

CITY OF LAKELAND, TENNESSEE
Comprehensive Annual Financial Report
June 30, 2002

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City of Lakeland, Tennessee
LIST OF PRINCIPAL OFFICIALS
June 30, 2002

Elected Officials

Mayor
Commissioner
Commissioner
Commissioner
Commissioner

Scott Carmichael
Patra B. Temple
Mark Hartz
Judy Bennett
Gerrit Verschuur

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying general purpose financial statements and the combining and individual fund and account group financial statements of the City of Lakeland, Tennessee (the City) as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on the financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Lakeland, Tennessee, as of June 30, 2002, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such combining and individual fund and account group financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds and account groups of the City at June 30, 2002, and the results of operations of such funds and the cash flows of individual proprietary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2002, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole and on the combining, individual fund, and account group financial statements. Other accompanying supplemental information listed in the table of contents is also presented for purpose of additional analysis and is not a required part of the financial statements of the City. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements, combining, individual fund, and account group statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements of each of the respective individual funds and the account group taken as a whole.

The statistical data as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements. Such additional information has not been subjected to the audit procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion on such data.

Zoruda & Associates, P.C.

Germantown, Tennessee
December 2, 2002

City of Lakeland, Tennessee
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 June 30, 2002

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Proprietary Fund Type</u>	<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Trust and Agency</u>	<u>Enterprise</u>	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>	
<u>ASSETS AND OTHER DEBITS</u>							
ASSETS:							
Cash and cash equivalents	\$ 283,704	\$ -	\$ -	\$ 396,664	\$ -	\$ -	\$ 680,368
Investments	2,451,878	-	156,075	-	-	-	2,607,953
Receivables:							
Accounts	-	-	-	17,658	-	-	17,658
Intergovernmental	292,942	-	-	-	-	-	292,942
Due from other funds	117,059	-	-	-	-	-	117,059
Property, plant and equipment (net)	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,245,833</u>	<u>2,969,514</u>	<u>-</u>	<u>5,215,347</u>
Total assets	3,145,583	-	156,075	2,660,155	2,969,514	-	8,931,327
OTHER DEBITS -							
Amount to be provided for compensated absences	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,540</u>	<u>12,540</u>
Total assets and other debits	\$ <u>3,145,583</u>	\$ <u>-</u>	\$ <u>156,075</u>	\$ <u>2,660,155</u>	\$ <u>2,969,514</u>	\$ <u>12,540</u>	\$ <u>8,943,867</u>

(Continued)

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

City of Lakeland, Tennessee
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 June 30, 2002

	<u>Governmental Fund Types</u>		<u>Fiduciary</u>	<u>Proprietary</u>	<u>Account Groups</u>		<u>Totals</u> (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Trust and Agency</u>	<u>Fund Type</u> <u>Enterprise</u>	<u>General</u>	<u>General</u>	
					<u>Fixed Assets</u>	<u>Long-Term Debt</u>	
<u>LIABILITIES AND FUND EQUITY</u>							
LIABILITIES:							
Accounts payable	\$ 25,044	\$ -	\$ -	\$ 380	\$ -	\$ -	\$ 25,424
Due to/from other funds	-	37,107	-	79,952	-	-	117,059
Deferred compensation payable	-	-	156,075	-	-	-	156,075
Refundable deposits	73,850	-	-	-	-	-	73,850
Accrued vacation	-	-	-	-	-	12,540	12,540
 Total liabilities	<u>98,894</u>	<u>37,107</u>	<u>156,075</u>	<u>80,332</u>	<u>-</u>	<u>12,540</u>	<u>384,948</u>
FUND EQUITY :							
Investment in general fixed assets	-	-	-	-	2,969,514	-	2,969,514
Contributed capital	-	-	-	1,391,537	-	-	1,391,537
Retained earnings (deficit):							
Unreserved	-	-	-	1,188,286	-	-	1,188,286
Unreserved, designated for Parks	22,143	-	-	-	-	-	22,143
Unreserved, undesignated	<u>3,024,546</u>	<u>(37,107)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,987,439</u>
 Total fund equity	<u>3,046,689</u>	<u>(37,107)</u>	<u>-</u>	<u>2,579,823</u>	<u>2,969,514</u>	<u>-</u>	<u>8,558,919</u>
 Total liabilities and fund equity	\$ <u>3,145,583</u>	\$ <u>-</u>	\$ <u>156,075</u>	\$ <u>2,660,155</u>	\$ <u>2,969,514</u>	\$ <u>12,540</u>	\$ <u>8,943,867</u>

