

CITY OF LEXINGTON, TENNESSEE

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2011

CITY OF LEXINGTON, TENNESSEE

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2011

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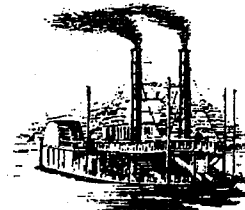
CITY OF LEXINGTON, TENNESSEE
ROSTER OF PUBLICLY ELECTED OFFICIALS
JUNE 30, 2011

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

WILLIAMS, JERROLD, GODWIN & ASSOCIATES, PLLC
Certified Public Accountants

408 Main Street, Savannah, Tennessee 38372

Phone (731) 925-6547 Fax (731) 925-9524



Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lexington, Tennessee, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lexington, Tennessee's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Lexington Electric System, which represent 55% and 79%, respectively, of the assets and revenues of the proprietary funds. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Electric System in the proprietary funds, is based on the report of other auditors.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lexington, Tennessee, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and the General Purpose School Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 26, 2011, on our consideration of the City of Lexington's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Lexington, Tennessee's financial statements as a whole. The introductory section, schedule of expenditures of federal awards, and supplemental information are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section and the schedule of unaccounted for water on pages 1 and 80 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Williams, Jerrold, Godwin & Associates, PLLC

October 26, 2011

**CITY OF LEXINGTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

Our discussion and analysis of the City of Lexington, Tennessee, will offer readers of the City's financial statements a narrative overview and review of the financial activities of the City for the fiscal year ended June 30, 2011. Readers are encouraged to consider the information presented here in conjunction with the City's financial statements.

USING THIS ANNUAL REPORT

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

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

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

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

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

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

Reporting the City's Most Significant Funds

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

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

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

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

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

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

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

THE CITY AS A WHOLE

Net assets may serve over time as a useful indicator of government's financial position. In the case of the City of Lexington, assets exceeded liabilities by \$66,055,744 of June 30, 2011.

CITY OF LEXINGTON'S NET ASSETS

	Governmental Activities		Business Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 5,695,516	\$ 5,032,062	\$ 18,234,916	\$ 17,268,356	\$ 23,930,432	\$ 22,300,418
Capital Assets	29,377,197	30,524,159	62,698,619	62,445,800	92,075,816	92,969,959
Total Assets	35,072,713	35,556,221	80,933,535	79,714,156	116,006,248	115,270,377
Long term liabilities	15,324,990	16,141,146	23,265,338	24,477,273	38,590,328	40,618,419
Other liabilities	2,650,644	2,040,669	8,709,532	7,495,827	11,360,176	9,536,496
Total liabilities	17,975,634	18,181,815	31,974,870	31,973,100	49,950,504	50,154,915
Net Assets:						
Invested in capital assets, net of related debt	14,134,248	14,450,196	40,463,359	38,930,696	54,597,607	53,380,892
Restricted	464,363	561,235	723,421	673,263	1,187,784	1,234,498
Unrestricted	2,498,468	2,362,975	7,771,885	8,137,097	10,270,353	10,500,072
Total Net Assets	\$ 17,097,079	\$ 17,374,406	\$ 48,958,665	\$ 47,741,056	\$ 66,055,744	\$ 65,115,462

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

Governmental Activities

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

Business-type Activities

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

- The City's Gas System had a profit of \$384,870 which is comparable to a profit in the prior year of \$357,708.
- The City's Water Systems Fund operated at a loss of \$77,909 compared to a profit in the prior year of \$322,464 (124% decrease). The System had an increase in non-operating expenses of \$813,009 which consisted mostly of a lawsuit settlement payment of \$823,779.
- The City's Electric Department had a profit of \$1,012,163 compared to a profit in the prior year of \$355,420.

The following table provides a summary of the City's operations for the year ended June 30, 2011 with comparative totals for the year ended June 30, 2010.

CITY OF LEXINGTON'S CHANGES IN NET ASSETS

	Governmental Activities		Business Type Activities		TOTAL	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues						
Fees, fines and charges for services	\$ 1,583,732	\$ 1,537,307	\$ 61,320,055	\$ 53,422,814	\$ 62,903,787	\$ 54,960,121
Operating grants and contributions	8,069,972	8,219,396	-	-	8,069,972	8,219,396
Capital grants and contributions	150,082	131,408	126,487	514,129	276,569	645,537
General revenues:						
Property taxes	1,371,462	1,379,060	-	-	1,371,462	1,379,060
In-lieu of property taxes	95,191	92,816	-	-	95,191	92,816
Sales taxes	3,779,563	3,752,034	-	-	3,779,563	3,752,034
Investment earnings	69,088	85,663	110,109	126,223	179,197	211,886
Gain(loss) on sale of capital assets	6,568	6,492	56,671	7,730	63,239	14,222
Miscellaneous	198,029	243,305	66,956	925,468	264,985	1,168,773
Total revenues	15,323,687	15,447,481	61,680,278	54,996,364	77,003,965	70,443,845
Expenses:						
General government and administration						
Public safety	1,271,011	1,472,844	-	-	1,271,011	1,472,844
Public works	2,974,685	3,062,051	-	-	2,974,685	3,062,051
Health, Welfare and Recreation	1,668,673	1,998,473	-	-	1,668,673	1,998,473
Economic development	9,981,248	10,149,733	-	-	9,981,248	10,149,733
Interest on long-term debt	118,550	42,333	-	-	118,550	42,333
Paying agent fees	572,210	609,706	-	-	572,210	609,706
Water Systems	3,196	2,327	-	-	3,196	2,327
Natural Gas	-	-	5,907,438	5,173,630	5,907,438	5,173,630
Electric Department	-	-	6,462,584	7,381,038	6,462,584	7,381,038
Total expenses	16,589,573	17,337,467	59,004,492	52,862,852	75,594,065	70,200,319
Increase (decrease) in net assets before transfers	(1,265,886)	(1,889,986)	2,675,786	2,133,512	1,409,900	243,526
Transfers	983,581	783,433	(1,356,662)	(1,118,100)	(373,081)	(334,667)
Increase (decrease) in net assets	(282,305)	(1,106,553)	1,319,124	1,015,412	1,036,819	(91,141)
Net assets at beginning of year, as originally stated	17,374,406	18,445,084	47,741,056	46,725,644	65,115,462	65,170,728
Prior period adjustment	-	28,967	(101,515)	-	(101,515)	28,967
Inventory adjustment	4,978	6,908	-	-	4,978	6,908
Net assets at beginning of year, as restated	17,379,384	18,480,959	47,639,541	46,725,644	65,018,925	65,206,603
Net assets at end of year	\$ 17,097,079	\$ 17,374,406	\$ 48,958,665	\$ 47,741,056	\$ 66,055,744	\$ 65,115,462

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 11) reported a combined fund balance of \$2,941,234 which is 0.9% above last year's total of \$2,914,125.

The following schedule presents a summary of general, special revenues, debt service and capital project revenues and expenditures for the fiscal year ended June 30, 2011, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	June 30, 2011	Percent of Total	Increase (Decrease) from June 30, 2010
Taxes	\$ 4,664,991	30.42%	\$ 47,790
Intergovernmental	8,830,779	57.58%	(113,146)
Licenses and permits	17,203	0.11%	(2,590)
Charges for services	990,931	6.46%	8,712
Fines and forfeitures	265,546	1.73%	(9,682)
Other revenues	566,367	3.69%	(13,466)
Total Revenues	\$ 15,335,817	100.00%	\$ (82,382)

The decrease seen in intergovernmental is due to decreased grant revenues received by the school system.

Expenditures	June 30, 2011	Percent of Total	Increase (Decrease) from June 30, 2010
General government	\$ 978,671	5.03%	\$ (129,017)
Public Safety	2,707,386	13.91%	(53,130)
Public Works	1,492,305	7.67%	(132,873)
Health, welfare, and recreation	9,305,884	47.82%	(185,432)
Economic development	118,550	0.61%	76,217
Capital outlay	230,757	1.19%	(247,109)
Debt Service	4,627,589	23.78%	3,120,452
Total Expenditures	\$ 19,461,142	100.00%	\$ 2,449,108

The City's debt service expenditures increased primarily due to the issuance of refunding bonds.

General Fund Budgetary Highlights

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 2011, the City had \$92,075,816 invested in a broad range of capital assets, including police and fire equipment, buildings, parks facilities, water and sewer lines, natural gas lines, electric plant and equipment, and various other equipment. This amount represents a net decrease (including additions and deductions) of \$894,143, or 1% below the last year. Additional information on capital assets is in Note 3.C.

Debt

At year-end, the City had \$37,954,990 in outstanding long-term debt compared to \$40,026,505 last year. Of the total outstanding debt 40% belongs to the Governmental funds, 11% to the Gas Fund, 27% to the Water Systems Fund, and 22% to the Electric Department.

See Note 3.G for additional information.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

Sue Wood
City Recorder

CITY OF LEXINGTON, TENNESSEE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2011

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash and cash equivalents	\$ 2,325,802	\$ 10,701,383	\$ 13,027,185
Investments	-	581,233	581,233
Receivables:			
Property taxes	2,186,945	-	2,186,945
Accounts receivable, net of allowance	13,338	3,776,706	3,790,044
Grant receivables	417,469	156,587	574,056
Other receivables	16,241	379,288	395,529
Internal balances	(33,420)	33,420	-
Due from other governments	519,371	-	519,371
Inventory	32,667	715,125	747,792
Natural gas storage	-	828,806	828,806
Prepaid expenses	133,172	120,135	253,307
Other assets	83,931	757,233	841,164
Note receivable	-	185,000	185,000
Capital assets:			
Land, improvements and construction in progress	2,056,155	7,916,661	9,972,816
Other capital assets, net of depreciation	27,321,042	54,781,958	82,103,000
TOTAL ASSETS	\$ 35,072,713	\$ 80,933,535	\$ 116,006,248
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable and accrued expenses	\$ 497,324	\$ 7,371,177	\$ 7,868,501
Bank overdrafts	49,707	-	49,707
Deferred property taxes	2,089,033	-	2,089,033
Deferred revenue	12,690	-	12,690
Bond issue premiums	1,890	25,410	27,300
Compensated absences	-	1,312,945	1,312,945
Long-term liabilities:			
Advances from Home Installation Program	-	260,087	260,087
Other post employment benefits	-	198,454	198,454
Landfill closure costs	227,801	-	227,801
Compensated absences	1,046,901	176,797	1,223,698
Due within one year	950,529	1,480,000	2,430,529
Due in more than one year	13,099,759	21,150,000	34,249,759
TOTAL LIABILITIES	17,975,634	31,974,870	49,950,504
NET ASSETS			
Invested in capital assets, net of related debt	15,408,950	40,463,359	55,872,309
Restricted for:			
State Street Aid Fund	48,272	-	48,272
School Tax Fund	123,527	-	123,527
School Food Service	120,874	-	120,874
Solid Waste Collection	64,086	-	64,086
DARE Fund	2,881	-	2,881
Police Drug Fund	53,530	-	53,530
Debt service	9,825	723,421	733,246
Capital projects	41,368	-	41,368
Unrestricted	1,223,766	7,771,885	8,995,651
TOTAL NET ASSETS	17,097,079	48,958,665	66,055,744
TOTAL LIABILITIES AND NET ASSETS	\$ 35,072,713	\$ 80,933,535	\$ 116,006,248

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

CITY OF LEXINGTON, TENNESSEE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	PROGRAM REVENUES			NET (EXPENSES) REVENUE AND CHANGES IN NET ASSETS			
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Program Activities							
Governmental activities:							
General Government	\$ 1,271,011	\$ 107,396	\$ -	\$ 12,528	\$ (1,151,087)	\$ -	\$ (1,151,087)
Public Safety	2,974,685	268,848	24,600	90,422	(2,590,815)	-	(2,590,815)
Public Works	1,668,673	897,228	310,919	-	(460,526)	-	(460,526)
Health, Welfare and Recreation	9,981,248	310,260	7,734,453	14,625	(1,921,910)	-	(1,921,910)
Economic Development	118,550	-	-	32,507	(86,043)	-	(86,043)
Interest on long-term debt	572,210	-	-	-	(572,210)	-	(572,210)
Paying agent fees on long-term debt	3,196	-	-	-	(3,196)	-	(3,196)
Business-type activities:							
Gas Fund	6,462,584	6,980,258	-	26,127	-	543,801	543,801
Water Systems Fund	5,907,438	5,830,839	-	100,360	-	23,761	23,761
Electric Department	46,634,470	48,508,958	-	-	-	1,874,488	1,874,488
Total business-type activities	59,004,492	61,320,055	-	126,487	-	2,442,050	2,442,050
Total government	\$ 75,594,065	\$ 62,903,787	\$ 8,069,972	\$ 276,569	(6,785,787)	2,442,050	(4,343,737)
General revenues:							
Taxes:							
Property					1,371,462	-	1,371,462
In-lieu of taxes					95,191	-	95,191
Sales					3,779,563	-	3,779,563
Investment earnings					69,088	110,109	179,197
Gain (loss) on sale/retirement of capital assets					6,568	56,671	63,239
Miscellaneous					198,029	66,956	264,985
Transfer out - in lieu of taxes					983,581	(983,581)	-
Transfer out - in lieu of taxes - other government					-	(373,081)	(373,081)
Total general revenues and transfers					6,503,482	(1,122,926)	5,380,556
Change in net assets					(282,305)	1,319,124	1,036,819
Net assets - beginning, as originally stated					17,374,406	47,741,056	65,115,462
Prior period adjustment					-	(101,515)	(101,515)
Inventory adjustment - school food service fund					4,978	-	4,978
Net assets - beginning, as restated					17,379,384	47,639,541	65,018,925
Net assets - ending					\$ 17,097,079	\$ 48,958,665	\$ 66,055,744

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

**CITY OF LEXINGTON, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	General	General Purpose School Fund	Other Governmental Funds	Total
ASSETS				
Cash and cash equivalents	\$ 367,855	\$ 1,664,587	\$ 293,360	\$ 2,325,802
Taxes receivable	2,186,945	-	-	2,186,945
Accounts receivable	13,338	-	-	13,338
Grant receivable	76,571	326,273	14,625	417,469
Other receivables	3,487	12,754	-	16,241
Inventory	-	-	32,667	32,667
Due from other governments	312,279	72,332	134,760	519,371
Due from other funds	3,387	14,625	60,835	78,847
Prepaid expenses	120,857	-	12,315	133,172
TOTAL ASSETS	\$ 3,084,719	\$ 2,090,571	\$ 548,562	\$ 5,723,852
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 246,571	\$ 52,328	\$ 6	\$ 298,905
Bank overdrafts	-	-	49,707	49,707
Accrued expenses	47,530	69,441	5,133	122,104
Deferred revenue	2,186,945	-	12,690	2,199,635
Due to other funds	95,604	-	16,663	112,267
TOTAL LIABILITIES	2,576,650	121,769	84,199	2,782,618
FUND BALANCE				
Nonspendable				
Inventory	-	-	32,667	32,667
Prepaid expenses	120,857	-	12,315	133,172
Reserved for:				
State street aid	-	-	48,272	48,272
School food authority	-	-	88,207	88,207
Drug fund	-	-	53,530	53,530
Education	-	5,313	-	5,313
Instruction	-	1,024	-	1,024
Assigned				
Special revenue funds	-	-	229,372	229,372
Instruction	-	53,000	-	53,000
Support services	-	24,084	-	24,084
Operation of non-instructional services	-	533	-	533
Capital projects	-	30,997	-	30,997
Unassigned				
General fund	387,212	-	-	387,212
General purpose school fund	-	1,853,851	-	1,853,851
TOTAL FUND BALANCES	508,069	1,968,802	464,363	2,941,234
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,084,719	\$ 2,090,571	\$ 548,562	\$ 5,723,852

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

CITY OF LEXINGTON, TENNESSEE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2011

Total fund balance - total governmental funds	\$ 2,941,234
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	29,377,197
Unamortized bond issuance costs are not recorded on governmental funds but are expensed when incurred.	83,931
Unamortized bond issuance premiums are not recorded on governmental funds but are recognized as revenues when received.	(1,890)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	97,912
Accrued interest is not reported in the governmental funds balance sheet but is recorded for government-wide purposes.	(76,315)
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.	<u>(15,324,990)</u>
Net assets of governmental activities	<u>\$ 17,097,079</u>

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

CITY OF LEXINGTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	General	General Purpose School Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes				
Property taxes	\$ 1,388,270	\$ -	\$ -	\$ 1,388,270
Penalty and interest	12,692	-	-	12,692
In lieu of taxes	11,793	-	-	11,793
Sales	1,373,927	-	1,144,939	2,518,866
Beer tax	400,978	-	-	400,978
Business	211,051	-	-	211,051
Franchise	118,858	-	-	118,858
Privilege	2,483	-	-	2,483
Intergovernmental revenues	895,400	7,326,541	608,838	8,830,779
Licenses and permits	17,203	-	-	17,203
Charges for services	120,427	-	870,504	990,931
Fines, forfeits, and penalties	131,241	-	134,305	265,546
Other revenues	150,060	193,578	222,729	566,367
Total revenues	<u>4,834,383</u>	<u>7,520,119</u>	<u>2,981,315</u>	<u>15,335,817</u>
Expenditures				
Current:				
General government	978,081	-	590	978,671
Public safety	2,563,789	-	143,597	2,707,386
Public works	757,592	-	734,713	1,492,305
Health, welfare, and recreation	489,817	8,198,662	617,405	9,305,884
Economic development	118,550	-	-	118,550
Capital outlay	49,504	65,694	115,559	230,757
Debt service:				
Principal payments	53,650	70,000	3,877,141	4,000,791
Interest payments	58,197	21,373	515,982	595,552
Other debt costs	-	-	31,246	31,246
Total expenditures	<u>5,069,180</u>	<u>8,355,729</u>	<u>6,036,233</u>	<u>19,461,142</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(234,797)</u>	<u>(835,610)</u>	<u>(3,054,918)</u>	<u>(4,125,325)</u>
Other financing sources (uses)				
Transfers in	1,104,613	1,063,000	1,402,813	3,570,426
Transfers out	(981,800)	-	(1,605,045)	(2,586,845)
Proceeds from bonds	-	-	3,150,000	3,150,000
Proceeds from sale of general fixed assets	8,575	-	5,300	13,875
Total other financing sources (uses)	<u>131,388</u>	<u>1,063,000</u>	<u>2,953,068</u>	<u>4,147,456</u>
Net Change in Fund Balances	<u>(103,409)</u>	<u>227,390</u>	<u>(101,850)</u>	<u>22,131</u>
FUND BALANCE AT BEGINNING OF YEAR, as originally stated	611,478	1,741,412	561,235	2,914,125
INVENTORY ADJUSTMENT	-	-	4,978	4,978
FUND BALANCE AT BEGINNING OF YEAR, as restated	<u>611,478</u>	<u>1,741,412</u>	<u>566,213</u>	<u>2,919,103</u>
FUND BALANCE AT END OF YEAR	<u>\$ 508,069</u>	<u>\$ 1,968,802</u>	<u>\$ 464,363</u>	<u>\$ 2,941,234</u>

