>3,558,775</u>	<u>5,036,800</u>	<u>(1,478,025)</u>
Excess (deficiency) of revenues over (under) expenditures	(222,369)	16,884	(205,485)	(2,270,000)	2,064,515
<b>Other Financing Sources:</b>					
Proceeds from notes payable	2,072,928	-	2,072,928	2,270,000	(197,072)
Fund balances, beginning of year	<u>2,520,376</u>	<u>(164,643)</u>	<u>2,355,733</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$4,370,935</u>	<u>\$(147,759)</u>	<u>\$4,223,176</u>	<u>\$ -</u>	<u>\$ 1,867,443</u>

The accompanying notes are an integral part of these statements.

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of  
Governmental Funds To Statement of Activities  
For the Year Ended June 30, 2005**

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

Net change in fund balance - total governmental funds \$ (205,485)

Contributed assets from developments 1,689,765

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital additions less depreciation exceeds capital outlays in the current period. (1,931,055)

Changes in net assets of governmental activities \$ (446,775)

**Enterprise Revenue Fund**  
**Statement of Net Assets**  
**June 30, 2005**

---

Current Assets:

Cash and cash equivalents	\$ 254,227
Investments	1,814,662
Accounts receivable	<u>41,196</u>
Total current assets	<u>2,110,085</u>

Property, plant and equipment

Land	80,682
Sewer plant and improvements	6,612,387
Vehicles and equipment	<u>45,007</u>
Total cost	6,738,076
Less accumulated depreciation	<u>955,551</u>
Total property, plant and equipment - net	<u>5,782,525</u>

Total assets	<u>\$ 7,892,610</u>
--------------	---------------------

Net Assets:

Contributed capital	4,095,973
Unrestricted	<u>3,796,637</u>
Total net assets	<u>7,892,610</u>

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The accompanying notes are an integral part of these statements.

**Enterprise Fund - Statement of Revenues, Expenses And Changes in Net Assets  
For The Fiscal Year Ended June 30, 2005**

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Operating revenues:	
Sewer user fees	\$ 282,901
Other fees	<u>-</u>
Total revenue	<u>282,901</u>
Operating Expenses:	
Wages	112,772
Overtime wages	662
Payroll taxes	10,415
Insurance	33,588
Retirement	1,535
Uniforms	827
Communications	697
Supplies	1,280
Electric	47,142
Legal	39,487
Other professional services	6,746
Repairs and maintenance	89,907
Contracted services	21,466
Collection fees	7,018
Chemicals/labs	3,161
Repair parts	28,233
Other operating expenses	7,926
Depreciation	<u>180,156</u>
Total operating expenses	<u>593,018</u>
Net income (loss) from operations	<u>(310,117)</u>

Continued

**Enterprise Fund - Statement of Revenues, Expenses And Changes in Net Assets  
For The Fiscal Year Ended June 30, 2005**

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Other Non-Operating Revenues and Expense:

Developer fees	\$ 307,000
Connection fees	423,500
Renewal and replacement fees	99,500
Treatment fee	96,900
Transport fee	161,500
Sewer plant expansion	96,900
Capital contribution	491,321
Interest	<u>36,483</u>
Total non-operating revenues	<u>1,713,104</u>
Net income (loss)	1,402,987
Net assets, beginning of year	2,393,650
Capital Contributions	<u>4,095,973</u>
Net Assets, end of year	<u>\$ 7,892,610</u>

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The accompanying notes are an integral part of these statements.

**Enterprise Fund - Statement of Cash Flows  
For The Fiscal Year Ended June 30, 2005**

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Cash Flows From Operating Activities:

Net Income	\$ 1,402,987
Adjustments to reconcile net income to cash provided by operating activities:	
Depreciation	180,156
Accounts receivable	(23,538)
Accounts payable	(382)
Due to other funds	<u>(10,491)</u>
 Total cash flows provided by operating activities	 <u>1,548,732</u>

Cash Flows From Investing Activities:

Capital assets contributed	(491,321)
Contributed capital	<u>(238,809)</u>

Total cash flows used by financing activities (730,130)

Cash and cash equivalents, beginning of year 1,250,287

Cash and cash equivalents, end of year \$ 2,068,889

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The accompanying notes are an integral part of these statements.