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

City of Lakeland, Tennessee
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - GOVERNMENTAL AND PROPRIETARY FUND TYPES
For The Fiscal Year Ended June 30, 2002

	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise (Memorandum Fund</u>	<u>Totals Only)</u>
REVENUES:				
Taxes	\$ 195,587	\$ -	\$ -	\$ 195,587
Licenses and permits	82,168	-	-	82,168
Intergovernmental	1,253,934	-	-	1,253,934
Fees for services	110,548	448,772	189,799	749,119
Other	<u>119,278</u>	<u>-</u>	<u>178,000</u>	<u>297,278</u>
 Total revenues	 <u>1,761,515</u>	 <u>448,772</u>	 <u>367,799</u>	 <u>2,578,086</u>
 EXPENDITURES:				
General government	784,766	-	-	784,766
Public safety	8,316	-	-	8,316
Public works	220,165	503,273	-	723,438
Health, culture, welfare and recreation	79,745	-	-	79,745
Capital outlay	326,343	-	-	326,343
Operating expenses	<u>-</u>	<u>-</u>	<u>403,263</u>	<u>403,263</u>
 Total expenditures	 <u>1,419,335</u>	 <u>503,273</u>	 <u>403,263</u>	 <u>2,325,871</u>
 Excess (deficiency) of revenues over (under) expenditures	 342,180	 (54,501)	 (35,464)	 252,215
 FUND BALANCES, beginning of year	 2,620,574	 <u>17,394</u>	 <u>1,223,750</u>	 <u>3,861,718</u>
 PRIOR PERIOD ADJUSTMENT	 <u>83,935</u>			 <u>83,935</u>
 FUND BALANCES, end of year	 \$ <u>3,046,689</u>	 \$ <u>(37,107)</u>	 \$ <u>1,188,286</u>	 \$ <u>4,197,868</u>

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

City of Lakeland, Tennessee
**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL GOVERNMENTAL FUND TYPES**
For the Fiscal Year Ended June 30, 2002

	General Fund			Special Revenue Fund			Total (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:									
Taxes	\$ 163,000	\$ 195,587	\$ 32,587	\$ -	\$ -	\$ -	\$ 163,000	\$ 195,587	\$ 32,587
Licenses and permits	110,050	82,168	(27,882)	-	-	-	110,050	82,168	(27,882)
Intergovernmental	1,189,800	1,253,934	64,134	-	-	-	1,189,800	1,253,934	64,134
Fees for services	58,800	110,548	51,748	420,000	448,772	28,772	478,800	559,320	80,520
Other	109,000	119,278	10,278	-	-	-	109,000	119,278	10,278
Total revenues	<u>1,630,650</u>	<u>1,761,515</u>	<u>130,865</u>	<u>420,000</u>	<u>448,772</u>	<u>28,772</u>	<u>2,050,650</u>	<u>2,210,287</u>	<u>159,637</u>
EXPENDITURES:									
Current:									
General government	958,675	784,766	173,909	-	-	-	958,675	784,766	173,909
Public safety	14,400	8,316	6,084	-	-	-	14,400	8,316	6,084
Public works	74,775	220,165	(145,390)	420,000	503,273	(83,273)	494,775	723,438	(228,663)
Health, culture, welfare and recreation	46,800	79,745	(32,945)	-	-	-	46,800	79,745	(32,945)
Capital outlay	437,000	326,343	110,657	-	-	-	437,000	326,343	110,657
Operating expenses	-	-	-	-	-	-	-	-	-
Total expenditures	<u>1,531,650</u>	<u>1,419,335</u>	<u>112,315</u>	<u>420,000</u>	<u>503,273</u>	<u>(83,273)</u>	<u>1,951,650</u>	<u>1,922,608</u>	<u>29,042</u>
Excess (deficiency) of revenues over (under) expenditures \$	<u>99,000</u>	342,180	<u>243,180</u>	<u>-</u>	(54,501)	<u>(54,501)</u>	<u>99,000</u>	287,679	<u>188,679</u>
FUND BALANCES, beginning of year		2,620,574			17,394			2,637,968	
PRIOR PERIOD ADJUSTMENT		83,935						83,935	
FUND BALANCES, end of year		<u>\$ 3,046,689</u>			<u>\$ (37,107)</u>			<u>\$ 3,009,582</u>	