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

CITY OF LEXINGTON, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds	\$	22,131
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded for the current period.		
		230,757
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in government funds.		
		(1,370,412)
Difference in the gain or loss from sale of fixed assets		
		(7,307)
Long-term debt proceeds are recorded on the governmental funds as revenues, but the government-wide statement of activities does not report debt proceeds as revenue		
		(3,150,000)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
		4,000,791
Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, they are not reported as expenditures in governmental funds.		
		8,543
Some property tax will not be collected for several months after the City's fiscal year end, they are not considered "available" revenues in the governmental funds.		
		(16,808)
Change in net assets of governmental activities	\$	(282,305)

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

**CITY OF LEXINGTON, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
Taxes				
Property taxes - current	\$ 1,356,000	\$ 1,356,000	\$ 1,312,580	\$ (43,420)
Property taxes - delinquent	-	-	75,690	75,690
Penalties and interest	9,000	12,500	12,692	192
In lieu of taxes:				
Lexington Housing Authority	11,000	11,800	11,793	(7)
Local sales tax	1,361,000	1,367,000	1,373,927	6,927
Local beer tax	390,000	390,000	400,978	10,978
Business tax	200,000	230,000	211,051	(18,949)
Franchise tax	110,000	110,000	118,858	8,858
Privilege tax	2,500	2,500	2,483	(17)
Total taxes	3,439,500	3,479,800	3,520,052	40,252
Intergovernmental				
TVA payments in lieu of taxes	73,373	83,399	83,398	(1)
State fire education	7,800	7,800	7,800	-
State law enforcement grant	15,600	15,600	15,600	-
FEMA grant	-	-	12,528	12,528
Police safety grant - alcohol saturation	27,098	21,098	10,706	(10,392)
Police - COPS	53,000	53,000	73,396	20,396
Police - vest grant	-	265	781	516
Police grant -network coordinator 2010	6,500	6,500	3,550	(2,950)
Police grant -network coordinator 2011	15,000	15,000	1,989	(13,011)
Police grant - other	30,500	-	-	-
Sidewalk grant	-	38,000	32,507	(5,493)
Fire grant	373,920	-	-	-
State of Tennessee				
- Sales tax allocation	473,004	486,004	491,499	5,495
- Telecommunication tax	-	-	596	596
- Income tax allocation	39,375	21,500	23,684	2,184
- Beer tax allocation	3,697	3,697	3,857	160
- City street & transportation	15,821	15,821	15,855	34
- Street maintenance	92,300	92,300	92,684	384
- Excise tax	13,388	7,388	7,691	303
Grants from Local Governments				
- Crimestoppers	1,200	1,200	1,200	-
- County recreation grant	10,000	10,000	10,000	-
- Other miscellaneous grants	-	-	6,079	6,079
Total intergovernmental revenues	1,251,576	878,572	895,400	16,828
Licenses and permits				
Beer licenses	1,000	750	1,250	500
Building permits	15,000	15,000	15,268	268
Business license	-	-	135	135
Other permits	500	350	550	200
Total licenses and permits	16,500	16,100	17,203	1,103

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

CITY OF LEXINGTON, TENNESSEE
GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (continued)
YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues (continued)				
Charges for services				
Clerk's fees - business tax	23,600	23,600	26,417	2,817
Accident report filing fees	3,000	3,225	3,302	77
Maintenace charges for Caywood	82,000	82,000	82,000	-
SOR charges	500	500	550	50
Parks and recreation charges	11,000	9,150	8,158	(992)
Total charges for services	120,100	118,475	120,427	1,952
City court fines and costs	181,380	136,380	131,241	(5,139)
Other revenues				
Interest income	40,000	30,000	21,680	(8,320)
Community center revenue	22,000	22,000	23,552	1,552
Fireworks donations	-	-	10,800	10,800
Sales of cemetery lots	12,000	12,000	9,425	(2,575)
Insurance recoveries	100,000	75,000	63,776	(11,224)
Sales of other materials	10,000	16,500	17,299	799
Miscellaneous income	15,775	9,501	3,528	(5,973)
Total other revenue	199,775	165,001	150,060	(14,941)
Total revenues	5,208,831	4,794,328	4,834,383	40,055
Expenditures				
General government				
General				
Salaries	57,749	59,549	58,347	1,202
Employee benefits	287,568	283,875	334,920	(51,045)
Memberships	2,000	2,100	2,091	9
Operating expenses	2,500	2,100	2,004	96
Other operating expenses	15,000	12,425	9,938	2,487
Insurance	161,175	161,175	141,578	19,597
Bad debt expense	-	-	7,378	(7,378)
Total general	525,992	521,224	556,256	(35,032)
Judicial				
Salaries	8,800	8,800	8,801	(1)
Total judicial	8,800	8,800	8,801	(1)

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

CITY OF LEXINGTON, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (continued)
YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (continued)				
General government (continued)				
City recorder				
Salaries	198,184	202,118	198,876	3,242
Employee benefits	27,749	27,749	26,898	851
Insurance	440	440	347	93
Office expense	9,500	10,400	7,778	2,622
Professional fees	48,100	39,100	30,683	8,417
Membership and dues	50	350	350	-
Repair and maintenance	3,050	6,450	2,394	4,056
Other operating expenses	141,139	139,362	127,772	11,590
Total city recorder	428,212	425,969	395,098	30,871
City Hall				
Utilities	20,356	19,163	17,926	1,237
Total general government	983,360	975,156	978,081	(2,925)
Public safety				
Police department				
Salary	1,483,299	1,416,154	1,328,894	87,260
Employee benefits	218,803	202,550	196,687	5,863
Utilities	31,858	34,500	32,501	1,999
Repair and maintenance	45,700	45,700	20,894	24,806
Memberships and dues	650	650	375	275
Supplies	27,495	28,495	20,410	8,085
Uniforms and clothing	11,900	11,900	7,542	4,358
Gas, oil, and diesel	63,350	72,000	70,511	1,489
Insurance	3,630	3,396	2,804	592
Equipment rental	9,500	9,500	8,332	1,168
Office expense	28,500	32,600	32,310	290
Other grant expenses	62,123	21,765	15,067	6,698
Capital outlay	-	-	19,756	(19,756)
Total police department	1,986,808	1,879,210	1,756,083	123,127
Fire department				
Salaries	602,140	613,863	605,708	8,155
Employee benefits	91,054	88,054	86,385	1,669
Volunteer firemen	4,000	3,270	3,270	-
Utilities	36,488	35,488	33,792	1,696
Memberships	450	450	120	330
Repair and maintenance	17,000	15,500	11,844	3,656
Supplies	3,100	2,950	2,140	810
Clothing and uniforms	4,800	4,800	4,547	253
Gas, oil, diesel	7,800	8,100	8,062	38
Insurance	4,690	4,540	4,412	128
Travel	2,000	1,500	956	544
Equipment rent	2,500	2,500	2,107	393
Capital outlay	398,600	14,600	14,548	52
Total fire department	1,174,622	795,615	777,891	17,724
Building inspector				
Salaries	54,636	55,720	54,844	876
Employee benefits	7,437	7,036	6,929	107
Insurance	110	110	90	20
Other operating expenses	3,210	2,775	2,256	519
Total building inspector	65,393	65,641	64,119	1,522
Total public safety	3,226,823	2,740,466	2,598,093	142,373

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

**CITY OF LEXINGTON, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (continued)
YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (continued)				
Public works				
Highways and streets				
Salaries	508,539	517,838	509,896	7,942
Employee benefits	84,246	83,546	82,215	1,331
Utilities	17,483	20,125	17,643	2,482
Repair and maintenance	57,400	47,700	40,046	7,654
Repair and maintenance - equipment	10,000	6,000	4,954	1,046
Clothing and uniforms	4,200	4,200	3,514	686
Gas, oil, diesel	34,050	41,500	42,111	(611)
Gravel and sand	5,500	4,450	2,569	1,881
Operating supplies	14,500	8,500	5,612	2,888
Insurance	1,320	1,320	1,064	256
Office supplies	2,900	3,000	2,511	489
Total highways and streets	740,138	738,179	712,135	26,044
Garage				
Repair and maintenance	2,100	1,900	802	1,098
Supplies	9,460	18,010	11,287	6,723
Fuel purchases	-	9,200	8,640	560
Uniforms	350	-	-	-
Total garage	11,910	29,110	20,729	8,381
Animal control				
Contract labor	19,200	19,200	19,200	-
Operating costs	4,000	4,000	3,117	883
Total animal control	23,200	23,200	22,317	883
Sanitation				
Landfill closure	750	2,750	2,411	339
Total public works	775,998	793,239	757,592	35,647
Health, welfare, and recreation				
Appropriations				
Library	31,000	31,000	31,000	-
Library utilities	11,471	13,001	12,157	844
RSVP	6,900	-	-	-
Senior Citizens	11,000	11,000	11,000	-
Rescue Squad	13,050	13,050	64	12,986
Rescue Squad utilities	735	850	750	100
Christmas parade	500	500	500	-
Carl Perkins	1,725	1,725	1,725	-
Lexington scholarship	500	500	500	-
JACO A	1,900	1,900	1,900	-
Hope utilities	4,305	5,100	4,609	491
Project graduation	1,000	1,100	1,050	50
Teen summit	250	250	-	250
Community beautification	25	25	22	3
Airport	21,646	21,646	21,646	-
Fireworks	-	-	9,000	(9,000)
Other appropriations	3,100	3,100	2,906	194
Total appropriations	109,107	104,747	98,829	5,918

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

CITY OF LEXINGTON, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (continued)
YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (continued)				
Health, welfare, and recreation (continued)				
Museum				
Contract labor	14,400	14,400	14,400	-
Utilities	6,573	7,700	6,915	785
Repair and maintenance	-	100	9	91
Telephone	656	656	624	32
Security system	473	473	464	9
Operating costs	100	100	75	25
Janitorial costs	100	100	23	77
Total museum	<u>22,302</u>	<u>23,529</u>	<u>22,510</u>	<u>1,019</u>
Civic center				
Utilities	37,170	34,000	28,803	5,197
Contract labor	19,500	8,000	4,500	3,500
Repair and maintenance	25,500	26,500	10,128	16,372
Operating costs	1,000	1,000	401	599
Janitorial costs	2,000	2,000	1,303	697
Capital outlay	-	-	15,200	(15,200)
Total civic center	<u>85,170</u>	<u>71,500</u>	<u>60,335</u>	<u>11,165</u>
Parks				
Salaries	191,408	183,005	162,921	20,084
Employee benefits	27,749	27,749	26,898	851
Repair and maintenance	31,300	31,300	29,580	1,720
Utilities	64,261	88,111	84,609	3,502
Insurance	1,000	1,000	840	160
Other operating expenses	18,519	21,350	18,495	2,855
Total parks	<u>334,237</u>	<u>352,515</u>	<u>323,343</u>	<u>29,172</u>
Total health, welfare, and recreation	<u>550,816</u>	<u>552,291</u>	<u>505,017</u>	<u>47,274</u>
Economic development				
State plan service	15,000	11,000	10,803	197
Professional fees	5,500	5,500	1,673	3,827
Travel	1,000	1,000	244	756
Miscellaneous	29,000	82,000	105,830	(23,830)
Total economic development	<u>50,500</u>	<u>99,500</u>	<u>118,550</u>	<u>(19,050)</u>
Debt service				
Principal payments	40,000	40,000	53,650	(13,650)
Interest payments	58,251	58,251	58,197	54
Total debt service	<u>98,251</u>	<u>98,251</u>	<u>111,847</u>	<u>(13,596)</u>
Total expenditures	<u>5,685,748</u>	<u>5,258,903</u>	<u>5,069,180</u>	<u>189,723</u>

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

CITY OF LEXINGTON, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (continued)
YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
Excess (deficiency) of revenues over (under) expenditures	(476,917)	(464,575)	(234,797)	229,778
Other financing sources (uses)				
Transfers in	1,044,036	1,076,540	1,104,613	28,073
Transfers out	(980,000)	(980,000)	(981,800)	(1,800)
Sale of general fixed assets	10,000	10,000	8,575	(1,425)
Total other financing sources (uses)	74,036	106,540	131,388	24,848
Net change in fund balance	(402,881)	(358,035)	(103,409)	254,626
FUND BALANCE, Beginning of Year	611,478	611,478	611,478	-
FUND BALANCE AT END OF YEAR	\$ 208,597	\$ 253,443	\$ 508,069	\$ 254,626

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

**CITY OF LEXINGTON, TENNESSEE
GENERAL PURPOSE SCHOOL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Budgetary Basis)
YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual (GAAP Basis)	Less: Encumbrances 7/1/2010	Add: Encumbrances 6/30/2011	Actual Revenues/ Expenditures (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final					
Revenues							
Intergovernmental revenues							
Local funds							
Henderson County							
Wheel tax	\$ 86,000	\$ 86,000	\$ 85,392	\$ -	\$ -	\$ 85,392	\$ (608)
Current year tax levy	480,000	466,000	464,280	-	-	464,280	(1,720)
Prior year tax receipts	27,000	27,000	31,799	-	-	31,799	4,799
Mixed drink tax	1,000	1,000	1,187	-	-	1,187	187
Local sales tax	744,000	738,000	728,951	-	-	728,951	(9,049)
Interstate telecommunication taxes	500	500	416	-	-	416	(84)
Bank excise tax	6,000	2,000	1,103	-	-	1,103	(897)
Marriage licenses	600	600	524	-	-	524	(76)
Vocational grants	14,312	14,312	14,312	-	-	14,312	-
Other	7,000	7,000	6,825	-	-	6,825	(175)
State funds							
Basic education	4,583,600	4,293,991	4,293,991	-	-	4,293,991	-
Early childhood education	189,016	192,160	192,160	-	-	192,160	-
Career ladder	50,000	50,000	38,217	-	-	38,217	(11,783)
Internet connectivity	-	-	565	-	-	565	565
ACT reimbursement	-	-	650	-	-	650	650
Energy efficiency grant	-	365,390	-	-	-	-	(365,390)
Other State grants	-	22,103	13,776	-	-	13,776	(8,327)
Other State education funds	-	52,517	52,517	-	-	52,517	-
Federal funds							
Basic education - ARRA	200,400	493,009	493,009	-	-	493,009	-
Title I grants	190,047	191,146	194,397	-	-	194,397	3,251
Title I grants - ARRA	34,486	34,486	34,486	-	-	34,486	-
Other Federal through State	655	34,326	27,991	-	-	27,991	(6,335)
Career ladder extended - ARRA	35,496	38,347	39,267	-	-	39,267	920
Coordinated school health - ARRA	92,000	92,000	92,000	-	-	92,000	-
Special education grants to state	226,170	226,170	191,144	-	-	191,144	(35,026)
Special education grants to state - ARRA	29,890	29,890	29,890	-	-	29,890	-
Special education preschool	41,990	41,990	41,990	-	-	41,990	-
Special education preschool - idea	3,998	3,998	3,998	-	-	3,998	-
Special education preschool - high cost	-	2,280	2,280	-	-	2,280	-
Internet connectivity - ARRA	3,775	3,775	3,081	-	-	3,081	(694)
School management - ARRA	2,673	2,673	2,634	-	-	2,634	(39)
Vocational education	-	-	3,624	-	-	3,624	3,624
English language acquisition grant	16,292	16,447	16,447	-	-	16,447	-
Safe and drug free grant - ARRA	3,700	6,000	6,000	-	-	6,000	-
Education for homeless children - ARRA	1,934	1,934	1,934	-	-	1,934	-
Eisenhower professional development	61,894	60,797	60,797	-	-	60,797	-
First to the top - ARRA	74,977	124,977	118,717	-	-	118,717	(6,260)
Education job funds - ARRA	-	40,175	36,190	-	-	36,190	(3,985)
Total Intergovernmental revenues	7,209,405	7,762,993	7,326,541	-	-	7,326,541	(436,452)
Other revenues							
Interest income	12,500	12,500	15,982	-	-	15,982	3,482
Contributions	10,000	19,321	35,265	-	-	35,265	15,944
Receipts from individual schools	5,000	5,383	3,514	-	-	3,514	(1,869)
Insurance recoveries	-	9,110	9,110	-	-	9,110	-
On-behalf payments	-	75,000	61,127	-	-	61,127	(13,873)
Revenues from contracted services	-	58,641	59,641	-	-	59,641	1,000
Miscellaneous revenues	2,000	6,029	8,939	-	-	8,939	2,910
Total other revenues	29,500	185,984	193,578	-	-	193,578	7,594
Total Revenues	7,238,905	7,948,977	7,520,119	-	-	7,520,119	(428,858)

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

CITY OF LEXINGTON, TENNESSEE
GENERAL PURPOSE SCHOOL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Budgetary Basis) (continued)
YEAR ENDED JUNE 30, 2011