## **Budgetary Accounting and Control**

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 budget for these funds. Budgetary control is maintained by the City Manager and expenditures may not exceed funds budgeted which constitute the spending limit. The City manager may amend the budget with the approval of the Mayor and Board of Commissioners. The same basis of accounting is used to reflect actual revenue and expenditures recognized on a generally accepted accounting principles accepted in the United States of America basis.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 1. Summary of significant accounting policies

#### A. Reporting entity

The City of Lakeland, Tennessee (the City) is a municipal corporation governed by an elected mayor and a four-member board of commissioners. As required by accounting principles generally accepted in the United States of America, the financial statements present the City, its component units and entities for which the City is considered to be financially accountable. However, the City has no component units.

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

The government-wide financial statements (i.e., the statement of net assets and a statement of activities and changes in net assets) 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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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 government-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.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they 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 government 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 services 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by government.

The government reports the following major governmental funds:

(1) **General Fund**

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

a) **Special Revenue Fund**

Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust or major projects) that are legally restricted to expenditures for specific purposes. The following g comprise the special revenue fund:

The **State Street Aid Fund** accounts for the receipts and expenditures of the City's solid waste removal services.

The **Solid Waste Fund** accounts for the receipts and expenditures of the City's solid waste removal services.

(2) **Proprietary Fund Types**

The *sewer fund* accounts for the organizations and activities of the City that are similar to those often found in private enterprises. The fund operates the sewage treatment plant, sewage pumping stations and collection systems.

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 government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the governmental-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. 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 operating. The principal operating revenues of the sewer fund enterprise fund and the special revenue funds are charges to customers for sales and services. The sewer fund also recognized as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund and special revenue fund include the cost of sales and services, administration expenses, and depreciation of 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 government's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Assets, liabilities and net assets or equity**

**1. Deposits and investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with origin maturities of three months or less from the date of acquisition.

State statutes authorize the government and the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool.

Investments for the government, as well as for its component units, are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

**2. Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal are referred to as either "due to/from other funds or advances to/from other funds.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade receivables and sales tax receivables, including those for the sewer fund, are shown net of an allowance for uncollectibles. (An allowance was not necessary because 100% of receivables were collected.)

**3. Capital assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful 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.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. 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.

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	40
Public domain infrastructure	30
System infrastructure	30
Vehicles	5
Office equipment	5
Computer equipment	5

#### 4. Compensated absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the 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, proprietary, and fiduciary 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's resignations and retirements.

**5. 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.

**NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

The governmental fund balance sheet includes 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 capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

**2. 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 balance includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in 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.”

**NOTE C – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**1. Budgetary information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All 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.

Total expenditures exceeded those budgeted due to the purchase of land by the City. The board approved the use of reserve funds to pay for the purchase.

**NOTE D – DETAILED NOTES ON ALL FUNDS**

**1. Deposits and investments**

At year-end the carrying amount of the City’s deposits was \$970,051 and the bank balance was \$1,222,555. Of the bank balance \$100,000 was covered by the federal depository insurance and the remaining \$1,122,555 covered by collateral held by the City’s agent in the City’s name.

The City’s investments at June 30, 2005, consisted of certificates of deposits in the general fund and investment for the deferred compensation plan as follows:

	<u>Carrying Amount</u>	<u>Market Value</u>
Certificate of deposit	\$ 5,310,900	\$ 5,310,900
ICMRC	182,845	\$ 182,845
ING Insurance Company - various mutual funds	<u>501,621</u>	<u>501,621</u>
Total	<u>\$ 5,995,366</u>	<u>\$ 5,995,366</u>

**2. Receivables**

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

Notes to Financial Statements  
June 30, 2005

**3. Capital assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

<b>Primary Government</b>	<b>Beginning Balance</b>	<b>Contributed Assets/ Purchases</b>	<b>Disposals</b>	<b>Ending Balance</b>
Capital assets, not being depreciated:				
Land	\$ 4,902,419	\$ 72,457	\$ -	\$ 4,974,876
Construction in progress	124,816	-	124,816	-
Total capital assets, not being depreciated	<u>5,027,235</u>	<u>72,457</u>	<u>124,816</u>	<u>4,974,876</u>
Capital assets, being depreciated:				
Buildings	673,075	1,277,840	-	1,950,915
Improvements other than buildings	317,056	-	-	317,056
Machinery and equipment	754,585	83,076	-	837,661
Infrastructure	61,675,778	1,672,720	-	63,348,498
Total capital assets being depreciated	<u>\$68,447,729</u>	<u>\$ 3,106,093</u>	<u>\$ 124,816</u>	<u>\$71,429,006</u>
	<b>Beginning Balance</b>	<b>Increases</b>	<b>Disposals</b>	<b>Ending Balance</b>
Less accumulated depreciation for:				
Buildings	\$ 127,813	\$ 27,093	\$ -	\$ 154,906
Improvements other than buildings	70,242	24,070	-	94,312
Machinery and equipment	453,593	85,587	-	539,180
Infrastructure	11,162,466	3,085,819	-	14,248,285
Total accumulated depreciation	<u>11,814,114</u>	<u>\$ 3,222,569</u>	<u>\$ -</u>	<u>15,036,683</u>
Governmental activities capital assets, net	<u>\$56,633,615</u>			<u>\$56,392,323</u>
<b>Sewer Plant</b>				
Plant	\$ 6,007,946	\$ 730,130	\$ -	\$ 6,738,076
Accumulated depreciation	775,395	180,156	-	955,551
Sewer plant, net	<u>\$ 5,232,551</u>	<u>\$ 549,974</u>	<u>\$ -</u>	<u>\$ 5,782,525</u>