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

City of Lakeland, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Defining the Entity

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

2. Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise the fund's assets, liabilities, fund balance, revenues and expenses or expenditures. Resources are allocated to each fund and accounted for based on the purpose for which they are to be spent and the means of controlling the spending activities. The individual funds are grouped with-in the financial statements in three generic fund types and four generic funds as follows:

a. Governmental Fund Types

Governmental Funds are those through which most government functions are financed. A governmental fund's measurement focus is on the determination of financial position and changes in financial position. The City employs two types of governmental funds.

(1) General Fund

Transactions relating to resources obtained and used for delivery of those services traditionally provided by a city government, which is not accounted for in other funds, are accounted for in the General Fund. Those services included, among other things, general government, public safety, public works, culture and recreation and certain courts.

(2) Special Revenue Fund

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

City of Lakeland, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

(a) **Solid Waste Fund**

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

(b) **State Street Aid Fund**

The State Street Aid Fund accounts for the receipts and expenditures of Street Aid received from the State of Tennessee.

b. Fiduciary Fund Types

Fiduciary funds are used to account for transactions relating to assets that the government holds on behalf of others as agent. The following fund comprised the fiduciary fund:

(1) **Trust and Agency Fund**

The Trust and Agency Fund accounts for the assets of the City employees' deferred compensation plan.

c. Proprietary Fund Types

Proprietary funds are used to account for the organizations and activities of the City that are similar to those often found in private enterprises. The measurement focus is on the determination of net income, financial position and cash flows. The following fund comprises the proprietary fund:

(1) **Enterprise Fund**

Enterprise funds account for operations (a) that are financed and operated in a manner similar to private enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The enterprise fund accounts for the operations of the sewer department. Operating revenues are derived from customer service charges.

City of Lakeland, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

d. Account Groups

Account groups are used to establish accounting control and accountability of specific items. The account groups are not funds and do not reflect available financial resources and related liabilities; they are account records. The account groups used by the City are as follows:

- (1) **General Fixed Assets** account group accounts for all fixed assets of the City except for those accounted for in the Proprietary Funds.
- (2) **General Long-Term Debt** account group accounts for all long-term debt and compensated absences of the City except those amounts accounted for in the Proprietary Fund.

3. Basis of Accounting

Basis of accounting relates to the timing and measurement of revenues and expenditures or expenses reported in the financial statements.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred, except for general long-term debt services (maturing principal, interest and fiscal charges) and compensated absences which are recorded when earned.

In applying the "susceptible to accrual" concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. There are essentially two types of these revenues. In one case, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon expenditures. In the other case, monies are virtually unrestricted as to the purpose of the expenditures and are revocable only for the failure to comply with prescribed compliance requirements, such as equal opportunity employment. These sources are reflected as revenues at the time of receipt, or earlier if they are "susceptible to accrual".

Sales taxes are considered "measurable" when in the hands of the intermediary collecting agent and are recognized as revenue when susceptible to accrual. Licenses and permits, charges for services, fines and forfeits, and miscellaneous revenues (except for investment earnings) are recorded as revenues when received because they are generally not measurable until they are received. Investment earnings are recorded when earned since they are measurable and available.

City of Lakeland, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

The Proprietary Fund uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded as earned and expenses are recorded as incurred.