Expenditures	Budgeted Amounts		Actual (GAAP Basis)	Less: Encumbrances 7/1/2010	Add: Encumbrances 6/30/2011	Actual Revenues/ Expenditures (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final					
Instruction							
Regular instruction program							
Teachers	2,482,774	2,460,480	2,455,652	-	-	2,455,652	4,828
Career ladder program	20,500	19,565	16,608	-	-	16,608	2,957
Career ladder program	23,618	33,111	33,111	-	-	33,111	-
Paraprofessionals	68,800	48,800	48,382	-	-	48,382	418
Educational assistants	110,728	115,204	115,204	-	-	115,204	-
Other salaries and wages	60,745	142,157	141,564	-	-	141,564	593
Certified substitute teachers	27,000	27,380	27,258	-	-	27,258	122
Non-certified substitute teachers	25,000	29,430	29,430	-	-	29,430	-
Social security	177,058	184,824	164,843	-	-	164,843	19,981
State retirement	234,112	244,495	231,456	-	-	231,456	13,039
Life insurance	6,120	6,120	5,141	-	-	5,141	979
Medical insurance	349,608	341,293	341,291	-	-	341,291	2
Dental insurance	6,192	6,547	6,544	-	-	6,544	3
Unemployment compensation	1,810	4,252	4,249	-	-	4,249	3
Local retirement	3,490	3,490	2,465	-	-	2,465	1,025
Employer medicare	40,766	43,099	38,856	-	-	38,856	4,243
On-behalf payments	-	75,000	61,127	-	-	61,127	13,873
Maintenance and repair - equipment	3,000	3,000	-	-	-	-	3,000
Other contracted services	48,000	57,551	54,914	-	-	54,914	2,637
Instructional supplies	52,455	62,504	35,122	-	-	35,122	27,382
Textbooks	8,000	78,020	4,676	-	73,339	78,015	5
Other supplies and materials	30,455	31,952	34,759	(13,073)	-	21,686	10,266
Indirect costs	-	3,005	3,005	-	-	3,005	-
Other charges	14,755	14,915	3,222	-	-	3,222	11,693
Inservice/staff development	-	30	30	-	-	30	-
Regular instruction equipment	24,000	155,221	69,014	(260)	86,385	155,139	82
Total regular instruction program	3,826,986	4,191,445	3,927,923	(13,333)	159,724	4,074,314	117,131
Alternative instruction							
Instructional supplies	500	500	-	-	-	-	500
Contracts with other school systems	28,000	28,000	26,000	-	-	26,000	2,000
Total alternative instruction	28,500	28,500	26,000	-	-	26,000	2,500
Special education							
Teachers	443,307	434,536	430,374	-	-	430,374	4,162
Career ladder program	3,500	5,125	5,125	-	-	5,125	-
Educational assistants	78,720	90,505	89,200	-	-	89,200	1,305
Certified substitute teachers	4,524	4,355	2,848	-	-	2,848	1,507
Non-certified substitute teachers	8,100	9,240	7,970	-	-	7,970	1,270
Social security	31,614	29,961	29,091	-	-	29,091	870
State retirement	39,019	39,040	38,770	-	-	38,770	270
Medical insurance	82,358	82,361	82,356	-	-	82,356	5
Dental insurance	1,258	1,243	1,232	-	-	1,232	11
Unemployment compensation	492	606	605	-	-	605	1
Local retirement	1,617	551	283	-	-	283	288
Employer medicare	7,621	7,622	7,047	-	-	7,047	575
Other fringe benefits	-	1,066	1,050	-	-	1,050	16
Other contracted services	13,600	15,782	11,681	-	-	11,681	4,101
Instructional supplies	2,359	2,577	2,477	-	-	2,477	100
Special education equipment	42,090	42,090	42,022	-	-	42,022	68
Total special education	760,179	766,660	752,131	-	-	752,131	14,529
Vocational education							
Instructional supplies	2,627	2,570	2,571	-	-	2,571	(1)
Vocational instruction equipment	9,710	9,710	13,334	(3,624)	-	9,710	-
Total vocational education	12,337	12,280	15,905	(3,624)	-	12,281	(1)
Student body education							
Other salaries and wages	92,450	92,407	87,989	-	-	87,989	4,418
Social security	5,731	5,731	4,984	-	-	4,984	747
State retirement	8,367	8,367	7,963	-	-	7,963	404
Medical insurance	14,125	14,125	13,566	-	-	13,566	559
Dental insurance	148	148	138	-	-	138	10
Unemployment compensation	46	57	56	-	-	56	1
Employer medicare	1,339	1,339	1,166	-	-	1,166	173
Travel	500	500	-	-	-	-	500
Other contracted services	14,000	14,101	14,100	-	-	14,100	1
Other charges	12,000	19,975	22,942	-	-	22,942	(2,967)
Total student body education	148,706	156,750	152,904	-	-	152,904	3,846
Total instruction	4,776,708	5,155,635	4,874,863	(16,957)	159,724	5,017,630	138,005

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

**CITY OF LEXINGTON, TENNESSEE
GENERAL PURPOSE SCHOOL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Budgetary Basis) (continued)
YEAR ENDED JUNE 30, 2011**

Expenditures(continued)	Budgeted Amounts		Actual (GAAP Basis)	Less: Encumbrances 7/1/2010	Add: Encumbrances 6/30/2011	Actual Revenues/ Expenditures (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final					
Support services							
Attendance							
Supervisor/director	26,500	27,450	27,438	-	-	27,438	12
Other salaries	4,000	1,000	-	-	-	-	1,000
Social security	1,892	1,892	1,491	-	-	1,491	401
State retirement	2,760	2,760	2,468	-	-	2,468	292
Medical insurance	4,181	4,206	4,204	-	-	4,204	2
Dental insurance	60	60	40	-	-	40	20
Unemployment insurance	23	23	14	-	-	14	9
Employer medicare	442	442	349	-	-	349	93
Postal charges	300	300	-	-	-	-	300
Other contracted services	14,650	16,675	14,336	-	-	14,336	2,339
Other supplies and materials	500	500	111	-	-	111	389
Inservice/staff development	1,500	1,500	1,098	-	-	1,098	402
Other charges	500	500	-	-	-	-	500
Attendance equipment	200	200	-	-	-	-	200
Total attendance	57,508	57,508	51,549	-	-	51,549	5,959
Health instruction program							
Supervisor/director	36,822	36,822	36,822	-	-	36,822	-
Medical personnel	48,674	48,674	48,674	-	-	48,674	-
Other salaries	24,232	24,757	24,757	-	-	24,757	-
Social security	6,803	6,188	5,756	-	-	5,756	432
State retirement	5,526	5,526	5,526	-	-	5,526	-
Health insurance	13,337	13,402	13,401	-	-	13,401	1
Dental insurance	227	252	252	-	-	252	-
Unemployment insurance	96	96	92	-	-	92	4
Employer medicare	1,591	1,591	1,346	-	-	1,346	245
Travel	500	-	-	-	-	-	-
Other contracted services	2,000	200	200	-	-	200	-
Other supplies and materials	9,910	15,532	14,627	-	-	14,627	905
Inservice/staff development	3,500	4,178	3,678	-	-	3,678	500
Other charges	1,500	500	-	-	-	-	500
Total health instruction program	154,718	157,718	155,131	-	-	155,131	2,587
Other student support							
Career ladder program	6,000	6,435	6,000	-	-	6,000	435
Guidance personnel	120,993	120,993	119,992	-	-	119,992	1,001
Psychological personnel	51,707	51,707	51,707	-	-	51,707	-
Career ladder extended	3,000	-	-	-	-	-	-
Social workers	41,171	41,171	39,921	-	-	39,921	1,250
Assessment personnel	25,150	26,575	26,552	-	-	26,552	23
Speech pathologist	39,547	39,547	39,547	-	-	39,547	-
Social security	17,814	16,304	16,098	-	-	16,098	206
State retirement	26,002	26,002	25,538	-	-	25,538	464
Medical insurance	35,269	35,269	33,777	-	-	33,777	1,492
Dental insurance	592	677	672	-	-	672	5
Unemployment compensation	180	180	163	-	-	163	17
Employer medicare	4,166	4,166	3,765	-	-	3,765	401
Contracts with other school systems	13,382	13,510	13,510	-	-	13,510	-
Evaluation and testing	16,101	32,081	18,176	-	-	18,176	13,885
Travel	1,140	1,389	1,389	-	-	1,389	-
Other contracted services	775	570	570	-	-	570	-
Total other student support	402,989	416,556	397,377	-	-	397,377	19,179
Regular instruction program							
Supervisor/Director	65,731	65,731	65,731	-	-	65,731	-
Career ladder program	4,500	4,935	4,935	-	-	4,935	-
Career ladder extended	4,000	-	-	-	-	-	-
Libraries	41,523	41,523	41,523	-	-	41,523	-
Clerical personnel	-	2,000	2,000	-	-	2,000	-
Other salaries	41,475	62,109	62,108	-	-	62,108	1
Certified substitute teachers	3,000	970	1,180	-	-	1,180	(210)
In-service training	90,000	84,000	75,740	-	-	75,740	8,260
Non-certified substitute teachers	7,000	3,920	3,710	-	-	3,710	210
Social security	15,825	16,458	13,256	-	-	13,256	3,202
State retirement	22,193	23,456	19,845	-	-	19,845	3,611

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

CITY OF LEXINGTON, TENNESSEE
GENERAL PURPOSE SCHOOL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
(Budgetary Basis) (continued)
YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual (GAAP Basis)	Less: Encumbrances 7/1/2010	Add: Encumbrances 6/30/2011	Actual Revenues/ Expenditures (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final					
Expenditures(continued)							
Support services(continued)							
Regular instruction program(continued)							
Medical insurance	13,387	13,387	11,892	-	-	11,892	1,495
Dental insurance	296	296	276	-	-	276	20
Unemployment compensation	45	115	113	-	-	113	2
Employer medicare	3,802	3,953	3,529	-	-	3,529	424
Consultants	3,000	3,000	-	-	-	-	3,000
Dues and memberships	100	100	-	-	-	-	100
Travel	3,000	3,260	1,887	-	-	1,887	1,373
Tuition	-	11,543	11,543	-	-	11,543	-
Other contracted services	34,000	63,958	56,512	-	-	56,512	7,446
Library books and media	12,000	12,000	7,972	-	-	7,972	4,028
Other supplies and materials	20,522	23,538	18,660	-	-	18,660	4,878
Inservice/staff development	43,656	65,825	52,554	-	114	52,668	13,157
Other equipment	14,000	17,500	8,565	-	1,415	9,980	7,520
Total regular instruction program	443,055	523,577	463,531	-	1,529	465,060	58,517
Special Education							
Supervisor/director	31,995	26,881	9,865	-	-	9,865	17,016
Social security	-	563	-	-	-	-	563
State retirement	-	821	-	-	-	-	821
Employer medicare	464	493	143	-	-	143	350
Travel	60	73	72	-	-	72	1
Other supplies and materials	400	400	301	-	-	301	99
Inservice/staff development	6,500	6,500	4,672	-	-	4,672	1,828
Indirect cost	14,654	15,941	13,681	-	-	13,681	2,280
Total special education	54,073	51,672	28,714	-	-	28,714	22,958
Total support services	1,112,343	1,207,031	1,096,302	-	1,529	1,097,831	109,200
General administration							
Board of education							
Audit services	25,000	27,619	25,436	-	-	25,436	2,183
Dues and subscriptions	8,000	8,000	6,799	-	-	6,799	1,201
Legal services	3,000	1,500	1,004	-	-	1,004	496
Travel	2,500	2,500	-	-	-	-	2,500
Other contracted services	7,000	13,000	4,025	-	5,250	9,275	3,725
Other supplies and materials	1,500	1,500	46	-	-	46	1,454
Liability insurance	7,000	9,750	9,734	-	-	9,734	16
Surety bonds	500	500	-	-	-	-	500
Trustee's commission	19,000	19,000	18,723	-	-	18,723	277
Workmans compensation	16,000	13,250	13,188	-	-	13,188	62
Inservice/staff development	5,000	5,000	1,919	-	-	1,919	3,081
Criminal investigation	3,000	3,000	-	-	-	-	3,000
Refunds to applicants	500	500	240	-	-	240	260
Other charges	20,000	21,775	21,664	-	-	21,664	111
Total board of education	118,000	126,894	102,778	-	5,250	108,028	18,866
Office of education							
County officials	80,000	73,300	73,255	-	-	73,255	45
Assistant	-	15,000	14,627	-	-	14,627	373
Career ladder program	1,000	1,000	1,000	-	-	1,000	-
Clerical personnel	-	7,000	4,944	-	-	4,944	2,056
Other salaries and wages	7,300	33,283	27,453	-	-	27,453	5,830
Social security	5,475	7,768	7,284	-	-	7,284	484
State retirement	7,991	10,788	10,257	-	-	10,257	531
Life insurance	2,260	2,260	2,194	-	-	2,194	66
Medical insurance	14,000	14,000	13,237	-	-	13,237	763
Dental insurance	148	163	161	-	-	161	2
Unemployment compensation	23	33	29	-	-	29	4
Employer medicare	1,280	1,829	1,732	-	-	1,732	97
Communication	3,500	3,500	3,438	-	-	3,438	62
Dues and memberships	1,000	1,000	890	-	-	890	110
Postage	1,500	1,500	736	-	-	736	764
Travel	4,000	4,000	550	-	-	550	3,450
Other contracted services	3,000	8,831	1,716	-	-	1,716	7,115
Office supplies	3,000	4,075	3,065	-	-	3,065	1,010
Inservice/staff development	5,000	5,000	4,427	-	-	4,427	573
Other charges	7,000	7,000	5,976	-	-	5,976	1,024
Administrative equipment	2,500	5,175	5,145	-	-	5,145	30
Total office of education	149,977	206,505	182,116	-	-	182,116	24,389

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

CITY OF LEXINGTON, TENNESSEE
GENERAL PURPOSE SCHOOL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Budgetary Basis) (continued)
YEAR ENDED JUNE 30, 2011

Expenditures(continued)	Budgeted Amounts		Actual (GAAP Basis)	Less: Encumbrances 7/1/2010	Add: Encumbrances 6/30/2011	Actual Revenues/ Expenditures (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final					
General administration(continued)							
Office of principal							
Principals	135,113	135,113	129,952	-	-	129,952	5,161
Career ladder program	2,000	2,000	2,000	-	-	2,000	-
Accountants and bookkeepers	41,088	41,088	40,234	-	-	40,234	854
Assistant principal	86,565	104,400	103,973	-	-	103,973	427
Clerical personnel	41,225	37,455	36,626	-	-	36,626	829
Social security	18,991	18,991	15,914	-	-	15,914	3,077
State retirement	20,242	20,242	17,777	-	-	17,777	2,465
Medical insurance	21,154	24,454	24,410	-	-	24,410	44
Dental insurance	520	520	465	-	-	465	55
Unemployment compensation	180	230	226	-	-	226	4
Local retirement	1,450	1,450	1,057	-	-	1,057	393
Employer medicare	4,441	4,441	4,293	-	-	4,293	148
Communication	3,000	3,000	-	-	-	-	3,000
Dues and memberships	2,000	2,150	2,142	-	-	2,142	8
Postage	2,000	2,000	808	-	-	808	1,192
Travel	-	300	265	-	-	265	35
Office supplies	2,500	2,500	1,101	-	-	1,101	1,399
Inservice/staff development	7,000	7,000	5,594	-	-	5,594	1,406
Other charges	1,500	1,500	790	-	-	790	710
Administrative equipment	1,000	1,000	730	-	-	730	270
Total office of principal	391,969	409,834	388,357	-	-	388,357	21,477
Fiscal services							
Internal audit personnel	-	2,800	2,800	-	-	2,800	-
Accountants and bookkeepers	38,000	49,952	49,952	-	-	49,952	-
Purchasing personnel	72,380	73,330	59,469	-	-	59,469	13,861
Clerical personnel	24,800	24,115	21,131	-	-	21,131	2,984
Other salaries and wages	10,000	5,000	4,979	-	-	4,979	21
Social security	6,645	6,645	5,960	-	-	5,960	685
Medical insurance	4,467	4,467	1,756	-	-	1,756	2,711
Dental insurance	260	260	182	-	-	182	78
Unemployment compensation	120	140	140	-	-	140	-
Local retirement	3,252	3,577	3,565	-	-	3,565	12
Employer medicare	2,105	2,120	2,118	-	-	2,118	2
Consultants	5,000	-	-	-	-	-	-
Dues and memberships	75	75	-	-	-	-	75
Other contracted services	13,000	7,048	6,680	-	-	6,680	368
Data processing supplies	2,500	2,500	247	(93)	-	154	2,346
Office supplies	2,500	2,500	1,862	-	-	1,862	638
Inservice/staff development	4,000	4,325	4,307	-	-	4,307	18
Administration equipment	3,500	3,500	2,216	-	-	2,216	1,284
Total fiscal services	192,604	192,354	167,364	(93)	-	167,271	25,083
Plant operations							
Janitorial services	324,000	324,000	318,227	-	-	318,227	5,773
Disposal fees	6,000	6,000	3,204	-	-	3,204	2,796
Other contracted services	24,000	24,000	17,566	-	-	17,566	6,434
Electricity	295,000	305,000	304,571	-	-	304,571	429
Natural gas	48,000	35,750	33,194	-	-	33,194	2,556
Water	25,000	25,000	24,522	-	-	24,522	478
Other supplies and materials	1,000	3,250	3,202	-	-	3,202	48
Building and contents insurance	24,100	24,100	21,316	-	-	21,316	2,784
Vehicle and equipment	6,150	6,150	5,919	-	-	5,919	231
Plant operation equipment	2,000	2,000	-	-	-	-	2,000
Total plant operations	755,250	755,250	731,721	-	-	731,721	23,529

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

CITY OF LEXINGTON, TENNESSEE
GENERAL PURPOSE SCHOOL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Budgetary Basis) (continued)
YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual (GAAP Basis)	Less:	Add:	Actual Revenues/ Expenditures (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		Encumbrances 7/1/2010	Encumbrances 6/30/2011		
Expenditures(continued)							
General administration(continued)							
Plant maintenance							
Other salaries and wages	12,000	18,750	18,701	-	-	18,701	49
Social security	744	1,179	1,160	-	-	1,160	19
Unemployment compensation	23	43	39	-	-	39	4
Employer medicare	174	276	271	-	-	271	5
Maintenance and repair - buildings	70,000	57,957	38,442	-	-	38,442	19,515
Maintenance and repair - equipment	30,000	20,000	12,913	(3,250)	-	9,663	10,337
Maintenance and repair - vehicle	7,000	4,000	935	-	-	935	3,065
Other contracted services	180,000	180,000	165,127	-	-	165,127	14,873
Gasoline	-	1,500	1,006	-	414	1,420	80
Vehicle parts	-	150	120	-	-	120	30
Other supplies and materials	25,000	25,000	24,851	-	-	24,851	149
Inservice/staff development	2,000	2,000	13	-	-	13	1,987
Other charges	1,000	1,020	1,019	-	-	1,019	1
Maintenance equipment	2,000	13,458	4,442	-	-	4,442	9,016
Building improvements	-	51,706	27,679	-	-	27,679	24,027
Other capital outlay	-	20,000	5,054	-	-	5,054	14,946
Capital outlay	-	20,000	49,019	-	-	49,019	(29,019)
Total plant maintenance	329,941	417,039	350,791	(3,250)	414	347,955	69,084
Central and other							
Computer programmers	39,500	39,500	34,673	-	-	34,673	4,827
Data processing personnel	24,800	24,800	24,300	-	-	24,300	500
Social security	3,986	3,986	3,700	-	-	3,700	286
Medical insurance	4,875	4,875	4,542	-	-	4,542	333
Dental insurance	148	223	218	-	-	218	5
Unemployment compensation	45	60	58	-	-	58	2
Local retirement	1,960	1,960	1,381	-	-	1,381	579
Employer medicare	932	932	865	-	-	865	67
Dues and memberships	500	500	60	-	-	60	440
Maintenance and repair - equipment	20,000	15,320	7,210	-	-	7,210	8,110
Travel	1,000	1,000	395	-	-	395	605
Other contracted services	44,000	49,465	37,642	-	-	37,642	11,823
Other supplies and materials	12,000	12,000	10,476	-	-	10,476	1,524
Inservice/staff development	2,900	2,900	256	-	-	256	2,644
Other charges	3,000	-	-	-	-	-	-
Data processing equipment	10,000	19,400	19,383	-	-	19,383	17
Other equipment	7,000	17,000	16,069	(104)	150	16,115	885
Total central and other	176,646	193,921	161,228	(104)	150	161,274	32,647
Total general administration	2,114,387	2,301,797	2,084,355	(3,447)	5,814	2,086,722	215,075
Early childhood education							
Teachers	79,798	81,234	81,234	-	-	81,234	-
Educational assistants	46,935	47,638	47,638	-	-	47,638	-
Certified substitute teachers	-	1,600	1,600	-	-	1,600	-
Inservice training	-	520	520	-	-	520	-
Non-certified substitute teachers	-	2,990	2,990	-	-	2,990	-
Social security	7,858	7,614	7,614	-	-	7,614	-
State retirement	7,221	6,613	6,613	-	-	6,613	-
Medical insurance	21,710	19,143	19,144	-	-	19,144	(1)
Dental insurance	296	275	276	-	-	276	(1)
Unemployment compensation	134	169	170	-	-	170	(1)
Local retirement	540	534	534	-	-	534	-
Employer medicare	1,837	1,664	1,664	-	-	1,664	-
Instructional supplies	4,000	1,557	1,557	-	-	1,557	-
Other supplies and materials	1,427	1,280	1,279	-	-	1,279	1
Indirect costs	10,560	10,513	10,513	-	-	10,513	-
Inservice/staff development	1,200	373	373	-	-	373	-
Other charges	1,000	-	-	-	-	-	-
Regular instruction equipment	4,500	8,443	8,442	-	-	8,442	1
Total early childhood education	189,016	192,160	192,161	-	-	192,161	(1)