**4. Interfund receivables, payables and transfers**

There were no interfund receivables as of June 30, 2005.

#### **NOTE E – RETIREMENT PLANS**

The City maintains two retirement plans for its employees:

##### **Defined Contribution Plan**

The City of Lakeland offered its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 until June 30, 2004. The plan, made available to all City employees, permitted them to defer a portion of their salary until future years. Participation in the plan was optional. For employees who elect to participate, the City contributes 8.5% of pay for salaried employees and 7.5% of pay for hourly employees. Employees contribute a minimum of 2% of pay up to a combined total contribution of \$14,000, with additional contributions up to \$18,000 allowed for participants over age 50. The deferred compensation is not available to employees until termination, retirement, death or certain unforeseeable emergencies. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the government, subject only to the claims of the government's general creditors. Participants' rights under the plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of management that the City has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

As of July 1, 2004 new employees participating in the plan do not receive matching contributions from the City,

##### **Defined Benefit Plan**

On July 1 2004, The City began participating in the Tennessee Consolidated Retirement System (TCRS). All employees with a hire date on or after July 1, 2004 are required to participate.

Plan Description - TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's highest five-year average salary and years of service. Members become eligible to retire at age 60 with 5 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 a result of an accident or injury occurring while the member was in the performance of duty. Members are vested after 5 years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated ("TCA"). State statutes are amended by the Tennessee General Assembly. The City is liable for all costs associated with the operation and administration of their plan. The TCRS issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, Tn 37243-0230 or can be accessed at [www.treasury.state.tn.us](http://www.treasury.state.tn.us).

Funding Policy – The plan requires employees to contribute 5% of their gross pay.

The City is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2005, was 6.16% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for The City is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost – For the year ending June 30, 2005, The City's annual pension cost of \$53,876 to TCRS was equal to The City's required and actual contributions.

#### **NOTE F – LITIGATION**

The City of Lakeland is currently involved in several legal proceedings. Legal counsel for the City does not anticipate any liability in these proceedings.

#### **NOTE G – CHANGES IN LONG-TERM DEBT**

The City entered into a loan agreement on July 26, 2004 with The Public Building Authority of the City of Clarksville, Tennessee (Issuer), a public, non-profit corporation and instrumentality, organized under the laws of the State of Tennessee for \$3,500,000 to be repaid in annual installments of principal and interest over 20 years.

The Issuer is authorized by Chapter 10, Title 12, Tennessee Code Annotated, to enter into loan agreements with municipal corporations for the purpose of financing the costs of construction, installing, or acquiring certain necessary and desirable buildings, structures, equipment and improvements.

The loan proceeds may be used by the City for acquisition, construction and equipping of a fire station, widening of roads, drainage improvements, and acquisition of real

property for use by the City, buildings and recreational facilities and renovation of existing facilities.

As of June 30, 2005 the City had drawn loan principal in the amount of \$2,072,928 for building of a fire station, widening of Canada Road and purchase of 100 acre tract of land south of Memphis Arlington Road.

The City at June 30, 2005 has \$23,485 of accrued vacation. Due to the nature of the obligation for accrued vacation, annual requirements to amortize such obligations are not deferrable and have not been presented.

#### **NOTE H – RISK MANAGEMENT**

The City of Lakeland, Tennessee, is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The 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 (Pool), which is a public entity risk pool established in 1979 by the Tennessee Municipal League. The City pays annual premiums to the Pool for 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 its reinsurance policies. The City's premiums are calculated based on its prior claims history. It is the policy of the City to purchase commercial insurance for the risks of employee dishonesty.