The City has elected to use Alternative 1 of GASB-20, by which proprietary fund accounting must follow (1) all GASB pronouncements and (2) FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

4. Budgetary Data

The revenues and expenditures accounted for in all governmental fund types are controlled by a formal integrated budgetary accounting system. The Mayor and Board of Commissioners' approve annually the budgets for these funds. Budgetary control is maintained at the government wide level by total expenditures and expenditures may not exceed funds budgeted, which constitute the legal spending limit. Unexpended appropriations lapse at the year-end. Management may not amend the budget without approval of the governing body. The same basis of accounting is used to reflect actual revenue and expenditures recognized on an accounting principle generally accepted in the United States of America basis.

5. Total Columns on Combined Statements

Total columns on the general-purpose financial statements are captioned "Memorandum Only" to indicate that they are only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with accounting principles generally accepted in the United States of America. The data is not comparable to a consolidation; inter-fund eliminations have not been made in the aggregation of this data.

6. Cash and Investments:

Cash: The City's cash accounts consist of demand and money market accounts.

Investments: State statutes authorize the City to invest in certificates of deposit, obligations of the U.S. Treasury, government agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, and repurchase agreements.

7. Statement of Cash Flows:

For purposes of the statement of cash flows, the Proprietary Fund considers all highly liquid investments (including restricted assets, if any) with maturities of three months or less when purchased to be cash equivalents.

City of Lakeland, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

8. Estimated Uncollectible Receivables:

No allowance for uncollectible accounts is recorded in the General Fund. Bad debts are recorded on the direct write-off method. An allowance for uncollectible accounts based on historical experience is immaterial to the financial statements.

9. Fixed Assets:

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition, construction and interest cost are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Public domain (“infrastructure”) general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the government.

Assets in the general fixed assets account group are not depreciated.

All Enterprise Funds are accounted for on a cost of service measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Enterprise Fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by Enterprise Funds is charged against their operations. Accumulated depreciation is reported on Enterprise Fund balance sheets. Depreciation has been provided for over the following estimated useful lives using the straight-line method:

Sanitation equipment	3 – 10 years
Furniture and fixtures	3 – 10 years
Buildings	20 years
Machinery and equipment	3 – 10 years
Water and Sewer system	35 – 40 years

City of Lakeland, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

10. Compensated Absences:

The General Fund records as expenditures the vacation accrued during the year that would normally be liquidated with expendable available financial resources. Employees accumulate vacation days and in the event of termination employees are reimbursed for accumulated vacation up to a maximum of 20 days. All City employees accrue sick leave to a maximum of 90 days. However, employees retain no vested interest in their unused sick leave. Vacation leave accumulations at June 30, 2002, totaled \$12,540 and are included in the General Long-Term Debt Account Group.

11. Fund Equity:

Reserves represent those portions of fund equity not appropriable for expenditures or legally segregated for a specific future use. Designated fund balance represents tentative plans for future use financial resources.

12. Intergovernmental Revenues:

State shared taxes are recorded as revenue when the City is entitled to the funds.

NOTE B – CASH AND INVESTMENTS

Deposits: At year-end the carrying amount of the City's deposits was \$680,368, and the bank balance was \$856,778. Of the bank balance \$295,026 was covered by the federal depository insurance and the remaining \$561,752 covered by collateral held by the City's agent in the City's name.

Investments: The City's investments at June 30, 2002, consisted of certificates of deposits in the general fund and investment for the deferred compensation plan as follows:

	<u>Carrying Amount</u>	<u>Market Value</u>
Certificate of deposit	\$ 2,451,878	\$ 2,451,878
Aetna Life Insurance Company - various mutual funds	<u>156,075</u>	<u>156,075</u>
	<u>\$ 2,607,953</u>	<u>\$ 2,607,953</u>

The \$2,451,878 held in Certificates of Deposit was covered by collateral held by the City's agent in the City's name.