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

CITY OF LEXINGTON, TENNESSEE
GENERAL PURPOSE SCHOOL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Budgetary Basis) (continued)
YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual (GAAP Basis)	Less: Encumbrances 7/1/2010	Add: Encumbrances 6/30/2011	Actual Revenues/ Expenditures (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final					
Expenditures(continued)							
Debt service							
Principal payments	70,000	70,000	70,000	-	-	70,000	-
Interest payments	21,173	21,423	21,373	-	-	21,373	50
Total debt service	91,173	91,423	91,373	-	-	91,373	50
Capital outlay							
Architects	-	4,000	3,500	-	-	3,500	500
Engineering	-	16,000	12,300	-	-	12,300	3,700
Permits	-	2,000	875	-	-	875	1,125
Building improvements	-	14,369	-	-	-	-	14,369
HVAC equipment	-	376,743	-	-	376,000	376,000	743
Total capital outlay	-	413,112	16,675	-	376,000	392,675	20,437
Total Expenditures	8,283,627	9,361,158	8,355,729	(20,404)	543,067	8,878,392	482,766
Excess (deficiency) of revenues over (under) expenditures	(1,044,722)	(1,412,181)	(835,610)	20,404	(543,067)	(1,358,273)	53,908
Other financing sources and (uses)							
Transfers out	-	(14,625)	-	-	-	-	14,625
Transfers in	1,021,000	1,110,722	1,063,000	-	-	1,063,000	(47,722)
Total other financing sources and (uses)	1,021,000	1,096,097	1,063,000	-	-	1,063,000	(33,097)
Net change in fund balance	(23,722)	(316,084)	227,390	20,404	(543,067)	(295,273)	20,811
Fund balance - beginning of year	1,741,412	1,741,412	1,741,412	-	-	1,741,412	-
Fund balance - end of year	\$ 1,717,690	\$ 1,425,328	\$ 1,968,802	\$ 20,404	\$ (543,067)	\$ 1,446,139	\$ 20,811

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

CITY OF LEXINGTON, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

ASSETS	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS			
	GAS FUND	WATER SYSTEMS FUND	ELECTRIC DEPARTMENT	TOTALS
CURRENT ASSETS				
Cash and cash equivalents	\$ 3,977,177	\$ 715,069	\$ 5,485,716	\$ 10,177,962
Cash and cash equivalents - restricted	-	-	523,421	523,421
Investments	-	381,233	-	381,233
Investments - restricted	-	-	200,000	200,000
Accounts receivable, net of allowance	699,905	-	3,076,801	3,776,706
Current portion of notes receivable	60,000	-	-	60,000
Grant receivables	34,316	122,271	-	156,587
Other receivables	-	104,857	274,431	379,288
Due from other funds	47,293	586,361	-	633,654
Inventory	211,647	214,646	288,932	715,125
Natural gas storage	828,806	-	-	828,806
Prepaid expenses	26,143	69,764	24,228	120,135
TOTAL CURRENT ASSETS	5,885,287	2,194,201	9,873,429	17,952,917
PROPERTY, PLANT AND EQUIPMENT				
Land	116,227	76,153	-	192,380
Buildings	422,349	361,275	-	783,624
Equipment	1,527,037	1,921,760	-	3,448,797
General plant	-	-	4,117,088	4,117,088
Distribution plant	13,485,872	29,664,081	45,803,868	88,953,821
Construction in progress	858,229	2,266,048	4,567,450	7,691,727
TOTAL PROPERTY, PLANT AND EQUIPMENT	16,409,714	34,289,317	54,488,406	105,187,437
Less accumulated depreciation	(7,676,059)	(15,016,633)	(19,796,126)	(42,488,818)
NET PROPERTY, PLANT AND EQUIPMENT	8,733,655	19,272,684	34,692,280	62,698,619
OTHER ASSETS				
Note receivable - TVA Home Insulation Program	-	-	259,677	259,677
Noncurrent portion of notes receivable	125,000	-	-	125,000
Deposits	-	65	-	65
Other deferred costs	-	-	102,751	102,751
Bond issue costs, net of accumulated amortization	95,303	212,758	86,679	394,740
TOTAL OTHER ASSETS	220,303	212,823	449,107	882,233
TOTAL ASSETS	\$ 14,839,245	\$ 21,679,708	\$ 45,014,816	\$ 81,533,769
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 276,116	\$ 1,056,323	\$ 3,881,341	\$ 5,213,780
Accrued expenses	245,800	420,033	300,469	966,302
Accrued interest	35,840	98,077	57,192	191,109
Bond premium	6,930	18,480	-	25,410
Compensated absences	-	-	1,312,945	1,312,945
Customer deposits	356,629	172,163	471,194	999,986
Due to other funds	590,857	9,377	-	600,234
Current portion of long-term debt	340,000	880,000	260,000	1,480,000
TOTAL CURRENT LIABILITIES	1,852,172	2,654,453	6,283,141	10,789,766
LONG-TERM LIABILITIES				
Compensated absences	-	-	176,797	176,797
Bonds and notes payable	3,875,000	9,145,000	8,130,000	21,150,000
Other post employment benefits	-	-	198,454	198,454
Advances from Home Installation Program	-	-	260,087	260,087
TOTAL LONG-TERM LIABILITIES	3,875,000	9,145,000	8,765,338	21,785,338
TOTAL LIABILITIES	5,727,172	11,799,453	15,048,479	32,575,104
NET ASSETS				
Invested in capital assets, net of related debt	4,613,958	9,460,442	26,388,959	40,463,359
Restricted for debt service	-	-	723,421	723,421
Unrestricted net assets	4,498,115	419,813	2,853,957	7,771,885
TOTAL NET ASSETS	9,112,073	9,880,255	29,966,337	48,958,665
TOTAL LIABILITIES AND NET ASSETS	\$ 14,839,245	\$ 21,679,708	\$ 45,014,816	\$ 81,533,769

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

CITY OF LEXINGTON, TENNESSEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS			
	GAS FUND	WATER SYSTEMS FUND	ELECTRIC DEPARTMENT	TOTALS
OPERATING REVENUES				
Charges for services	\$ 6,973,131	\$ 5,789,065	\$ 47,735,257	\$ 60,497,453
Operating grants	-	28,796	-	28,796
Miscellaneous	7,127	12,978	773,701	793,806
TOTAL OPERATING REVENUES	<u>6,980,258</u>	<u>5,830,839</u>	<u>48,508,958</u>	<u>61,320,055</u>
OPERATING EXPENSES				
Natural gas purchases	4,267,703	-	-	4,267,703
Water purchases	-	93,079	-	93,079
Purchased for resale	-	-	39,275,533	39,275,533
Personnel expenses	1,151,108	2,142,334	-	3,293,442
Supplies	44,541	327,732	-	372,273
Utilities	28,877	456,421	-	485,298
Repairs and maintenance	120,557	600,921	1,194,122	1,915,600
Professional fees	9,900	33,463	-	43,363
Operating expenses	70,164	-	4,223,862	4,294,026
Office expense	49,979	63,625	-	113,604
Transportation expense	-	80,852	-	80,852
Insurance	33,968	78,107	-	112,075
Taxes and tax equivalents	14,259	-	-	14,259
Memberships and subscriptions	-	28,714	-	28,714
Miscellaneous	-	2,435	-	2,435
Depreciation and amortization	506,081	767,358	1,589,281	2,862,720
TOTAL OPERATING EXPENSES	<u>6,297,137</u>	<u>4,675,041</u>	<u>46,282,798</u>	<u>57,254,976</u>
OPERATING INCOME (LOSS)	<u>683,121</u>	<u>1,155,798</u>	<u>2,226,160</u>	<u>4,065,079</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	35,055	7,148	67,906	110,109
Donation of capital asset	-	4,000	-	4,000
Miscellaneous revenue	-	-	4,857	4,857
Lawsuit settlement payment	-	(823,779)	-	(823,779)
TN Gas Pipeline settlement	52,862	-	-	52,862
Gain on sale of asset	3,175	-	53,496	56,671
Insurance reimbursements	-	5,237	-	5,237
Interest expense	(165,447)	(408,618)	(351,672)	(925,737)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(74,355)</u>	<u>(1,216,012)</u>	<u>(225,413)</u>	<u>(1,515,780)</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	608,766	(60,214)	2,000,747	2,549,299
Transfers to other funds	(250,023)	(133,055)	(988,584)	(1,371,662)
Transfers from other funds	-	15,000	-	15,000
Capital contributions	26,127	100,360	-	126,487
CHANGE IN NET ASSETS	<u>384,870</u>	<u>(77,909)</u>	<u>1,012,163</u>	<u>1,319,124</u>
NET ASSETS - BEGINNING OF YEAR, as originally stated	8,727,203	9,958,164	29,055,689	47,741,056
Prior period adjustment	-	-	(101,515)	(101,515)
NET ASSETS - BEGINNING OF YEAR	<u>8,727,203</u>	<u>9,958,164</u>	<u>28,954,174</u>	<u>47,639,541</u>
NET ASSETS - END OF YEAR	<u>\$ 9,112,073</u>	<u>\$ 9,880,255</u>	<u>\$ 29,966,337</u>	<u>\$ 48,958,665</u>

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

**CITY OF LEXINGTON, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011**

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS			
	GAS FUND	WATER SYSTEMS FUND	ELECTRIC DEPARTMENT	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 6,976,572	\$ 5,786,031	\$ 48,446,499	\$ 61,209,102
Cash received from other funds for services	78,419	5,617	-	84,036
Other operating cash receipts	7,127	47,011	-	54,138
Cash payments to suppliers for goods and services	(4,479,360)	(1,052,685)	(42,836,965)	(48,369,010)
Cash payments to employees for services	(1,157,184)	(2,142,334)	(1,443,319)	(4,742,837)
Customer deposits received	-	-	228,843	228,843
Customer deposits refunded	-	-	(252,752)	(252,752)
Cash payments to other funds for services	(202,960)	(59,225)	-	(262,185)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,222,614	2,584,415	4,142,306	7,949,335
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
TEAC settlement	-	-	(250,000)	(250,000)
Amounts paid for lawsuit settlement	52,862	(823,779)	-	(770,917)
Amounts paid to other funds	(250,023)	(133,055)	(988,584)	(1,371,662)
Amounts received from other funds	-	15,000	-	15,000
Advances from Home Insulation Program	-	-	(5,263)	(5,263)
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES	(197,161)	(941,834)	(1,243,847)	(2,397,842)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of fixed assets	(465,485)	(911,515)	(1,653,911)	(3,030,911)
Plant removal cost	-	-	(112,968)	(112,968)
Materials salvaged from retirements	-	-	53,880	53,880
Contributed capital	-	31,612	-	31,612
Proceeds from sale of capital assets	3,175	-	-	3,175
Bond proceeds	2,455,000	2,960,000	-	5,415,000
Principal payments on long-term debt	(2,708,300)	(3,711,127)	-	(6,419,427)
Interest paid on long-term debt	(147,718)	(395,643)	-	(543,361)
Bond issue costs	(22,815)	(27,371)	-	(50,186)
Bond issue premium	1,473	1,776	-	3,249
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(884,670)	(2,052,268)	(1,712,999)	(4,599,751)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases/redemptions of investment securities	-	(4,321)	-	(4,321)
Purchase of investments	-	-	(200,000)	(200,000)
Proceeds from sale of investments	-	-	200,000	200,000
Notes receivable - TVA Home Insulation Program	-	-	5,387	5,387
Interest on cash and investments	35,055	7,148	(227,117)	(184,914)
NET CASH PROVIDED (USED FOR) BY INVESTING ACTIVITIES	35,055	2,827	(221,730)	(183,848)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	175,838	(406,860)	963,730	767,894
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,801,339	1,121,929	5,045,407	9,968,675
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 3,977,177	\$ 715,069	\$ 6,009,137	\$ 10,736,569
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Income (loss) from operating activities	\$ 683,121	\$ 1,155,798	\$ 2,230,337	\$ 4,069,256
Adjustments to reconcile income from operations to net cash				
Depreciation and amortization	506,081	767,358	1,585,104	2,858,543
OPEB	-	-	51,586	51,586
Insurance reimbursements	-	5,237	-	5,237
Changes in Assets and Liabilities:				
(Increase) decrease in accounts receivable	(24,402)	-	(147,981)	(172,383)
(Increase) decrease in other receivables	102,168	2,188	-	104,356
(Increase) decrease in notes receivable	60,000	-	-	60,000
(Increase) decrease in inventory	4,211	18,427	318	22,956
(Increase) decrease in prepaid assets	-	-	(3,372)	(3,372)
(Increase) decrease in due from other funds	18,419	5,617	-	24,036
(Increase) decrease in prepaid insurance	7,567	9,375	-	16,942
(Increase) decrease in natural gas storage	(145,423)	-	-	(145,423)
Increase (decrease) in accounts payable	54,065	680,081	450,223	1,184,369
Increase (decrease) in due to other funds	(64,960)	(59,225)	-	(124,185)
Increase (decrease) in customer deposits	11,175	(5,222)	(23,909)	(17,956)
Increase (decrease) in accrued liabilities	10,592	4,781	-	15,373
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,222,614	\$ 2,584,415	\$ 4,142,306	\$ 7,949,335
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
OPEB	\$ -	\$ -	\$ 51,586	\$ 51,586
Acquisition of capital assets	\$ -	\$ 915,515	\$ -	\$ 915,515
Less: Donation of capital asset	-	(4,000)	-	(4,000)
Net cash paid for capital assets	\$ -	\$ 911,515	\$ -	\$ 911,515

**CITY OF LEXINGTON, TENNESSEE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011**

	<u>School Activity</u>	<u>Pension Trust Funds</u>	
	<u>Agency Fund</u>	<u>Municipal Employees</u>	<u>Electric Employees</u>
ASSETS			
Cash and cash equivalents	\$ 42,870	\$ -	\$ -
Investments:			
Mutual funds (market value)	-	5,444,304	4,539,743
Annuities (market value)	-	267,112	-
TOTAL ASSETS	<u>\$ 42,870</u>	<u>\$ 5,711,416</u>	<u>\$ 4,539,743</u>
LIABILITIES			
Accrued liabilities	<u>\$ 42,870</u>	<u>\$ -</u>	<u>\$ -</u>
NET ASSETS			
Reserved for restricted accounts	-	-	-
Held in trust for pension benefits	-	5,711,416	4,539,743
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 42,870</u>	<u>\$ 5,711,416</u>	<u>\$ 4,539,743</u>

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

**CITY OF LEXINGTON, TENNESSEE
PENSION TRUST FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Pension Trust Funds		Total
	Municipal Employees	Electric Employees	
Additions			
Contributions and other additions	\$ 958,373	\$ 540,044	\$ 1,498,417
Investment income	131,096	76,261	207,357
Change in market value	680,516	765,451	1,445,967
Total Additions	<u>1,769,985</u>	<u>1,381,756</u>	<u>3,151,741</u>
Deductions			
Fees	3,542	-	3,542
Dividends and interest paid	16,189	-	16,189
Benefits	365,919	369,643	735,562
Net depreciation in fair value of investments	-	-	-
Total Deductions	<u>385,650</u>	<u>369,643</u>	<u>755,293</u>
Net increase in plan assets	1,384,335	1,012,113	2,396,448
NET ASSETS - BEGINNING OF YEAR	<u>4,327,081</u>	<u>3,527,630</u>	<u>7,854,711</u>
NET ASSETS - END OF YEAR	<u>\$ 5,711,416</u>	<u>\$ 4,539,743</u>	<u>\$ 10,251,159</u>

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

CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity comprises the following:

Primary Government:	City of Lexington
Blended Component Units:	None

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

Blended Component Units

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

Discretely Presented Component Units

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

1. B. BASIS OF PRESENTATION

Government-wide Financial Statements:

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

The statement of activities demonstrates the degree to which direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are

CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

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

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

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

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

Special Revenue Funds

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

Capital Project Fund

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

Debt Service

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

Proprietary Fund

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Enterprise Fund

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

Fiduciary Funds (Not included in government-wide statements)

Agency Funds

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

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

Pension Trust Funds

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

Major and Nonmajor Funds

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

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

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

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Measurement Focus

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

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

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

Basis of Accounting

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

CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
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accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

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

The City does not allocate indirect costs.

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

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

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

1.D. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

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

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

Interfund Receivables and Payables

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

Receivables

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

**CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

Inventories and Prepaid Expense

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

Restricted Assets

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

Bond Discounts / Issuance Costs

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

Capital Assets

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

Government-wide Statements

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

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

The capitalization policy is as listed below:

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

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

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

Fund Financial Statements

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

Long-term Debt

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

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

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

Compensated Absences

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

Electric System

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

**CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

School System

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

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

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

Governmental Fund Statements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below.

1. *Nonspendable* fund balance is associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned).
2. *Restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
3. *Committed* fund balance classification includes amounts that can be used only for the specific purposes determined by formal action (ordinance) of the Board of Education (the System's highest level of decision-making authority).
4. *Assigned* fund balance classification is intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Assigned amounts are determined by the Board of Education.
5. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

Order of Fund Balance Spending Policy

The City has not yet adopted an order of fund balance spending policy. It considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

Proprietary Fund Statements

Proprietary fund equity is classified the same as in the government-wide statements.

1.E. REVENUES, EXPENDITURES, AND EXPENSES

Sales Tax

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

Property Tax

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

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. All revenues that are not generated from the daily operations are defined as non-operating.

Expenditures/ Expenses

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

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

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

Proprietary Fund – By Operating and Nonoperating

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

Interfund Transfers

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

**CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

2.A. FUND ACCOUNTING REQUIREMENTS

Fund	Required By
Police Drug Fund	State Law

2.B. DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS

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

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

2.C. REVENUE RESTRICTIONS

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

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

2.D. FUND EQUITY RESTRICTIONS

Deficit Prohibition

Tennessee Statutes prohibits the creation of a deficit fund balance in any individual fund. The City had no deficit fund balances at June 30, 2011.

2.E. BUDGET

The School Debt Service and School Tax funds had expenditures that exceeded appropriations for the year ended June 30, 2011.

Lexington City Schools

The System's is required by state law to prepare an annual budget. The budget is subject to approval by the Lexington City Council and the System cannot exceed the total budgeted expenditures.

**CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
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The System uses a budgetary basis of accounting. It is consistent with GAAP, except that instances in which encumbrances are treated as budgeted expenditures. The difference between the budgetary basis and the GAAP basis is presented on the face of each budgetary schedule.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

3.A. CASH AND INVESTMENTS

Deposits

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

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

General Government

As of June 30, 2011, the City's bank balances were not exposed to custodial credit risk due to being entirely covered by depository insurance (a combination of federal depository insurance with the excess covered by the State's Bank Collateral Pool).