**General Fund Balance Sheet**  
**June 30, 2005**

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Assets:	
Cash and cash equivalents	\$ 715,824
Investments	3,496,238
Receivables	
Interest	42,580
Intergovernmental	314,894
Due from other funds	<u>147,729</u>
Total assets	<u>\$ 4,717,265</u>
Current Liabilities -	
Accounts payable	131,511
Due to/from other funds	
Accrued compensation	37,749
Other Liabilities-	
Refundable deposits	<u>177,070</u>
Total liabilities	<u>346,330</u>
Fund equity:	
Unreserved, designated for parks	52,228
Unreserved, undesignated	<u>4,318,707</u>
Total fund equity	<u>4,370,935</u>
Total liabilities and fund equity	<u>\$ 4,717,265</u>

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The accompanying notes are an integral part of these statements.

**General Fund Statement of Revenues, Expenditures and  
Changes in Fund Balance  
For The Fiscal Year Ended June 30, 2005**

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Revenues:

Local Taxes:

Wholesale beer tax	\$ 69,624
Business taxes	125,878
Cable TV franchise tax	<u>71,925</u>
Total local taxes	<u>267,427</u>

Licenses and Permits:

Building permits	119,065
Inspection fees	207,400
Other permits	<u>236,610</u>
Total licenses and permits	<u>563,075</u>

Intergovernmental revenue:

Local option sales tax	1,048,843
TVA payments in lieu of taxes	52,859
State grants	13,487
State sales tax	449,399
State income tax	16,395
State beer tax	1,678
State street and transportation	<u>16,811</u>
Total intergovernmental	<u>1,599,472</u>

Fees for Services:

Park - rental fees	1,150
Developer fees for park land	52,228
Recreation fees	<u>55,864</u>
Total fees for service	<u>109,242</u>

Other:

Interest earned	125,385
Traffic study	-
Other	<u>27,195</u>
Total other	<u>152,580</u>

Total revenue	<u>\$2,691,796</u>
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Continued

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**General Fund Statement of Revenues, Expenditures and  
Changes in Fund Balance  
For The Fiscal Year Ended June 30, 2005**

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Expenditures:

General Government:

Salaries - permanent employees	\$ 388,397
Wages - permanent employees	265,327
Wages - overtime	9,472
Wages - temporary	30,175
Board of commissioners	18,901
Payroll taxes	64,459
Hospital and health insurance	110,068
Retirement	47,006
Employee education and training	10,629
Uniform	4,179
Printing and duplicating	4,627
Publicity, subscriptions and dues	18,904
Electric	10,148
Water	810
Gas	2,124
Telephone	19,098
Legal services	59,518
Accounting and auditing	14,738
Architectual and auditing	48,522
Data processing services	10,048
Other professional services	23,223
Supplies	36,497
Insurance	73,094
Gross receipts payback	51,551
Repair and maintenance services	8,463
Travel	22,490
Interest on debt	34,561
Loan fees	7,806
Other	16,878
Total general government	<u>\$ 1,411,713</u>

Continued

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**General Fund Statement of Revenues, Expenditures and  
Changes in Fund Balance  
For The Fiscal Year Ended June 30, 2005**

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Expenditures: (Continued)

Public Safety:

Ambulance Services:

Contractual services	\$ 31,525
Tennessee one call	<u>1,797</u>
Total public safety	<u>33,322</u>

Public Works:

Highway and Streets:

Electric	11,930
Contracted services	20,015
Sundry	528
Office supplies	17
Gas, oil and fuel	48,320
Repair parts	2,823
Tools	2,029
Sign parts and supplies	4,292
Chemical, lab and medical	<u>58</u>
Total public works	<u>\$ 90,012</u>

Continued

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**General Fund Statement of Revenues, Expenditures and  
Changes in Fund Balance  
For The Fiscal Year Ended June 30, 2005**

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Expenditures: (Continued)

Health, culture, welfare and recreation

Electric	\$ 4,874
Water	2,150
Gas	2,108
Repair and maintenance - building	1,346
Repair and maintenance - other	5,829
Other contractual services	25,675
Sundry	3,815
Office supplies	66
Chemical, laboratory, medical	4,255
Painting and plumbing supplies	567
Repair parts	1,444
Gravel and sand	1,554
Sign parts	1,621
Other professional services	8,020
Park activities	55,191
Total parks and recreation center	<u>118,515</u>

Capital Outlay:

Drainage study	24,500
Parks and recreation facilities	25,808
Vehicle	64,300
Computer upgrades	10,210
Construction in progress	1,135,785
Total capital outlay	<u>1,260,603</u>

Total expenditures 2,914,165

Excess (deficiency) of revenues over  
(under) expenditures \$ (222,369)