City of Lakeland, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE C – INTERGOVERNMENTAL RECEIVABLES

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

NOTE D – CHANGES IN FIXED ASSETS

A summary of changes in general fixed assets follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfer to Enterprise Fund</u>	<u>Ending Balance</u>
GENERAL GOVERNMENT					
General administration	\$ <u>1,002,869</u>	\$ <u>32,173</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,035,042</u>
PUBLIC WORKS					
Streets and highways	<u>374,078</u>	<u>118,711</u>	<u>-</u>	<u>-</u>	<u>492,789</u>
HEALTH, WELFARE, CULTURE AND RECREATION					
Parks	<u>1,247,082</u>	<u>194,601</u>	<u>-</u>	<u>-</u>	<u>1,441,683</u>
Total general fund fixed assets	\$ <u>2,624,029</u>	\$ <u>345,485</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,969,514</u>

A summary of proprietary fund property, plant and equipment at June 30, 2002 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfer from General Fund Assets</u>	<u>Ending Balance</u>
Land	\$ 80,682	\$ -	\$ -	\$ 80,682
Sewer plant	2,358,186	-	-	2,358,186
Improvements	<u>224,247</u>	<u>-</u>	<u>-</u>	<u>224,247</u>
Total property, plant and equipment	2,663,115	-	-	2,663,115
Less accumulated depreciation	<u>(352,721)</u>	<u>(64,561)</u>	<u>-</u>	<u>(417,282)</u>
Net book value	\$ <u>2,310,394</u>	\$ <u>(64,561)</u>	<u>-</u>	\$ <u>2,245,833</u>

City of Lakeland, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE E – DEFERRED COMPENSATION PLAN

The City of Lakeland offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan available to all City employees permits them to defer a portion of their salary until future years. Participation in the plan is optional. For employees who elect to participate, the City contributes 8.5% of pay for salaried employees and 7.5% of pay for hourly employees. Employees contribute a minimum of 2% of pay up to a combined total contribution of \$7,500. The deferred compensation is not available to employees until termination, retirement, death or certain unforeseeable emergencies. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the government, subject only to the claims of the government's general creditors. Participants' rights under the plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

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

The plan's trustee manages investments.

NOTE F – LITIGATION

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

NOTE G – CHANGES IN LONG-TERM DEBT

A summary of Long-Term Debt transactions for the year ended June 30, 2002, is as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending</u> <u>Balance</u>
Accrued Vacation	\$ 12,540	\$ -	\$ -	\$ 12,540

Due to the nature of the obligation for accrued vacation, annual requirements to amortize such obligations are not deferrable and have not been presented.

City of Lakeland, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE H – RISK MANAGEMENT

The City of Lakeland, Tennessee, is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City decided it was more economically feasible to join a public entity risk pool as opposed to purchasing commercial insurance for general liability, auto liability, errors and omissions and auto physical damage coverage. The City joined the Tennessee Municipal League Risk Pool (Pool), which is a public entity risk pool established in 1979 by the Tennessee Municipal League. The City pays annual premiums to the Pool for its general liability, auto liability, real and personal property damage, workmen's compensation and errors and omissions policies. The Pool provides the specified coverage and pays all claims from its member premiums charged or through its reinsurance policies. The City's premiums are calculated based on its prior claims history. It is the policy of the City to purchase commercial insurance for the risks of employee dishonesty. Settled claims have not exceeded this commercial coverage or the coverage provided by the Pool in any of the past three years.

NOTE I – PRIOR PERIOD ADJUSTMENT

An error in recording interest income occurred in the June 30, 2001 audit. General Fund assets and interest income were understated by \$83,935.

City of Lakeland, Tennessee
GENERAL FUND BALANCE SHEET
June 30, 2002

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 283,704
Investments	2,451,878
Receivables:	
Intergovernmental	292,942
Advances to other funds	<u>117,059</u>
 Total current assets	 \$ <u>3,145,583</u>

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES -

Accounts payable	\$ 25,044
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OTHER LIABILITIES -

Refundable deposits	<u>73,850</u>
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Total liabilities	<u>98,894</u>
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FUND EQUITY:

Unreserved, designated for Parks	22,143
Unreserved, undesignated	<u>3,024,546</u>

Total fund equity	<u>3,046,689</u>
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Total liabilities and fund equity	\$ <u>3,145,583</u>
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The accompanying notes are an integral part of the financial statements.