Gas System

As of June 30, 2011, the System's bank balances were not exposed to custodial credit risk due to being entirely covered by depository insurance (a combination of federal depository insurance with the excess covered by the State's Bank Collateral Pool).

Water Systems

As of June 30, 2011, the System's bank balances were not exposed to custodial credit risk due to being entirely covered by depository insurance (a combination of federal depository insurance with the excess covered by the State's Bank Collateral Pool).

Electric System

As of June 30, 2011, the Department's bank deposits were fully collateralized or insured.

School System

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

3.B. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consists of utilities receivable. Accounts receivable of the governmental activities consists of amounts due from the various local sources. Receivables detail at June 30, 2011, is as follows:

**CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
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	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Accounts receivable	\$ 24,716	\$ 4,034,898	\$ 4,059,614
Allowance for doubtful accounts	<u>(11,378)</u>	<u>(258,192)</u>	<u>(269,570)</u>
Net accounts receivable	<u>\$ 13,338</u>	<u>\$ 3,776,706</u>	<u>\$ 3,790,044</u>

3.C. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
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	<u>Balance 7/1/10</u>	<u>Additions/ Adjustments</u>	<u>Retirements/ Adjustments</u>	<u>Balance 6/30/11</u>
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 2,022,838	\$ -	\$ -	\$ 2,022,838
Construction in Progress	2,017	31,300	-	33,317
Total Capital assets not being depreciated	<u>2,024,855</u>	<u>31,300</u>	<u>-</u>	<u>2,056,155</u>
Capital assets being depreciated				
Buildings	27,274,685	-	-	27,274,685
Equipment	6,504,496	227,599	138,823	6,593,272
Equipment under capital lease	76,231	-	76,231	-
Infrastructure	16,096,825	-	-	16,096,825
Improvements	5,368,724	48,089	-	5,416,813
Total Capital assets being depreciated	<u>55,320,961</u>	<u>275,688</u>	<u>215,054</u>	<u>55,381,595</u>
Less accumulated depreciation for:				
Buildings	8,618,842	541,860	-	9,160,702
Equipment	4,532,739	561,957	131,516	4,963,180
Equipment under capital lease	36,627	-	36,627	-
Infrastructure	11,489,655	38,445	-	11,528,100
Improvements	2,143,794	264,777	-	2,408,571
Total accumulated depreciation	<u>26,821,657</u>	<u>1,407,039</u>	<u>168,143</u>	<u>28,060,553</u>
Total capital assets, being depreciated, net	<u>28,499,304</u>			<u>27,321,042</u>
Governmental activities capital assets, net	<u>\$ 30,524,159</u>			<u>\$ 29,377,197</u>
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 224,934	\$ -	\$ -	\$ 224,934
Construction in Progress	7,264,631	1,710,557	1,283,461	7,691,727
Total Capital assets not being depreciated	<u>7,489,565</u>	<u>1,710,557</u>	<u>1,283,461</u>	<u>7,916,661</u>
Capital assets being depreciated				
Buildings	1,521,679	25,000	-	1,546,679
Equipment	6,515,888	96,040	36,550	6,575,378
Plant	86,773,217	2,591,721	216,219	89,148,719
Total Capital assets being depreciated	<u>94,810,784</u>	<u>2,712,761</u>	<u>252,769</u>	<u>97,270,776</u>
Less accumulated depreciation for:				
Buildings	836,573	22,385	-	858,958
Equipment	4,638,039	445,772	68,331	5,015,480
Plant	34,379,937	2,477,969	243,526	36,614,380
Total accumulated depreciation	<u>39,854,549</u>	<u>2,946,126</u>	<u>311,857</u>	<u>42,488,818</u>
Total capital assets, being depreciated, net	<u>54,956,235</u>			<u>54,781,958</u>
Business-type activities capital assets, net	<u>\$ 62,445,800</u>			<u>\$ 62,698,619</u>

Depreciation expense was charged to governmental activities as follows:

Governmental Function	
General and administrative	\$ 255,293
Public safety	267,299
Public works	178,779
Health, recreation and welfare	669,041
Total depreciation expense	<u>\$1,370,412</u>

CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
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3.D. ACCOUNTS PAYABLE

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

3.E. OPERATING LEASES

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

3.F. PREPAID MEALS

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

3.G. LONG-TERM DEBT

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

During the year the City issued \$8,565,000 in refunding bonds. Revenue bonds with a variable interest rate were issued to refund \$8,085,000 in various existing bonds as well as a USDA loan of \$660,123. Redemption fees and other issuance costs associated with this refunding were approximately \$77,305. The City will be amortizing these costs over the next 8 years. The bonds were issued at a premium of \$5,139 which will be accreted over the next 8 years. The City refunded these bond to benefit from lower interest rates. The total refunding was split between General, Water and Gas Funds as follows: General government - 36.78%, Water Fund - 34.56%, and the Gas Fund - 28.66%.

Governmental Activities

As of June 30, 2011, the governmental long-term debt of the financial reporting entity consisted of the following:

**CITY OF LEXINGTON, TENNESSEE
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Governmental Activities

General Obligation Bonds

2010 General Obligation Refunding Bond dated March 1, 2011, through September 1, 2019, bearing interest rates of 2% to 3%.	\$	3,150,000
2003 General Obligation Refunding Bonds dated March 12, 2003, due December 1, 2003, through December 1, 2016, bearing interest rates of 1.75% to 5.40%.		925,000
2003 General Obligation Refunding Bonds dated March 21, 2003, due March 1, 2004, through March 1, 2012, bearing interest rates of 2.00% to 3.50%.		355,000
2004 General Obligation School Bonds dated April 1, 2004, due June 1, 2007, through June 1, 2032, bearing interest rate of 4.35%.		6,985,000
2009 Refunding and Improvement Bonds dated April 16, 2009, due October 1, 2009 through April 1, 2034, bearing interest rates of 2.00% to 5.00%.		1,380,000
2004 Qualified Zone Academy Bonds, due November 24, 2005, through November 24, 2020, bearing 0% interest.		755,288
Capital Outlay Notes		
2005 capital outlay note. Interest 4.05% with final payment due September 1, 2017.		315,000
2008 capital outlay note. Interest 4.40% with final payment due July 1, 2010.		185,000
		<hr/> 14,050,288
Other Debt		
Compensated absences		1,046,901
Landfill closure costs		227,801
		<hr/> 15,324,990
Total Government Activity Debt	\$	15,324,990

**CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
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Business-type Activities

Revenue Bonds

2009 Gas Refunding Bonds, dated April 16, 2009, due October 1, 2009 through April 1, 2034, interest 2.00% to 5.00%	\$ 1,760,000
20110 Gas Refunding Bonds, dated March 1, 2011, through March 1, 2019, interest 2.00% to 3.00%.	2,455,000
2010 Water Refunding Bonds, dated March 1, 2011, through March 1, 2019, interest 2.00% to 3.00%.	2,960,000
2009 Water and Sewer Refunding Bonds, dated April 16, 2009, due October 1, 2009 through April 1, 2034, interest 2.00% to 5.00%	6,310,000
2000 Water and Sewer Revenue and Tax Refunding Bonds, dated June 1, 2000, due September 1, 2000, through September 1, 2012, bearing interest rates of 4.20% to 5.40%.	755,000
2007 Electric Department Revenue Bonds, dated April 24, 2007, due November 1, 2007 through May 1, 2032, bearing an interest rate of 4.09%.	<u>8,390,000</u>
Total Business-type Activites	<u><u>\$ 22,630,000</u></u>

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2011:

	<u>Balance 7/1/2010</u>	<u>Issues or Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2011</u>	<u>Due within one year</u>
<u>Governmental Type Activities</u>					
General Obligation Bonds	\$ 14,301,079	\$ 3,150,000	\$ 3,900,791	\$ 13,550,288	\$ 850,529
Notes Payable	600,000	-	100,000	500,000	100,000
Landfill Closure Costs	230,212	-	2,411	227,801	-
Compensated Absences	1,009,854	37,047	-	1,046,901	-
Total governmental type activities	<u>16,141,145</u>	<u>3,187,047</u>	<u>4,003,202</u>	<u>15,324,990</u>	<u>950,529</u>
<u>Businesss Type Activities</u>					
Revenue Bonds	<u>23,885,359</u>	<u>5,415,000</u>	<u>6,670,359</u>	22,630,000	<u>1,480,000</u>
<u>Electric Department</u>					
Compensated Absences				176,797	
Advances from Home Installation Program				260,087	
Total business type activities				<u>23,066,884</u>	
Total government	<u>\$ 40,026,504</u>	<u>\$ 8,602,047</u>	<u>\$ 10,673,561</u>	<u>\$ 38,391,874</u>	<u>\$ 2,430,529</u>

**CITY OF LEXINGTON, TENNESSEE
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Other Long-term liabilities

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

Annual Requirements to Retire Debt Outstanding

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

Year Ending June 30,	<u>General Obligation Bonds</u> Governmental Activities		<u>Revenue Bonds</u> Business-type Activities		Principal and Interest Total
	Principal	Interest	Principal	Interest	
	2012	\$ 850,529	\$ 491,085	\$ 1,480,000	
2013	850,529	457,445	1,525,000	761,899	3,594,873
2014	870,529	431,569	1,370,000	720,299	3,392,397
2015	900,529	404,411	1,400,000	684,346	3,389,286
2016	925,529	376,113	1,440,000	647,635	3,389,277
2017-2021	3,847,643	1,474,636	4,730,000	2,729,458	12,781,737
2022-2026	2,020,000	988,050	3,820,000	1,965,752	8,793,802
2027-2031	2,520,000	510,425	4,725,000	1,099,833	8,855,258
2032-2034	765,000	46,507	2,140,000	170,796	3,122,303
Total	<u>\$ 13,550,288</u>	<u>\$ 5,180,241</u>	<u>\$ 22,630,000</u>	<u>\$ 9,589,996</u>	<u>\$ 50,950,525</u>

Year Ending June 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>		Principal and Interest Total
	Principal	Interest	Principal	Interest	
	2012	\$ 100,000	\$ 19,348	\$ -	
2013	100,000	15,328	-	-	115,328
2014	110,000	11,206	-	-	121,206
2015	45,000	6,784	-	-	51,784
2016	45,000	4,961	-	-	49,961
2017	50,000	3,038	-	-	53,038
2018	50,000	1,013	-	-	51,013
	<u>\$ 500,000</u>	<u>\$ 61,678</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 561,678</u>

3.H. INTERFUND TRANSACTIONS AND BALANCES

Operating Transfers

**CITY OF LEXINGTON, TENNESSEE
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	TRANSFER TO						Totals
	General	Water	Capital Projects	School Tax	School Debt	General Purpose School	
TRANSFER FROM							
General	\$ -	\$ -	\$ 1,800	\$ 300,000	\$ -	\$ 680,000	\$ 981,800
Solid Waste	121,032	-	-	-	-	-	121,032
School Tax	-	-	-	-	1,101,013	383,000	1,484,013
Electric	615,503	-	-	-	-	-	615,503
Water	133,055	-	-	-	-	-	133,055
Gas	235,023	15,000	-	-	-	-	250,023
GRAND TOTALS	<u>\$ 1,104,613</u>	<u>\$ 15,000</u>	<u>\$ 1,800</u>	<u>\$ 300,000</u>	<u>\$ 1,101,013</u>	<u>\$ 1,063,000</u>	<u>\$ 3,585,426</u>

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

Interfund Receivables and Payables

	DUE TO:						Totals
	General	General Purpose School	Solid Waste	Police Drug	Water Systems	Gas	
DUE FROM:							
Solid Waste	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 590	\$ 590
School tax fund	1,448	14,625	-	-	-	-	16,073
General fund	-	-	-	4,914	52,785	37,905	95,604
Gas	1,360	-	55,921	-	533,576	-	590,857
Water Systems	579	-	-	-	-	8,798	9,377
	<u>\$ 3,387</u>	<u>\$ 14,625</u>	<u>\$ 55,921</u>	<u>\$ 4,914</u>	<u>\$ 586,361</u>	<u>\$ 47,293</u>	<u>\$ 712,501</u>

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

3.1. ON-BEHALF PAYMENTS

The State of Tennessee pays health insurance premiums for retired teachers on-behalf of the Lexington City School System. These payments are made by the state to the Local Government Group Insurance Plan and the Medicare Supplement Plan. Both of these plans are administered by the State of Tennessee and reported in the State's Comprehensive Annual Financial Report. Payments by the state to the Local

**CITY OF LEXINGTON, TENNESSEE
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Government Group Insurance Plan and the Medicare Supplement Plan for the year ended June 30, 2011 were \$50,733 and \$10,394, respectively. The System has recognized these on-behalf payments as revenues and expenditures in the General Purpose School Fund.

3.J. FUND EQUITY

Electric System

A change in the billing process in a prior year caused an error to occur in regards to the electric property revenue. Electric property revenue (pole rentals) was overstated in a prior year due to it being recorded twice in a prior year. The revenue amount was recorded as both a receivable and then recorded a second time as advance billing payments. This resulted in a prior period adjustment in the current year that was a decrease in receivables of \$101,515.

NOTE 4. OTHER NOTES

4.A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS

Pension Plan Obligations:

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

Summary of Plan Provisions

Effective Date: May 1, 1973

Fiscal Year Ending: 06/30/2010

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

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

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

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

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

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

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

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

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

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

Credited Interest: 5% per annum compounded annually.

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

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

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

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

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

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

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

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

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

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

CITY OF LEXINGTON, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
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Actuarial Valuation

An actuarial valuation was performed on the plan as of January 1, 2010. The actuarial cost method used was the projected unit credit cost method. Under this method, annual contributions consist of normal cost plus amortization of the unfunded actuarial accrued liability (UL) over a fixed period of years, selected within the minimum (10 years) and maximum (30 years) periods. Each year the maximum contribution is determined by 10-year amortization of the UL. The minimum contribution is determined by amortization over the remaining period at date of valuation. This period is 18 years as of January 1, 2011.

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

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

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

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

**CITY OF LEXINGTON, TENNESSEE
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Actuarial Present Values of Accumulated Plan Benefits	January 1, 2011
Vested Benefits	
Participants currently receiving payments	\$ 229,315
Other Participants	
Active Employees	4,136,225
Deceased and Disabled Employees	80,556
Deferred Vested Terminated Employees	235,656
Total - Other Participants	4,452,437
Total Vested Benefits	4,681,752
Nonvested Benefits	933,389
Total Actuarial Present Values of Accumulated Plan Benefits	\$ 5,615,141

Statement of Changes in Accumulated Plan Benefits

Actuarial Present Value of Accumulated Plan Benefits at Beginning of Year	\$ 4,794,654
Increase (decrease) during the year attributable to:	
Benefits paid	(106,953)
Interest due to change in the discount period	359,599
Assumption change	-
Plan amendment	-
Benefits accumulated and actuarial gains and losses	567,841
Actuarial Present Value of Accumulated Plan Benefits at End of Year	\$ 5,615,141

Discount Assumption:

Pre-retirement	7.50%
Post-retirement	6.00%

Electric System

Plan Description

The Board provides all retirement benefits for employees through a single-employer, defined benefit plan. Under the plan, all full-time employees are eligible. The System's payroll for employees covered by the plan for the year ended June 30, 2011, was \$2,380,389 and the total payroll for the year was \$2,750,826.

All employees of the System become participants on the first day of the calendar month on or immediately after completion of one year of service and attainment of age 20. The Plan provides normal retirement benefits at age 60. Effective March 1, 2000, the monthly annuity is equal to the sum of 2.25% of the members Average Monthly Earnings multiplied by years of Credited Service for the member's first 30 years of Credited Service and 1.85% of the member's Average Monthly Earnings, multiplied by years of Credited Service in excess of 30 years. For contributing members as of April 1, 1986, minimum monthly annuity will equal to 3.33% of member's Average Monthly Earnings multiplied by years of Credited Service subject to a maximum of 15 years. A member of the plan will receive a benefit of no less than 40% of the average of monthly earnings during the period of 5 consecutive years in which his earnings were highest or 40% of his salary at age 64, whichever is greater. Average Monthly Earnings means the greater of (1) the average of monthly compensation for the 5 consecutive years of highest compensation, and (2) monthly compensation during the year immediately preceding the participant's 60th birthday. Maximum annual compensation is \$185,000. A reduced retirement benefit is available to employees upon early retirement.

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Funding Policy

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

Annual Pension Cost

For the year ended June 30, 2011, the System's annual pension cost of \$462,201 was made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of July 1, 2010. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8.5% a year and (b) 4.5% projected salary increases.

<u>Year Ended June 30,</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 246,417	146.83%	\$ 95,275
2005	291,565	105.82%	76,928
2006	355,927	86.13%	126,840
2007	393,254	93.06%	155,902
2008	411,050	89.56%	201,085
2009	434,982	89.52%	246,671
2010	577,370	69.78%	421,143
2011	634,550	72.84%	593,492

School Department

Professional Staff:

Plan Description

The Lexington City School System contributes to the State Employee, Teachers, and Higher Education Employees Plan (SETHEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury while the member was in performance of duty. Members joining the plan on or after July 1, 1979, are vested after five years of service. Members joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The maximum annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us.

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Funding Policy

Most teachers are required by state statute to contribute 5% of salary to the plan. The employer contribution rate for Lexington City School System is established at an actuarially determined rate. The rate for the fiscal year ending June 30, 2011, was 9.05% of annual covered payroll. The employer contribution requirement for Lexington City School System is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2011, 2010, and 2009, were \$366,000, \$275,349, and \$277,178, respectively, equal to the required contributions for each year.

Non-Professional Staff:

The non-professional staff members of the System may elect a retirement plan option. The Lexington City School Board authorized funds for a 403-b tax sheltered individual annuity plan for each of the 25 qualifying individuals. The system would match a minimum of \$300 for the individual staff's \$300, for a total of \$600 required as a minimum contribution by Horace Mann authorized carriers to provide the plan. The system would match 3.5% of staff total yearly salary, with minimum match of \$300. Total contributions by the system amounted to \$ 12,246 for the 10-11 school year.

4.B. POST EMPLOYMENT HEALTHCARE PLAN – Electric System

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

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

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

Components of Net OPEB Obligation

Annual required contribution	\$ 261,871
Interest on Net OPEB obligation	5,875
Adjustment to annual required contribution	(6,350)
Annual OPEB cost (expense)	<u>261,396</u>
Contributions and subsidy	<u>(209,810)</u>
Increase in net obligation	51,586
Net OPEB obligation (BOY)	<u>146,868</u>
Net OPEB (asset) obligation (EOY)	<u><u>\$ 198,454</u></u>

The System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2011 and the preceding two years are as follows:

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Fiscal Year Ended	Annual OPEB Cost	OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	\$ 261,396	73.00%	\$ 198,454
6/30/2010	252,905	73.00%	146,868
6/30/2009	243,920	67.80%	78,619

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

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

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

In the July 1, 2008 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan assets at the valuation date, and an annual healthcare cost trend rate of 9.5% initially, reduced by decrements to an ultimate rate of 5% after ten years. The actuarial value of assets was determined using a standard balanced portfolio expectation for retirement plan asset returns. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at July 1, 2008 was 30 years.