**Continued**

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**General Fund Statement of Revenues, Expenditures and  
Changes in Fund Balance  
For The Fiscal Year Ended June 30, 2005**

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Excess (deficiency) of revenues over (under) expenditures	\$ (222,369)
Other Financing Sources:	
Proceeds from notes payable	2,072,928
Fund balance, beginning of year	<u>2,520,376</u>
Fund balance, end of year	<u>\$ 4,370,935</u>

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

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**Special Revenue Fund Balance Sheet**  
**June 30, 2005**

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Assets -

Due from general fund \$ -

Total assets \$ -

Liabilities:

Due to general fund 147,759

Fund equity - reserved for street aid (288,861)

Fund equity - unreserved \$ 141,102

Total liabilities and fund equity \$ -

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The accompanying notes are an integral part of these statements.

**Special Revenue Fund Combining Statement of Revenues, Expenditures  
and Changes in Fund Balance  
June 30, 2005**

	<u>State Street Aid</u>	<u>Solid Waste</u>	<u>Total</u>
Revenues:			
Charges for services:			
State revenues	\$ 210,840	\$ -	\$ 210,840
Refuse collection and disposal	<u>-</u>	<u>450,654</u>	<u>450,654</u>
Total revenue	<u>210,840</u>	<u>450,654</u>	<u>661,494</u>
Expenditures:			
Current:			
Public works:			
Roads	291,597	-	291,597
Garbage collection and disposal collection fees	<u>-</u>	<u>353,013</u>	<u>353,013</u>
Total expenditures	<u>291,597</u>	<u>353,013</u>	<u>644,610</u>
Excess (deficiency) of revenues over (under) expenditures	(80,757)	97,641	16,884
Fund balance, beginning of year	<u>(208,104)</u>	<u>43,461</u>	<u>(164,643)</u>
Fund balance, end of year	<u>\$ (288,861)</u>	<u>\$ 141,102</u>	<u>\$ (147,759)</u>

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

**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 Honorable Scott Carmichael, Mayor  
And the Board of Commissioners  
City of Lakeland, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lakeland, Tennessee (the "City"), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 28, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weakness.

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 result of our tests disclosed no instance of

noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Mayor and Board of Commissioners, Management, the State of Tennessee Comptroller's Office-Division of Municipal Audit, 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.

*Brewer, Holloman & Associates*

Memphis, Tennessee  
December 28, 2005

# STATISTICAL SECTION

**Schedule of Changes In Capital Assets  
By Function and Activity**

**June 30, 2005**

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	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
General Government- General administration	\$ 2,228,755	\$ 1,035,294	\$ -	\$ 3,264,049
Public Works- Streets and highways	64,704,419	1,672,720	-	66,377,139
Health, Welfare, Culture And Recreation Parks	<u>1,514,555</u>	<u>273,264</u>	<u>-</u>	<u>1,787,819</u>
Total capital assets	<u>\$68,447,729</u>	<u>\$ 2,981,278</u>	<u>\$ -</u>	<u>\$ 71,429,007</u>

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The accompanying notes are an integral part of these statements.

**Schedule of Capital Assets-  
By Function and Activity  
June 30, 2005**

	<u>Land</u>	<u>Buildings</u>	<u>Infra- structure</u>	<u>Improve- ments Other Than Building</u>	<u>Machinery And Equipment</u>	<u>Total</u>
General Government- General administration	\$ 979,579	\$1,679,569	\$ -	\$ -	\$ 604,901	\$ 3,264,049
Public Works- Streets and highways	3,028,641	-	63,348,498			66,377,139
Health, Welfare, Culture And Recreation						
Parks	<u>966,656</u>	<u>271,347</u>	<u>-</u>	<u>317,056</u>	<u>232,760</u>	<u>1,787,819</u>
Total general fund fixed assets	<u>\$4,974,876</u>	<u>\$1,950,916</u>	<u>\$63,348,498</u>	<u>\$ 317,056</u>	<u>\$ 837,661</u>	<u>\$71,429,007</u>

The accompanying notes are an integral part of these statements.

**Schedule of Insurance Coverage  
June 30, 2005**

The Risk Management Pool 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
	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
The Risk Management Pool TMP-067-04	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
The Risk Management Pool 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 EXP972377	Recorder Bond	\$20,000
American States Insurance Company 5996088	City Manager - Bond	\$20,000
American States Insurance Company EX-977661	Mayor - Bond	\$10,000
American States Insurance Company 5996090	City Clerk/Deputy City Recorder - Bond	\$10,000
American States Insurance Company E981436	Bookkeeper - Bond	\$10,000