City of Lakeland, Tennessee
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For The Fiscal Year Ended June 30, 2002

	Budget	Actual	Variance- Favorable (Unfavorable)
REVENUES:			
Local Taxes:			
Wholesale beer tax	\$ 33,000	\$ 40,648	\$ 7,648
Business taxes	70,000	91,682	21,682
Cable TV franchise tax	60,000	63,257	3,257
Total local taxes	163,000	195,587	32,587
Licenses and Permits:			
Building permits	30,000	53,603	23,603
Inspection fees	24,000	4,900	(19,100)
Other permits	56,050	23,665	(32,385)
Total licenses and permits	110,050	82,168	(27,882)
Intergovernmental Revenue:			
Local option sales tax	760,000	734,786	(25,214)
TVA payments in lieu of taxes	38,000	45,998	7,998
State grants	-	10,000	10,000
State sales tax	334,000	405,793	71,793
State income tax	42,000	38,399	(3,601)
State beer tax	2,800	3,353	553
State street and transportation	13,000	15,605	2,605
Total intergovernmental	1,189,800	1,253,934	64,134
Fees for Services:			
Street improvements	-	60,000	60,000
Park - rental fees	15,000	1,050	(13,950)
Developer fees for park land	43,800	46,000	2,200
Soccer recreation fees	-	5,605	5,605
Other professional fees	-	(2,107)	(2,107)
Total fees for services	58,800	110,548	51,748
Other:			
Interest earned	104,000	107,764	3,764
Park equipment donations	-	18,480	18,480
Other	5,000	(6,966)	(11,966)
Total other	109,000	119,278	10,278
Total revenues	\$ 1,630,650	\$ 1,761,515	\$ 130,865

(Continued)

City of Lakeland, Tennessee
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For The Fiscal Year Ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
EXPENDITURES:			
General Government:			
Salaries - permanent employees	\$ 166,575	\$ 211,487	\$ (44,912)
Wages - permanent employees	237,650	81,632	156,018
Wages - overtime	22,000	6,264	15,736
Wages - temporary employees	36,000	6,880	29,120
Payroll taxes	74,200	26,172	48,028
Hospital and health insurance	34,500	31,330	3,170
Retirement	40,500	26,912	13,588
Employee education and training	5,000	5,426	(426)
Uniform	2,800	379	2,421
Board of Commissioners	18,000	16,200	1,800
Communication and transportation	1,500	1,494	6
Printing and duplicating	5,000	3,137	1,863
Publicity, subscriptions and dues	9,000	13,815	(4,815)
Electric	7,200	6,341	859
Water	500	346	154
Gas	3,000	1,318	1,682
Telephone	10,000	21,088	(11,088)
Legal services	100,000	53,540	46,460
Accounting and auditing	10,000	35,789	(25,789)
Architectural and engineering	20,000	73,059	(53,059)
Data processing services	6,000	5,690	310
Other professional services	15,000	35,442	(20,442)
Supplies	24,400	41,461	(17,061)
Insurance	82,300	27,756	54,544
Gross receipts payback	10,000	13,724	(3,724)
Repair and maintenance services	50	2,637	(2,587)
Travel	2,500	24,912	(22,412)
Other contractual services	<u>15,000</u>	<u>10,535</u>	<u>4,465</u>
 Total general government	 \$ <u>958,675</u>	 \$ <u>784,766</u>	 \$ <u>173,909</u>

(Continued)