4.C. RISK MANAGEMENT

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

School System

The System participates in the Tennessee Boards Risk Management Trust (TSB-RMT), which is a public entity risk pool established by the Tennessee Boards Association, an association of member school districts.

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The System pays an annual premium to the TSB-RMT for its general liability, property, casualty and worker's compensation insurance coverage. The creation of the TSB-RMT provides for it to be self-sustaining through member premiums. The TSB-RMT reinsures through commercial insurance companies for claims exceeding \$100,000 for each insured event.

Electric System

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2011 the System purchased commercial insurance for all of the above risks. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in the amount of coverage provided.

4.D. LANDFILL POSTCLOSURE COSTS

In prior years the City has jointly operated a landfill with Henderson County. This landfill is now closed. State and federal laws and regulations required the City to place a final cover on its landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The City will report a portion of postclosure care costs as an operating expense in each fiscal year. The City has recognized postclosure costs of \$227,801 as a long-term liability in the statement of net assets. These amounts are based on what it would currently cost to perform all postclosure care. Actual cost may be higher due to inflation or deflation, technology, or applicable laws or regulations.

4.E. COMMITMENTS AND CONTINGENCIES

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

Electric System

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

4.F. SUBSEQUENT EVENTS

Lexington Water Systems

Subsequent events have been evaluated through September 23, 2011, which is the date the financial statements were available to be issued. The System was involved in a lawsuit that was settled after June 30, 2011 at a cost of \$823,779. We have recorded this liability and expense on the June 30, 2011 financial statements for the System.

CITY OF LEXINGTON, TENNESSEE
SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS - EMPLOYEE RETIREMENT SYSTEM
JUNE 30, 2011

GENERAL GOVERNMENT

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll ((b-a)/c)
1/1/2011	\$ 5,263,575	\$ 7,416,172	\$ 2,152,597	70.97%	\$4,595,481	46.84%
1/1/2010	4,474,711	6,579,039	2,104,328	68.01%	4,628,511	45.46%
1/1/2009	3,364,586	5,714,387	2,349,801	58.88%	4,221,025	55.67%
1/1/2008	3,450,120	4,708,371	1,258,251	73.28%	3,644,686	34.52%
1/1/2007	2,721,571	4,206,514	1,484,943	64.70%	3,541,656	41.93%
1/1/2006	2,186,366	3,609,216	1,422,850	60.58%	3,108,489	45.77%
1/1/2005	3,665,785	4,636,744	970,959	79.06%	3,239,833	29.97%
1/1/2004	3,254,596	4,145,005	890,409	78.52%	3,006,230	29.62%
1/1/2003	2,795,414	3,544,790	749,376	78.86%	2,822,430	26.55%
1/1/2002	2,490,137	3,786,279	1,296,142	65.77%	2,812,189	46.09%
1/1/2001	2,141,166	4,618,085	2,470,919	46.36%	2,662,594	92.80%
1/1/2000	1,679,234	3,311,849	1,632,615	50.70%	2,264,326	72.10%
1/1/1999	1,449,348	2,748,240	1,298,892	52.74%	1,452,080	89.45%

Schedule of Employer Contribution

Year Ended June 30,	Annual Required Contribution	Actual Contribution	Percentage Contributed
2011	\$ 398,640	\$ 269,407	67.58%
2010	386,982	320,248	82.76%
2009	261,914	381,582	145.69%
2008	290,636	242,848	83.56%
2007	247,300	267,291	108.08%
2006	213,923	213,923	100.00%
2005	195,826	232,628	118.79%
2004	185,129	185,129	100.00%
2003	344,002	552,880	160.72%
2002	334,398	345,000	103.17%
2001	198,966	341,442	171.61%
2000	166,126	105,860	63.72%
1999	203,893	203,893	100.00%
1998	195,470	276,898	142.00%

ELECTRIC DEPARTMENT RETIREMENT SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll ((b-a)/c)
7/1/2010	\$ 4,048,748	\$ 7,645,387	\$ 3,596,639	52.96%	\$2,380,389	151.09%
7/1/2009	3,735,311	7,168,167	3,432,856	52.11%	2,280,295	150.54%
7/1/2008	3,548,113	6,140,101	2,591,988	57.79%	2,058,102	125.94%
7/1/2007	2,926,987	5,279,482	2,352,495	55.44%	2,085,068	112.83%
7/1/2006	2,300,623	4,840,881	2,540,258	47.52%	1,965,177	129.26%
7/1/2005	1,783,470	4,273,195	2,489,725	41.74%	1,886,617	131.97%
7/1/2004	4,768,022	6,281,761	1,513,739	75.90%	2,304,175	65.70%
7/1/2003	4,025,893	5,443,842	1,417,949	73.95%	2,078,093	68.23%
7/1/2002	3,908,143	5,646,201	1,738,058	69.22%	2,149,132	80.87%

ELECTRIC DEPARTMENT POST-EMPLOYMENT SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll ((b-a)/c)
7/1/2008	\$ -	\$ 3,355,294	\$ 3,355,294	0.00%	\$2,192,591	153.03%

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

CITY OF LEXINGTON, TENNESSEE
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2011

Schedule of Funding Progress

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

Budgetary Information

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

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

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

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

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

CITY OF LEXINGTON, TENNESSEE
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011

	Special Revenue										Debt Service			Capital Projects		Total Other Governmental Funds
	State Street Aid	School Tax Fund	School Food Service Fund	School Solid Waste Collection Fund	Dare Fund	Police Drug Fund	General Sinking Fund	School Debt Fund	Post Office Fund							
ASSETS																
Cash and cash equivalents	\$ 12,904	\$ 75,290	\$ 94,117	\$ -	\$ 2,887	\$ 56,969	\$ -	\$ -	\$ 41,368	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 293,360	\$ -
Grant receivables	-	14,625	-	55,921	-	4,914	-	-	-	-	-	-	-	-	14,625	-
Due from other funds	-	-	-	12,315	-	-	-	-	-	-	-	-	-	-	60,835	-
Prepaid insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,315	-
Inventory	-	-	32,667	-	-	-	-	-	-	-	-	-	-	-	32,667	-
Due from other governments	35,368	99,392	-	-	-	-	-	-	-	-	-	-	-	-	134,760	-
TOTAL ASSETS	\$ 48,272	\$ 189,307	\$ 126,784	\$ 68,236	\$ 2,887	\$ 61,883	\$ -	\$ -	\$ 41,368	\$ 9,825	\$ -	\$ -	\$ -	\$ 41,368	\$ 548,562	\$ -
LIABILITIES AND FUND BALANCES																
LIABILITIES																
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6
Bank overdrafts	-	49,707	-	3,560	-	1,573	-	-	-	-	-	-	-	-	49,707	-
Accrued liabilities	-	-	-	-	-	6,780	-	-	-	-	-	-	-	-	5,133	-
Deferred income	-	-	5,910	590	-	-	-	-	-	-	-	-	-	-	12,690	-
Due to other funds	-	16,073	-	4,150	-	8,353	-	-	-	-	-	-	-	-	16,663	-
TOTAL LIABILITIES	\$ -	\$ 65,780	\$ 5,910	\$ 4,150	\$ 6	\$ 8,353	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 64,199	\$ -
FUND BALANCES																
Nonspendable	-	-	32,667	-	-	-	-	-	-	-	-	-	-	-	32,667	-
Inventory	-	-	-	12,315	-	-	-	-	-	-	-	-	-	-	12,315	-
Prepaid expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted																
State street aid	48,272	-	-	-	-	-	-	-	-	-	-	-	-	-	48,272	-
School food authority	-	-	88,207	-	-	-	-	-	-	-	-	-	-	-	88,207	-
Drug fund	-	-	-	-	-	53,530	-	-	-	-	-	-	-	-	53,530	-
Assigned	-	-	-	-	2,881	-	-	-	-	-	-	-	-	-	2,881	-
DARE fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Solid waste	-	-	-	51,771	-	-	-	-	-	-	-	-	-	-	51,771	-
Debt service	-	123,527	-	-	-	-	-	9,825	-	-	-	-	-	-	133,352	-
Capital projects	-	-	-	-	-	-	-	-	41,368	-	-	-	-	-	41,368	-
TOTAL FUND BALANCES	\$ 48,272	\$ 123,527	\$ 120,874	\$ 64,086	\$ 2,881	\$ 53,530	\$ -	\$ 9,825	\$ 41,368	\$ 9,825	\$ -	\$ -	\$ -	\$ 41,368	\$ 484,363	\$ -
TOTAL LIABILITIES AND FUND BALANCES	\$ 48,272	\$ 189,307	\$ 126,784	\$ 68,236	\$ 2,887	\$ 61,883	\$ -	\$ 9,825	\$ 41,368	\$ 9,825	\$ -	\$ -	\$ -	\$ 41,368	\$ 548,562	\$ -

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

CITY OF LEXINGTON, TENNESSEE
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2011

	State Street Aid Fund	School Tax Fund	School Food Service Fund	Solid Waste Collection Fund	Dare Fund	Police Drug Fund	Debt Service		Capital Projects Post Office Fund	Total Other Governmental Funds
							General City Sinking Fund	School Debt Fund		
Revenues:										
Taxes	\$ -	\$ 1,144,939	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,144,939
Intergovernmental	202,380	14,625	391,833	-	-	-	-	-	-	608,838
Charges for services	-	-	220,420	650,084	-	-	-	-	-	870,504
Fines, forfeitures, and penalties	-	-	-	-	-	134,305	-	-	-	134,305
Other revenue	34	19,289	861	3,965	-	2,478	196,000	102	-	222,729
Total Revenues	202,414	1,178,853	613,114	654,049	-	136,783	196,000	102	102	2,981,315
Expenditures:										
Current:										
General government	-	-	-	-	-	-	-	-	590	590
Public works	207,978	-	-	526,058	-	-	-	-	677	734,713
Public safety	-	-	-	-	1,873	141,724	-	-	-	143,597
Health, welfare and recreation	-	6,451	607,122	-	-	-	3,484	-	348	617,405
Capital outlay	-	14,625	-	-	-	100,934	-	-	-	115,559
Debt Service	-	3,140,263	-	-	-	-	183,093	-	-	4,424,369
Total Expenditures	207,978	3,161,339	607,122	526,058	1,873	242,658	186,577	1,615	1,615	6,036,233
Revenues over Expenditures	(5,564)	(1,982,486)	5,992	127,991	(1,873)	(105,875)	9,423	(1,513)	(1,513)	(3,054,918)
Other Financing Sources (Uses)										
Bond proceeds	-	3,150,000	-	-	-	-	-	-	-	3,150,000
Sale of capital assets	-	-	-	-	-	5,300	-	-	-	5,300
Operating transfer in	-	300,000	-	-	-	-	-	1,800	-	1,402,813
Operating transfer (out)	-	(1,484,013)	-	(121,032)	-	-	-	-	-	(1,605,045)
Total Other Financing Sources and (Uses)	-	1,965,987	-	(121,032)	-	5,300	-	1,800	1,800	2,853,068
Net Change in Fund Balances	(5,564)	(16,499)	5,992	6,959	(1,873)	(100,575)	9,423	287	287	(101,850)
Fund Balance at Beginning of Year	53,836	140,026	109,904	57,127	4,754	154,105	402	41,081	41,081	561,235
Change in reserve for Inventory	-	-	4,978	-	-	-	-	-	-	4,978
Fund Balance at Beginning of Year	53,836	140,026	114,882	57,127	4,754	154,105	402	41,081	41,081	566,213
Fund Balance at End of Year	\$ 48,272	\$ 123,527	\$ 120,874	\$ 64,086	\$ 2,881	\$ 53,530	\$ 9,825	\$ 41,368	\$ 41,368	\$ 464,363

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

**CITY OF LEXINGTON, TENNESSEE
STATE STREET AID FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental:				
State gas and motor fuel tax	\$ 193,000	\$ 204,700	\$ 202,380	\$ (2,320)
Other revenues				
Interest income	300	50	34	(16)
Total revenues	<u>193,300</u>	<u>204,750</u>	<u>202,414</u>	<u>(2,336)</u>
Expenditures:				
Public Works:				
Street lighting	211,000	211,000	207,681	3,319
Repair and maintenance	300	300	297	3
Total expenditures	<u>211,300</u>	<u>211,300</u>	<u>207,978</u>	<u>3,322</u>
Revenues over (under) Expenditures	<u>(18,000)</u>	<u>(6,550)</u>	<u>(5,564)</u>	<u>986</u>
Other financing sources and uses:				
Transfers out	-	-	-	-
Total Other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(18,000)</u>	<u>(6,550)</u>	<u>(5,564)</u>	<u>986</u>
Fund Balance at Beginning of Year	<u>53,836</u>	<u>53,836</u>	<u>53,836</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 35,836</u>	<u>\$ 47,286</u>	<u>\$ 48,272</u>	<u>\$ 986</u>

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

**CITY OF LEXINGTON, TENNESSEE
SCHOOL TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
Local option sales tax	\$ 1,112,000	\$ 1,133,000	\$ 1,144,939	\$ 11,939
Intergovernmental:				
Sidewalk grant	-	-	14,625	14,625
Other revenues:				
Interest income	2,500	1,650	17,399	15,749
Miscellaneous	-	-	1,890	1,890
Total Revenues	<u>1,114,500</u>	<u>1,134,650</u>	<u>1,178,853</u>	<u>44,203</u>
Expenditures:				
Health, Welfare and Recreation:				
Operating costs	6,000	6,550	6,451	99
Principal payments	-	3,110,000	3,110,000	-
Bond issue costs	-	-	28,050	(28,050)
Paying agent fees	1,000	30,050	2,213	27,837
Capital outlay	9,500	9,500	14,625	(5,125)
Total Expenditures	<u>16,500</u>	<u>3,156,100</u>	<u>3,161,339</u>	<u>(5,239)</u>
Revenues over (under) Expenditures	<u>1,098,000</u>	<u>(2,021,450)</u>	<u>(1,982,486)</u>	<u>38,964</u>
Other financing sources and uses:				
Sale of bonds	-	3,151,890	3,150,000	(1,890)
Transfers in	300,000	300,000	300,000	-
Transfers out	(1,459,048)	(1,468,708)	(1,484,013)	(15,305)
Total Other financing sources and uses	<u>(1,159,048)</u>	<u>1,983,182</u>	<u>1,965,987</u>	<u>(15,305)</u>
Net Change in Fund Balances	(61,048)	(38,268)	(16,499)	23,659
Fund Balance at Beginning of Year	<u>140,026</u>	<u>140,026</u>	<u>140,026</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 78,978</u>	<u>\$ 101,758</u>	<u>\$ 123,527</u>	<u>\$ 23,659</u>

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

CITY OF LEXINGTON, TENNESSEE
SCHOOL FOOD SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Less: Encumbrances 7/1/2010</u>	<u>Add: Encumbrances 6/30/2011</u>	<u>Actual Revenue/ Expenditures (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>					
Revenues							
Payment for lunches							
Student	\$ 104,000	\$ 104,000	\$ 97,031	\$ -	\$ -	\$ 97,031	\$ (6,969)
Adult	30,000	30,000	26,031	-	-	26,031	(3,969)
Payment for breakfast							
Student	12,500	12,500	18,376	-	-	18,376	5,876
USDA - lunch programs	240,000	240,000	241,128	-	-	241,128	1,128
USDA - breakfast programs	82,000	82,000	94,721	-	-	94,721	12,721
USDA - commodities	-	-	39,563	-	-	39,563	(287)
USDA - other	11,000	11,000	10,390	-	-	10,390	(610)
State matching funds	6,500	6,900	6,031	-	-	6,031	(869)
A La Carte sales	43,000	43,000	36,689	-	-	36,689	(6,311)
Revenues from individual schools	37,500	37,500	42,293	-	-	42,293	4,793
Interest income	750	350	687	-	-	687	337
Other revenues	-	-	174	-	-	174	174
Total Revenues	567,250	607,100	613,114	-	-	613,114	6,014
Expenditures							
Food supplies	241,020	275,036	272,892	-	-	272,892	2,144
Personnel expenditures							
Supervisor/director	24,000	23,793	23,791	-	-	23,791	2
Cafeteria personnel	186,650	192,886	192,886	-	-	192,886	-
Other salaries and wages	7,000	2,495	2,494	-	-	2,494	1
Inservice training	750	1,223	1,223	-	-	1,223	-
Social security	13,550	12,081	12,080	-	-	12,080	1
Medical insurance	35,000	37,915	37,914	-	-	37,914	1
Dental insurance	615	968	966	-	-	966	2
Unemployment compensation	525	528	471	-	-	471	57
Retirement	3,000	3,000	2,962	-	-	2,962	38
Employer medicare	3,165	3,165	2,825	-	-	2,825	340
Operations and maintenance							
Maintenance and repair	4,500	4,341	4,341	-	-	4,341	-
Nonfood supplies							
Food preparation supplies	22,000	18,136	18,135	-	-	18,135	1
Office supplies	3,000	3,000	2,487	-	-	2,487	513
Uniforms	1,150	1,175	875	-	-	875	300
Other supplies and materials	10,000	6,000	4,003	-	-	4,003	1,997
Other							
Travel	150	150	-	-	-	-	150
Other contracted services	10,000	12,245	11,531	-	-	11,531	714
Inservice/staff development	3,275	4,275	3,990	-	-	3,990	285
Other charges	650	650	125	-	-	125	525
Equipment	5,000	11,788	11,131	-	-	11,131	657
Total Expenditures	575,000	614,850	607,122	-	-	607,122	7,728
Excess (deficiency) of revenues over (under) expenditures	(7,750)	(7,750)	5,992	-	-	5,992	13,742
Fund Balance at Beginning of Year, as originally stated	109,904	109,904	109,904	-	-	109,904	-
Change in reserve for inventory	-	-	4,978	-	-	4,978	4,978
Fund Balance at Beginning of Year, as restated	109,904	109,904	114,882	-	-	114,882	4,978
Fund Balance at End of Year	\$ 102,154	\$ 102,154	\$ 120,874	\$ -	\$ -	\$ 120,874	\$ 18,720

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

**CITY OF LEXINGTON, TENNESSEE
SOLID WASTE COLLECTION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for Services:				
Collection charges	\$ 600,000	\$ 600,000	\$ 608,241	\$ 8,241
Landfill use fees	30,000	30,000	41,843	11,843
Other revenues:				
Miscellaneous income	-	3,400	3,965	565
Total revenues	<u>630,000</u>	<u>633,400</u>	<u>654,049</u>	<u>20,649</u>
Expenditures				
Public Works:				
Salaries	220,230	221,755	224,568	(2,813)
Payroll taxes	16,848	16,964	16,005	959
Hospital and health insurance	48,560	47,100	47,062	38
Workers compensation insurance	13,912	11,412	13,681	(2,269)
Unemployment insurance	770	770	589	181
Utilities	1,260	1,260	1,028	232
Telephone	488	488	481	7
Consultant's services	2,000	500	-	500
Tires, flats, etc.	500	500	202	298
R&M vehicles	10,000	7,500	6,396	1,104
R&M machinery and equipment	3,000	2,300	1,400	900
R&M buildings	250	400	288	112
R&M other	2,000	1,500	900	600
Office supplies	150	300	292	8
Operating supplies	750	750	436	314
Other operating	-	13,000	11,890	1,110
Janitorial supplies	250	250	107	143
Clothing and uniforms	2,450	2,450	2,354	96
Fuel supplies	24,600	28,000	28,463	(463)
Consumable tools	100	100	27	73
Safety supplies	1,000	1,200	1,005	195
Insurance	8,174	7,174	6,997	177
Tipping fees	153,572	149,000	147,740	1,260
Permit fees	3,000	3,000	3,000	-
Soil testing	3,500	3,350	3,326	24
Bad debt expense	9,000	9,500	7,821	1,679
New cell	5,000	1,370	-	1,370
Total expenditures	<u>531,364</u>	<u>531,893</u>	<u>526,058</u>	<u>5,835</u>
Revenues over (under) expenditures	<u>98,636</u>	<u>101,507</u>	<u>127,991</u>	<u>26,484</u>
Other financing sources and uses:				
Transfers in (out)	(98,636)	(101,507)	(121,032)	(22,396)
Net change in fund balances	-	-	6,959	6,959
Fund Balance at Beginning of Year	<u>57,127</u>	<u>57,127</u>	<u>57,127</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 57,127</u>	<u>\$ 57,127</u>	<u>\$ 64,086</u>	<u>\$ 6,959</u>

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

**CITY OF LEXINGTON, TENNESSEE
DARE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other revenues:				
Donations	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:				
Public Safety:				
Employee education	400	400	25	375
Public relations	3,250	3,250	1,848	1,402
Travel	750	750	-	750
Office supplies	100	100	-	100
Operating supplies	500	500	-	500
Total expenditures	<u>5,000</u>	<u>5,000</u>	<u>1,873</u>	<u>3,127</u>
Revenues over (under) expenditures	<u>(5,000)</u>	<u>(5,000)</u>	<u>(1,873)</u>	<u>3,127</u>
Other financing sources and uses:				
Transfers in	5,000	5,000	-	(5,000)
Net change in fund balances	<u>-</u>	<u>-</u>	<u>(1,873)</u>	<u>(1,873)</u>
Fund Balance at Beginning of Year	<u>4,754</u>	<u>4,754</u>	<u>4,754</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 4,754</u>	<u>\$ 4,754</u>	<u>\$ 2,881</u>	<u>\$ (1,873)</u>

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

CITY OF LEXINGTON, TENNESSEE
POLICE DRUG FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Fines, forfeitures, and penalties:				
Drug related fines	\$ 108,000	\$ 112,000	\$ 134,305	\$ 22,305
Other revenues:				
Interest income	1,500	500	532	32
Miscellaneous income	2,000	2,000	1,946	(54)
Total revenues	<u>111,500</u>	<u>114,500</u>	<u>136,783</u>	<u>22,283</u>
Expenditures:				
Public Safety:				
Salaries	-	76,083	98,382	(22,299)
Payroll tax	-	5,598	5,564	34
Hospital and health insurance	-	10,531	10,024	507
Unemployment insurance	-	268	180	88
Vehicle tow (seized property)	1,000	1,800	1,265	535
Telephone	-	1,800	1,788	12
Educational supplies	3,000	3,000	2,596	404
Repair and maintenance	2,000	6,000	5,833	167
Operating costs	20,000	18,800	11,776	7,024
Other costs	-	700	4,316	(3,616)
Capital outlay	125,000	111,000	100,934	10,066
Total expenditures	<u>151,000</u>	<u>235,580</u>	<u>242,658</u>	<u>(7,078)</u>
Revenues over (under) expenditures	<u>(39,500)</u>	<u>(121,080)</u>	<u>(105,875)</u>	<u>15,205</u>
Other financing sources and uses:				
Sale of capital assets	-	-	5,300	5,300
Transfer out	(115,000)	(30,420)	-	30,420
Total other financing sources and uses	<u>(115,000)</u>	<u>(30,420)</u>	<u>5,300</u>	<u>35,720</u>
Net change in fund balances	<u>(154,500)</u>	<u>(151,500)</u>	<u>(100,575)</u>	<u>50,925</u>
Fund Balance at Beginning of Year	<u>154,105</u>	<u>154,105</u>	<u>154,105</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ (395)</u>	<u>\$ 2,605</u>	<u>\$ 53,530</u>	<u>\$ 50,925</u>

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

CITY OF LEXINGTON, TENNESSEE
DEBT SERVICE - SINKING FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other revenues:				
Rent - U. S. Post Office	\$ 196,000	\$ 196,000	\$ 196,000	\$ -
Interest income	2,700	-	-	-
Total revenues	<u>198,700</u>	<u>196,000</u>	<u>196,000</u>	<u>-</u>
Expenditures:				
Health, Welfare and Recreation:				
Insurance	4,100	3,461	3,461	-
Other	1,000	200	23	177
Debt Service:				
Principal payments	130,000	130,000	130,000	-
Interest payments	52,110	52,110	52,110	-
Paying agent fees	500	1,282	983	299
Total expenditures	<u>187,710</u>	<u>187,053</u>	<u>186,577</u>	<u>476</u>
Revenues over (under) expenditures	<u>10,990</u>	<u>8,947</u>	<u>9,423</u>	<u>476</u>
Other financing sources and uses:				
Transfer out	-	-	-	-
Net change in fund balances	10,990	8,947	9,423	476
Fund Balance at Beginning of Year	402	402	402	-
Fund Balance at End of Year	<u>\$ 11,392</u>	<u>\$ 9,349</u>	<u>\$ 9,825</u>	<u>\$ 476</u>

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

**CITY OF LEXINGTON, TENNESSEE
DEBT SERVICE - SCHOOL DEBT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other revenues	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Debt Service:				
Principal payments	476,473	476,473	637,141	(160,668)
Interest payments	461,960	461,960	463,872	(1,912)
Paying agent fees	-	-	-	-
Total expenditures	<u>938,433</u>	<u>938,433</u>	<u>1,101,013</u>	<u>(162,580)</u>
Revenues over (under) expenditures	<u>(938,433)</u>	<u>(938,433)</u>	<u>(1,101,013)</u>	<u>(162,580)</u>
Other financing sources and uses:				
Transfer in	<u>938,433</u>	<u>938,433</u>	<u>1,101,013</u>	<u>162,580</u>
Net change in fund balances	-	-	-	-
Fund Balance at Beginning of Year	-	-	-	-
Fund Balance at End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

CITY OF LEXINGTON, TENNESSEE
 CAPITAL PROJECTS - POST OFFICE FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other revenues:				
Interest income	\$ 300	\$ 100	\$ 82	\$ (18)
Miscellaneous income	-	-	20	20
Total Revenues	<u>300</u>	<u>100</u>	<u>102</u>	<u>20</u>
Expenditures:				
General expenses:				
Repair and maintenance	17,279	779	590	189
Public works:				
Repair and maintenance	5,325	825	677	148
Health, welfare and recreation:				
Repair and maintenance	16,750	2,250	348	1,902
Total Expenditures	<u>39,354</u>	<u>3,854</u>	<u>1,615</u>	<u>1,902</u>
Revenues over (under) Expenditures	(39,054)	(3,754)	(1,513)	1,922
Other financing sources and uses:				
Transfers in	-	-	1,800	1,800
Net Change in Fund Balances	(39,054)	(3,754)	287	3,722
Fund Balance at Beginning of Year	<u>41,081</u>	<u>41,081</u>	<u>41,081</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 2,027</u>	<u>\$ 37,327</u>	<u>\$ 41,368</u>	<u>\$ 3,722</u>

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

CITY OF LEXINGTON, TENNESSEE
SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE
JUNE 30, 2011

Levy for Year	Tax Rate	Assessed Value	Original Tax Levy	Outstanding Taxes Beginning	Taxes Levied	Releases and Adjustments	Collections	Outstanding Taxes Ending
2011	\$1.23	\$ 169,837,658	\$ 2,089,033	\$ -	\$ 2,089,033	\$ -	\$ -	\$ 2,089,033
2010	0.86	160,123,486	1,377,074	1,354,999	22,075	839	1,312,782	65,131
2009	0.86	160,348,230	1,378,984	73,857	-	472	61,680	12,649
2008	0.86	157,854,649	1,357,547	13,316	-	593	13,058	851
2007	0.86	161,370,663	1,387,770	524	-	363	374	513
2006	0.86	163,746,473	1,408,213	665	-	-	578	87
2005	0.71	166,009,807	1,156,947	353	-	-	-	353
2004	0.75	147,415,262	1,084,969	8,005	-	-	-	8,005
2003	0.75	140,461,875	1,081,818	6,420	-	-	-	6,420
2002	0.75	135,825,925	1,018,798	3,637	-	-	-	3,637
2001	0.75	129,764,140	1,018,037	91	-	-	-	91
2000	0.75	128,382,065	963,002	175	-	-	-	175
				<u>\$ 1,462,042</u>	<u>\$ 2,111,108</u>	<u>\$ 2,267</u>	<u>\$ 1,388,472</u>	<u>\$ 2,186,945</u>

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

CITY OF LEXINGTON, TENNESSEE
SCHEDULE OF LONG-TERM DEBT REQUIREMENTS - GENERAL LONG-TERM DEBT
JUNE 30, 2011

Year Ending June 30,	Capital Outlay - 2005		Schools Capital Outlay - 2009		2004 - QZAB Bonds		Refunding Bond Series 2003		Bond Series 2004		Bond Series 2009		Refunding Bond Series 2010		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 40,000	\$ 11,948	\$ 60,000	\$ 7,400	\$ 75,529	\$ -	\$ 135,000	\$ 45,615	\$ 220,000	\$ 303,847	\$ 40,000	\$ 55,555	\$ 25,000	\$ 73,643	\$ 950,529	\$ 510,433
2013	40,000	10,328	60,000	5,000	75,529	-	140,000	38,670	230,000	294,277	40,000	54,755	365,000	69,743	950,529	472,773
2014	45,000	8,606	65,000	2,600	75,529	-	150,000	31,050	235,000	284,272	40,000	53,854	370,000	62,393	960,529	442,775
2015	45,000	6,784	-	-	75,529	-	155,000	22,815	245,000	274,050	45,000	52,654	390,000	54,892	945,529	411,195
2016	45,000	4,961	-	-	75,529	-	165,000	14,175	255,000	263,392	45,000	51,304	385,000	47,242	970,529	381,074
2017	50,000	3,038	-	-	75,529	-	180,000	4,860	265,000	252,300	45,000	49,954	395,000	39,146	1,010,529	349,298
2018	50,000	1,013	-	-	75,529	-	-	-	270,000	240,772	45,000	48,604	400,000	29,900	840,529	320,289
2019	-	-	-	-	75,529	-	-	-	285,000	229,027	50,000	47,199	410,000	18,750	820,529	294,976
2020	-	-	-	-	75,529	-	-	-	295,000	216,630	50,000	44,699	420,000	6,300	840,529	267,629
2021	-	-	-	-	75,527	-	-	-	305,000	203,797	55,000	42,698	-	-	435,527	246,495
2022	-	-	-	-	-	-	-	-	320,000	190,530	55,000	40,499	-	-	375,000	231,029
2023	-	-	-	-	-	-	-	-	330,000	176,610	55,000	38,299	-	-	385,000	214,909
2024	-	-	-	-	-	-	-	-	345,000	162,265	60,000	36,099	-	-	405,000	198,354
2025	-	-	-	-	-	-	-	-	360,000	147,247	60,000	33,699	-	-	420,000	180,946
2026	-	-	-	-	-	-	-	-	375,000	131,588	60,000	31,224	-	-	435,000	162,812
2027	-	-	-	-	-	-	-	-	395,000	115,275	65,000	28,674	-	-	460,000	143,949
2028	-	-	-	-	-	-	-	-	410,000	98,093	70,000	25,830	-	-	480,000	123,923
2029	-	-	-	-	-	-	-	-	430,000	80,258	70,000	22,767	-	-	500,000	103,025
2030	-	-	-	-	-	-	-	-	450,000	61,552	75,000	19,687	-	-	525,000	81,239
2031	-	-	-	-	-	-	-	-	470,000	41,977	85,000	16,312	-	-	555,000	58,289
2032	-	-	-	-	-	-	-	-	495,000	21,533	90,000	12,487	-	-	585,000	34,020
2033	-	-	-	-	-	-	-	-	-	-	90,000	8,325	-	-	90,000	8,325
2034	-	-	-	-	-	-	-	-	-	-	90,000	4,162	-	-	90,000	4,162
Totals	\$ 315,000	\$ 46,878	\$ 185,000	\$ 15,000	\$ 755,288	\$ -	\$ 925,000	\$ 157,185	\$ 6,985,000	\$ 3,789,382	\$ 1,380,000	\$ 819,340	\$ 3,150,000	\$ 402,009	\$ 14,050,288	\$ 5,241,919

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

CITY OF LEXINGTON, TENNESSEE
SCHEDULE OF LONG-TERM DEBT REQUIREMENTS - WATER SYSTEMS
JUNE 30, 2011

Year Ending June 30,	2000 Refunding Bonds		2009 Refunding Bonds		2011 Refunding Bonds		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 370,000	\$ 30,688	\$ 185,000	\$ 253,584	\$ 325,000	\$ 60,208	\$ 880,000	\$ 344,480
2013	385,000	10,395	190,000	249,884	335,000	53,608	910,000	313,887
2014	-	-	195,000	245,608	545,000	44,808	740,000	290,416
2015	-	-	195,000	239,758	555,000	33,808	750,000	273,566
2016	-	-	205,000	233,908	565,000	22,607	770,000	256,515
2017	-	-	210,000	227,758	155,000	15,290	365,000	243,048
2018	-	-	215,000	221,458	155,000	11,687	370,000	233,145
2019	-	-	220,000	214,740	160,000	7,350	380,000	222,090
2020	-	-	230,000	203,740	165,000	2,475	395,000	206,215
2021	-	-	235,000	194,540	-	-	235,000	194,540
2022	-	-	245,000	185,140	-	-	245,000	185,140
2023	-	-	255,000	175,340	-	-	255,000	175,340
2024	-	-	265,000	165,140	-	-	265,000	165,140
2025	-	-	280,000	154,540	-	-	280,000	154,540
2026	-	-	295,000	142,990	-	-	295,000	142,990
2027	-	-	305,000	130,452	-	-	305,000	130,452
2028	-	-	320,000	117,108	-	-	320,000	117,108
2029	-	-	335,000	103,109	-	-	335,000	103,109
2030	-	-	350,000	88,368	-	-	350,000	88,368
2031	-	-	365,000	72,618	-	-	365,000	72,618
2032	-	-	380,000	56,194	-	-	380,000	56,194
2033	-	-	405,000	38,618	-	-	405,000	38,618
2034	-	-	430,000	19,888	-	-	430,000	19,888
	<u>\$ 755,000</u>	<u>\$ 41,083</u>	<u>\$ 6,310,000</u>	<u>\$ 3,734,483</u>	<u>\$ 2,960,000</u>	<u>\$ 251,841</u>	<u>\$ 10,025,000</u>	<u>\$ 4,027,407</u>

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

CITY OF LEXINGTON, TENNESSEE
SCHEDULE OF LONG-TERM DEBT REQUIREMENTS - NATURAL GAS FUND
JUNE 30, 2011

Year Ending June 30,	2009 Refunding Bonds		2011 Refunding Bonds		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 55,000	\$ 70,699	\$ 285,000	\$ 51,648	\$ 340,000	\$ 122,347
2013	55,000	69,598	290,000	45,897	345,000	115,495
2014	55,000	68,361	295,000	40,048	350,000	108,409
2015	55,000	66,711	305,000	34,047	360,000	100,758
2016	55,000	65,061	310,000	27,898	365,000	92,959
2017	55,000	63,411	315,000	21,411	370,000	84,822
2018	60,000	61,761	325,000	13,962	385,000	75,723
2019	60,000	59,886	330,000	4,950	390,000	64,836
2020	60,000	56,886	-	-	60,000	56,886
2021	65,000	54,486	-	-	65,000	54,486
2022	70,000	51,886	-	-	70,000	51,886
2023	70,000	49,086	-	-	70,000	49,086
2024	75,000	46,286	-	-	75,000	46,286
2025	75,000	43,286	-	-	75,000	43,286
2026	80,000	40,192	-	-	80,000	40,192
2027	85,000	36,792	-	-	85,000	36,792
2028	90,000	33,073	-	-	90,000	33,073
2029	95,000	29,136	-	-	95,000	29,136
2030	100,000	24,956	-	-	100,000	24,956
2031	100,000	20,456	-	-	100,000	20,456
2032	110,000	15,956	-	-	110,000	15,956
2033	115,000	10,868	-	-	115,000	10,868
2034	120,000	5,550	-	-	120,000	5,550
	<u>\$1,760,000</u>	<u>\$1,044,383</u>	<u>\$ 2,455,000</u>	<u>\$ 239,861</u>	<u>\$ 4,215,000</u>	<u>\$ 1,284,244</u>

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

CITY OF LEXINGTON, TENNESSEE
SCHEDULE OF LONG-TERM DEBT REQUIREMENTS - LEXINGTON ELECTRIC DEPARTMENT
JUNE 30, 2011

Year Ending June 30,	Series 2007 Revenue Bonds	
	Principal	Interest
2012	\$ 260,000	\$ 343,151
2013	270,000	332,517
2014	280,000	321,474
2015	290,000	310,022
2016	305,000	298,161
2017	315,000	285,687
2018	330,000	272,803
2019	345,000	259,306
2020	355,000	245,195
2021	370,000	230,676
2022	390,000	215,543
2023	405,000	199,592
2024	420,000	183,028
2025	440,000	165,849
2026	455,000	147,854
2027	475,000	129,244
2028	495,000	109,817
2029	515,000	89,571
2030	535,000	68,507
2031	560,000	46,626
2032	580,000	23,722
	<u>\$ 8,390,000</u>	<u>\$ 4,278,345</u>

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

CITY OF LEXINGTON, TENNESSEE
SCHEDULE OF OUTSTANDING DELINQUENT TAXES FILED WITH CHANCERY COURT
JUNE 30, 2011

<u>Tax Year</u>	<u>Outstanding Balance</u>
2010	\$ 65,131
2009	12,649
2008	851
2007	513
2006	87
2005	353
2004	8,005
2003	6,420
2002	3,637
2001	91
2000	175
Total	<u>\$ 97,912</u>

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

**CITY OF LEXINGTON, TENNESSEE
SCHEDULE OF UTILITY RATES IN FORCE
JUNE 30, 2011**

GAS FUND					
Residential Rate	Minimum	Base Rate	+	PGA Rate	
First 500 cubic feet (minimum)	\$ 6.70				
Over 500 cubic feet: Inside city (per MCF)		\$ 1.60	+	current PGA	= Rate Per Cubic Foot
Outside city (per MCF)		\$ 2.30	+	current PGA	= Rate Per Cubic Foot
Small Commercial Rate					
First 500 cubic feet (minimum)	\$ 7.50				
Over 500 cubic feet: Inside city (per MCF)		\$ 2.40	+	current PGA	= Rate Per Cubic Foot
Outside city (per MCF)		\$ 3.20	+	current PGA	= Rate Per Cubic Foot
Medium Commercial Rate					
First 500 cubic feet (minimum)	\$ 24.85				
Over 500 cubic feet: Inside city (per MCF)		\$ 2.60	+	current PGA	= Rate Per Cubic Foot
Outside city (per MCF)		\$ 3.40	+	current PGA	= Rate Per Cubic Foot
Large Commercial Rate					
First 500 cubic feet (minimum)	\$ 124.60				
Over 500 cubic feet: Inside city (per MCF)		\$ 2.70	+	current PGA	= Rate Per Cubic Foot
Outside city (per MCF)		\$ 3.50	+	current PGA	= Rate Per Cubic Foot
Transport (Customer buys from 3rd party)		\$ 1.88			
Number of customers at year end:	<u>8,857</u>				

PGA (Purchased Gas Adjustment) - This rate is set monthly from calculations based on the average total costs associated with natural gas purchases. During the 2010/2011 fiscal year the PGA varied from a low of \$4.99 to a high of \$6.01 with an average rate of \$5.38.