City of Lakeland, Tennessee
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For The Fiscal Year Ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
EXPENDITURES (Cont.)			
Public Safety:			
Ambulance Services:			
Contractual services	\$ 3,600	\$ 3,501	\$ 99
Tennessee One Call	6,000	-	6,000
Civil Defense:			
Other contractual services	<u>4,800</u>	<u>4,815</u>	<u>(15)</u>
Total public safety	<u>14,400</u>	<u>8,316</u>	<u>6,084</u>
Public Works:			
Highways and Streets:			
Wages	-	80,113	(80,113)
Overtime wages	-	8,079	(8,079)
Payroll taxes	-	7,165	(7,165)
Health insurance	-	11,771	(11,771)
Uniforms	-	1,894	(1,894)
Electric	1,000	1,261	(261)
Other professional services	2,000	-	2,000
Repairs and maintenance - other	-	67,703	(67,703)
Contracted services	2,775	20,835	(18,060)
Sundry	5,200	1,934	3,266
Office supplies	200	-	200
Gas, oil and fuel	25,000	956	24,044
Repair parts	15,000	(254)	15,254
Tools	1,500	1,584	(84)
Sign parts and supplies	4,500	6,206	(1,706)
Gravel and sand	6,000	345	5,655
Machinery and equipment rental	1,000	-	1,000
Street lighting	<u>8,000</u>	<u>8,665</u>	<u>(665)</u>
Total highway and streets	72,175	218,257	(146,082)
Weed and Mosquito Control-			
Chemical, lab and medical	<u>2,600</u>	<u>1,908</u>	<u>692</u>
			-
Total public works	\$ <u>74,775</u>	\$ <u>220,165</u>	\$ <u>(145,390)</u>

(Continued)

City of Lakeland, Tennessee
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For The Fiscal Year Ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
EXPENDITURES (Cont.)			
Health, culture, welfare and recreation			
Salaries	\$ -	\$ 13,154	\$ (13,154)
Wages	-	5,539	(5,539)
Overtime wages	-	345	(345)
Payroll taxes	-	1,560	(1,560)
Electric	3,500	2,674	826
Water	220	792	(572)
Gas	2,800	2,401	399
Repair and maintenance - building	1,500	857	643
Repair and maintenance - other	1,500	2,733	(1,233)
Other contractual services	8,200	19,665	(11,465)
Sundry	1,500	2,094	(594)
Office supplies	-	372	(372)
Chemical, laboratory, medical	-	394	(394)
July 4th community activity	3,500	7,863	(4,363)
Painting and plumbing supplies	500	1,354	(854)
Repair parts	1,500	533	967
Gravel and sand	2,500	5,409	(2,909)
Object not in use	1,300	625	675
Sign parts	780	1,228	(448)
Other professional services	17,500	3,992	13,508
Park activities	-	6,161	(6,161)
Total parks and recreation center	<u>46,800</u>	<u>79,745</u>	<u>(32,945)</u>
Capital Outlay:			
General - building	128,500	1,800	126,700
General - computer equipment	9,000	15,031	(6,031)
General - machinery	115,000	3,965	111,035
Parks and recreation facilities	125,000	179,781	(54,781)
Vehicles	30,000	69,540	(39,540)
Public works - machinery and equipment	<u>29,500</u>	<u>56,226</u>	<u>(26,726)</u>
Total capital outlay	<u>437,000</u>	<u>326,343</u>	<u>110,657</u>
Total expenditures	<u>1,531,650</u>	<u>1,419,335</u>	<u>112,315</u>
Excess (deficiency) of revenues over (under) expenditures	\$ <u>99,000</u>	342,180	\$ <u>243,180</u>

(Continued)

City of Lakeland, Tennessee
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For The Fiscal Year Ended June 30, 2002

	Budget	Actual	Variance- Favorable (Unfavorable)
FUND BALANCE, beginning of year		2,620,574	
PRIOR PERIOD ADJUSTMENT		83,935	
FUND BALANCE, end of year		\$ 3,046,689	

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

City of Lakeland, Tennessee
SPECIAL REVENUE FUND BALANCE SHEET
June 30, 2002

LIABILITIES AND FUND EQUITY

Due to general fund	\$ 37,107
Fund equity - unreserved	<u>(37,107)</u>
 Total liabilities and fund equity	 \$ <u><u>-</u></u>

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

City of Lakeland, Tennessee
SPECIAL REVENUE FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For The Fiscal Year Ended June 30, 2002