WATER SYSTEMS

INSIDE CITY LIMITS	
WATER RATES - RESIDENTIAL	
0-2,000 gallons	\$ 12.50
All over 2,000 gallons	\$2.00 per 1,000 gallons
WATER RATES - COMMERCIAL RATES	
Small Commercial Rate 0-2,000 gallons	\$ 14.00
All over 2,000 gallons	\$2.15 per 1,000 gallons
Medium Commercial Rate 0-2,000 gallons	\$ 16.00
All over 2,000 gallons	\$2.25 per 1,000 gallons
Large Commercial Rate	\$ 18.00
All over 2,000 gallons	\$2.35 per 1,000 gallons
OUTSIDE CITY LIMITS	
WATER RATES - RESIDENTIAL	
0-2,000 gallons	\$ 21.00
All over 2,000 gallons	\$3.50 per 1,000 gallons
WATER RATES - COMMERCIAL RATES	
Small Commercial Rate 0-2,000 gallons	\$ 22.50
All over 2,000 gallons	\$3.75 per 1,000 gallons
Medium Commercial Rate 0-2,000 gallons	24.50
All over 2,000 gallons	\$3.90 per 1,000 gallons
Large Commercial Rate	26.50
All over 2,000 gallons	\$4.05 per 1,000 gallons
NUMBER OF CUSTOMERS AT YEAR END:	<u>9,546</u>
SEWER RATES - RESIDENTIAL	
0-2,000 gallons	\$ 15.00
All over 2,000 gallons	\$4.00 per 1,000 gallons
SEWER RATES - COMMERCIAL RATES	
Small Commercial Rate	\$ 15.00
Medium Commercial Rate	37.00
Large Commercial Rate	62.00
All over 2,000 gallons	\$4.00 per 1,000 gallons
NUMBER OF CUSTOMERS AT YEAR END:	<u>3,326</u>

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

**CITY OF LEXINGTON, TENNESSEE
SCHEDULE OF UTILITY RATES IN FORCE - CONTINUED
JUNE 30, 2011**

Electric Department

Residential Rate Schedule - RS	
Customer Charge - per delivery point per month	\$ 9.08
Energy Charges - cents per kWh	0.09078
<u>General Power Rate Schedule - GSA</u>	
GSA-1 (0.50 kw)	
Customer Charge - per delivery point per month	\$ 12.96
Energy Charges - per kWh	0.10197
GSA-2 (51-1,000 kw)	
Customer charge - per delivery point per month	\$ 89.03
Demand charge - per kw per month - First 50 kW	-
- Additional kW	12.10
Energy charge - per kw - First 15,000 kWh	0.10197
- Additional kWh	0.06164
GSA-3 (1,000-5,000 kw)	
Customer charge - per delivery point per month	\$ 223.58
Demand charge - per kw per month - First 1,000 kW	11.68
- Excess over 1,000 kW	13.75
Energy charge - per kW	0.06338
<u>GSB</u>	
Customer charge - per delivery point per month	\$ 1,500.00
Demand charge - per kW per month	16.00
Energy charge - per kwh - First 620 hours use of demand	0.04308
- Additional kwh	0.02771
<u>GSC</u>	
Customer charge - per delivery point per month	\$ 1,500.00
Demand charge - per kW per month	15.49
Energy charge - per kwh - First 620 hours use of demand	0.04053
- Additional kwh	0.02516
<u>GSD</u>	
Customer charge - per delivery point per month	\$ 1,500.00
Demand charge - per kW per month	15.38
Energy charge - per kwh	0.03804
<u>MSB1</u>	
Customer charge - per delivery point per month	\$ 1,500.00
Demand charge - per kw per month	16.00
Energy charge - per kwh - First 620 hours use of demand	0.04685
- Additional kwh	0.01337
<u>MSB2</u>	
Customer charge - per delivery point per month	\$ 1,500.00
Demand charge - per kw per month	11.63
Energy charge - per kwh - First 620 hours use of demand	0.03899
- Additional kwh	0.03337
<u>MSC</u>	
Customer charge - per delivery point per month	\$ 1,500.00
Demand charge - per kw per month	15.49
Energy charge - per kwh - First 620 hours use of demand	0.02861
- Additional kwh	0.13240
<u>LS</u>	
Customer charge - per delivery point per month	\$ 17.75
Energy charge	0.06503

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

**CITY OF LEXINGTON, TENNESSEE
SCHEDULE OF UNACCOUNTED FOR WATER
JUNE 30, 2011**

(All amounts in gallons)

A Water Treated and Purchased:		
B	Water Pumped (potable)	1,138,784,000
C	Water Purchased	4,307,500
D	Total Water Treated and Purchased	1,143,091,500
 E Accounted for Water:		
F	Water Sold	809,542,000
G	Metered for Consumption (in house usage)	0
H	Fire Department Usage	220,153
I	Flushing	27,626,321
J	Tank Cleaning/Filling	5,213,100
K	Street Cleaning	0
L	Bulk Sales	373,950
M	Water Bill Adjustments/plus or (minus)	0
N	Total Accounted for Water	842,975,524
 O	Unaccounted for Water	300,115,976
 P	Percent Unaccounted for Water	26.25%
 Q	Other	0

Explain Other: N/A

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

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

CITY OF LEXINGTON, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrued Revenue at July 1, 2010	Receipts	Expenditures	Accrued Revenue at June 30, 2011
FEDERAL AWARDS						
Department of Justice COPS - Community Oriented Policing Services Bulletproof Vest Partnership Program	N/A N/A	2009RKWX0806 -	\$ 7,144 -	\$ 65,083 781	\$ 73,396 781	\$ 15,457 -
			<u>7,144</u>	<u>65,864</u>	<u>74,177</u>	<u>15,457</u>
Department of Military - Water Systems FEMA	97.036	1909-DR-TN	-	28,796	28,796	-
Department of Military FEMA	97.036	1909-DR-TN	<u>31,142</u>	<u>23,064</u>	<u>12,529</u>	<u>20,607</u>
Total Department of Military for	97.036		<u>31,142</u>	<u>51,860</u>	<u>41,325</u>	<u>20,607</u>
Department of Economic and Community Development Water Systems Improvement - CDBG	14.228	GG-08-26663-00	<u>5,802</u>	<u>31,612</u>	<u>25,810</u>	<u>-</u>
Department of Transportation - Gas System 412 West to Madison County Line 412 East to Decatur County Line Lexington Bypass	N/A N/A N/A	HPP-STP-20(28) STP-20(29) STP-459(1)	91 - 6,460	- - -	2,977 9,699 8,226	3,068 9,699 14,686
Department of Transportation - Water Systems 412 West to Madison County Line 412 East to Decatur County Line Decatur County Water Line Lexington Bypass	N/A N/A N/A N/A	HPP-STP-20(28) STP-20(29) STP-20(30) STP-459(1)	131 18,260 - 19,786	- - - -	2,635 14,468 29,734 15,202	2,766 32,726 29,734 34,988
Department of Transportation - General Government Governor's Highway Safety Office - Network Coordinator Governor's Highway Safety Office - Crash Intervention Governor's Highway Safety Office - Network Coordinator	20.600 20.600 20.600	Z-10-220025 Z-11-GHS298 Z-11-GHS263	- - -	3,550 2,880 1,815	3,550 10,706 1,989	- 7,826 174
Total for CFDA #	20.600		<u>-</u>	<u>8,245</u>	<u>16,245</u>	<u>8,000</u>
Safe Routes to School	20.205	Contract #090236	-	-	14,625	14,625
City Wide Spot Sidewalk Repair and Replacement	N/A	STP-11-3900(15)	-	-	32,507	32,507
Total Department of Transportation			<u>50,530</u>	<u>39,857</u>	<u>172,128</u>	<u>182,801</u>
TOTAL FEDERAL AWARDS			<u>88,816</u>	<u>157,581</u>	<u>287,630</u>	<u>218,865</u>
STATE FINANCIAL ASSISTANCE						
Tennessee Department of Transportation - Gas System 412 West to Madison County Line 412 East to Decatur County Line Lexington Bypass	N/A N/A N/A	HPP-STP-20(28) STP-20(29) STP-459(1)	23 - 1,615	- - -	745 2,424 2,056	768 2,424 3,671
Tennessee Department of Transportation - Water Systems 412 West to Madison County Line 412 East to Decatur County Line Decatur County Water Line Lexington Bypass	N/A N/A N/A N/A	HPP-STP-20(28) STP-20(29) STP-20(30) STP-459(1)	32 4,564 - 4,948	- - - -	660 616 7,434 3,800	692 5,180 7,434 8,748
State Law Enforcement Supplement	-	-	-	15,600	15,600	-
State Fire Grant Supplement	-	-	-	7,800	7,800	-
TOTAL STATE AWARDS			<u>11,182</u>	<u>23,400</u>	<u>41,135</u>	<u>28,917</u>
TOTAL FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE			<u>\$ 99,998</u>	<u>\$ 180,981</u>	<u>\$ 328,765</u>	<u>\$ 247,782</u>

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

Note 1: Basis of Presentation

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

Note 2: Single Audit

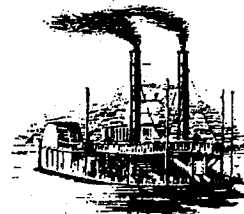
Single Audit reports required by OMB Circular A-133 have been filed as part of the individual audit reports of Lexington City Schools. The awards that Lexington City Schools received have not been included in the above schedule.

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

WILLIAMS, JERROLD, GODWIN & ASSOCIATES, PLLC
Certified Public Accountants

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

To the Mayor and City Aldermen
Lexington, 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 City of Lexington, Tennessee (the City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 26, 2011. 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 the 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below as Lexington Gas System's findings 95-08, 95-10, and 2007-01; Lexington Water Systems' findings 2007-07, 2003-12, and 2007-01; Internal School Funds' finding SAF 2007-01; and General Government's findings 1998-17 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies below as Lexington Gas System's finding 2009-01; Lexington Water Systems' findings 2000-03 and 2001-03; Internal School Funds' findings SAF 2009-01, ISF 2011-01, and ISF 2011-02; Government-Wide Financials' finding GW 2007-01; and General Government's findings 2006-02 and 2011-01 to be significant deficiencies.

LEXINGTON GAS SYSTEM

95-08 WORK ORDERS AND INVENTORY

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

Recommendation: Maintain inventory on a software module which tracks the average costs of materials. Also, this should be integrated with a work order module that is interfaced with the general ledger. Someone separate

from the storekeeper should have responsibility for maintaining the recordkeeping function of inventory. The physical maintenance of assets should always be separate from recordkeeping of those same assets.

Management's Response: We are still working on setting up procedures to do this.

95-10 CASH RECEIPTS

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

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

Management's Response: We agree.

2007-01 NO INVENTORY OF FIXED ASSETS

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

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

Management's Response: We agree and will correct this finding.

2009-01 PURCHASE ORDERS

Purchase orders were not issued properly. Some disbursements lacked purchase orders and some purchase orders were completed after receiving the invoice.

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

Management's Response: We agree and are trying to correct this finding.

LEXINGTON WATER SYSTEMS

2000-03 PURCHASE ORDERS

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

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

Management's Response: We agree and are trying to correct this finding.

2000-07 INADEQUATE SEGREGATION OF DUTIES

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

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

Management's Response: We agree and will improve.

2001-03 RECONCILIATIONS OF VARIOUS GENERAL LEDGER ACCOUNTS

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

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

Management's Response: We agree and will correct immediately.

2003-12 INVENTORY

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

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

Management's Response: We agree and will improve this finding.

2007-01 NO INVENTORY OF FIXED ASSETS

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

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

Management's Response: We agree and will correct this finding.

GENERAL PURPOSE SCHOOL FUND

NONE

SCHOOL FOOD AUTHORITY

NONE

INTERNAL SCHOOL FUNDS

SAF 2007 – 01 INADEQUATE SEGREGATION OF DUTIES

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

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

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

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

Management's Response: School System has employed full-time bookkeeper at each school and provided training program through attendance at workshops, accounting system vendor and in-house support from central

finance office. Principals will review procedures and develop plans to implement segregation of duties within the constraints of the limited office staff.

SAF 2009 – 01 PURCHASE ORDERS

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

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

School No Longer Deficient from Prior Period Audit Finding: Caywood Elementary.

School Becoming Deficient During the Current Period: Lexington Middle.

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

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

ISF 2011 – 01 EXPENSES/REVENUES

Transactions were being improperly classified at some schools.

Section 7, Title 2, Page 7-3 of the TISUAPM describes the basic components of an effective accounting system. It states that, at a minimum, revenues must be recorded by activity, such as gate receipts, fees, interest income, etc. and expenditures must be recorded by function, such as administration, instruction, etc.

School Becoming Deficient During Current Period: Lexington Middle.

Recommendation: Record revenues and expenditures in accordance with Section 7 of the TISUAPM.

Management's Response: All revenue will be recorded by source and expenses by function.

ISF 2011 – 02 EQUIPMENT NOT PROPERLY IDENTIFIED

Equipment was not properly identified by numbered metal tags or other means of permanent identification.

Section 4, Title 3, Page 4-12 of the TISUAPM explains the minimum requirements for equipment and property records.

Schools Becoming Deficient During Current Year: Caywood Elementary and Lexington Middle School.

Recommendation: Follow the guidance as outlined in Section 4, Title 3 of the TISUAPM for fixed asset identification.

Management's Response: All equipment will be identified by tags or other means of permanent identification.

GOVERNMENT-WIDE FINANCIALS

GW 2007 – 01 CAPITAL ASSETS

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

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

Management's Response: The System will establish and have a complete listing of all capital assets and compute depreciation.

GENERAL GOVERNMENT

1998-17 SEGREGATION OF DUTIES

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

Recommendation: Municipal officials should enforce division of duties to provide a system of checks and balances so that no one person has control over a transaction from beginning to end. Work flow should be established so that one employee's work is automatically verified by another employee working independently. When possible, different persons should be responsible for the authorization, recordkeeping (posting), custodial (cash and materials handling), and review procedures, to prevent manipulation of records and minimize the possibility of collusion. In order to adequately control investments, we recommend that the person who is responsible for reconciling the bank accounts monthly also reconcile the investments. This will ensure that at least two individuals are involved in the handling of investments.

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

2006-02 UNTIMELY RECEIPTING OF BUILDING PERMIT FEES

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

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

Management's Response: Building permit fees will be submitted for receipt at City Hall at the time of collection.

2011-01 POLICE CITATIONS

The City's police department does not have a control in place to detect citation numbers that have been omitted from the court system.

Recommendation: We recommend the City's police department implement controls to detect citation numbers that have been omitted from the court system.

Management's Response: The City's police department has already taken steps to correct this finding.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Lexington, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below as Lexington Water Systems' finding 2000-02; Internal School Funds' findings ISF 2011-03 and ISF 2011-04; and General Government's findings 2004-06 and 2008-02.

LEXINGTON WATER SYSTEMS

2000-02 NONPAYMENT OF INTERFUND RECEIVABLES

Interfund receivables that were on the financial statements at June 30, 2010, were still present at June 30, 2011. These receivables should be resolved within one year's time.

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

Management's Response: We agree and will correct this within the next fiscal year.

INTERNAL SCHOOL FUNDS

ISF 2011 – 03 TICKET RECONCILIATIONS

One school held an event where they issued pre-numbered tickets; however, there was no continuity with the various rolls of tickets used.

Section 5, Title 2, Page 5-5 of the TISUAPM provides the guidance on the correct procedures for using ticket reconciliations.

School Becoming Deficient During the Current Period: Caywood Elementary.

Recommendation: We recommend that ticket reconciliations be prepared properly and retained in accordance with the TISUAPM.

Management's Response: Pre-numbered tickets and ticket reconciliations will be prepared as required by the *Tennessee Internal School Uniform Accounting Policy Manual*.

ISF 2011 – 04 DIVISION OF PROFITS NOT COMPUTED

The school picture money was collected by the photographer and a commission check was received by the school. School personnel did not prepare records to determine whether or not the school received a fair division of profits.

Section 4, Title 8, Page 4-27 of the *TISUAPM* states that a school must independently verify total sales and total collections to ensure proper division of profits if an outside vendor makes the collections.

School Becoming Deficient During the Current Year: Lexington Middle School.

Recommendation: School personnel should independently verify the amount of profit to be received.

Management's Response: We will verify the sales and total collections to ensure proper division of profits is made.

GENERAL GOVERNMENT

2004 – 06 EXPENDITURES EXCEEDED BUDGET

Expenditures exceeded budgeted appropriations in the Sales Tax Fund, and the School Debt Fund. The City should not expend unappropriated funds. However, if circumstances suggest that expenditures are expected to exceed appropriations, the budget should be amended.

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

Management's Response: We will closely monitor expenses and adequately budget for expenditures to avoid overruns.

2008-02 NONPAYMENT OF INTERFUND RECEIVABLES

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

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

Management's Response: We will eliminate interfund receivables within one year of origination.

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

This report is intended solely for the information and use of management, City Council, 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.

PRIOR YEAR DISPOSITIONS

LEXINGTON GAS SYSTEM

2000-01 Reconciling Accounts – corrected.

LEXINGTON WATER SYSTEMS

2001-02 Due to/from accounts not reconciled – corrected.

2001-05 Misclassification of items – corrected.

2003-11 Payroll deficiencies – corrected.

2007-02 Financial statements materially misstated – corrected

SCHOOL FOOD AUTHORITY

2007-03 Expenditures Exceeded Budget – corrected.

INTERNAL SCHOOL FUNDS

SAF 2008-03 Deficit Balances – corrected.

GENERAL GOVERNMENT

2008-01 Financial Statements Materially Misstated – corrected.

Williams, Jewell, Godwin's Associates, PLLC

October 26, 2011