	State Street Aid Actual	Solid Waste Actual	Totals	Budget	Variance- Favorable (Unfavorable)
REVENUES:					
Charges for services:					
State revenues	\$ 186,823	\$ -	\$ 186,823	\$ 165,000	\$ 21,823
Refuse collection and disposal	-	261,949	261,949	255,000	6,949
Total revenues	<u>186,823</u>	<u>261,949</u>	<u>448,772</u>	<u>420,000</u>	<u>28,772</u>
EXPENDITURES:					
Current:					
Public works:					
Roads	186,823		186,823	165,000	(21,823)
Garbage collection and disposal collection fees	-	316,450	316,450	255,000	(61,450)
Total expenditures	<u>186,823</u>	<u>316,450</u>	<u>503,273</u>	<u>420,000</u>	<u>(83,273)</u>
Excess (deficiency) of revenues over (under) expenditures	-	(54,501)	(54,501)	<u>-</u>	<u>\$(54,501)</u>
FUND BALANCES, beginning of year	<u>-</u>	<u>17,394</u>	<u>17,394</u>		
FUND BALANCES, end of year	<u>\$ -</u>	<u>\$ (37,107)</u>	<u>\$ (37,107)</u>		

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

City of Lakeland, Tennessee
ENTERPRISE FUND
BALANCE SHEET
June 30, 2002

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 396,664
Accounts receivable	<u>17,658</u>
Total current assets	<u>414,322</u>

PROPERTY, PLANT AND EQUIPMENT:

Land	80,682
Sewer fund and improvements	<u>2,582,433</u>
	2,663,115
Less Accumulated depreciation	<u>417,282</u>
Total property, plant and equipment - net	<u>2,245,833</u>
Total assets	\$ <u><u>2,660,155</u></u>

LIABILITIES, FUND EQUITY AND RETAINED EARNINGS

CURRENT LIABILITIES:

Accounts payable	\$ 380
Due to general fund	<u>79,952</u>
Total current liabilities	<u>80,332</u>

FUND EQUITY -

Contributed capital	1,391,537
Retained earnings	<u>1,188,286</u>
Total fund equity	<u>2,579,823</u>
Total liabilities and fund equity	\$ <u><u>2,660,155</u></u>

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

City of Lakeland, Tennessee
ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
For The Fiscal Year Ended June 30, 2002

REVENUES:

Sewer user fees	\$	180,085
Other fees		9,714
		189,799
Total revenue		189,799

OPERATING EXPENSES:

Wages		60,774 ✓
Overtime wages		10,496 ✓
Payroll taxes		5,507 ✓
Insurance		11,947 ✓
Retirement		2,479 ✓
Uniforms		713 ✓
Communications		999
Supplies		2,185
Electric		57,407 ✓
Telephone		652 ✓
Legal		45,987 ✓
Other professional services		5,693
Repairs and maintenance		74,545 ✓
Contracted service		4,996
Collection fees		2,648 ✓
Chemicals/lab		14,584 ✓
Repair parts		26,330 ✓
Roads, streets and parking		6,599
Other operating expenses		4,161
Depreciation		64,561 ✓
Total operating expenses		403,263
Net income (loss) from operations		(213,464)

City of Lakeland, Tennessee
ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
For The Fiscal Year Ended June 30, 2002

OTHER NON-OPERATING REVENUES AND EXPENSE:

Connection fees	52,000
Developer fees	74,000
Renewal and replacement fees	<u>52,000</u>
Total non-operating revenues	<u>178,000</u>
Net income (loss)	(35,464)
RETAINED EARNINGS, beginning of year	<u>1,223,750</u>
RETAINED EARNINGS, end of year	<u><u>\$ 1,188,286</u></u>

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

City of Lakeland, Tennessee
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
For The Fiscal Year Ended June 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES:

Operating (loss)	\$ (35,464)
Adjustments to reconcile operating net (loss) to cash provided by operating activities:	
Depreciation	64,561
Decrease in accounts payable	(112,120)
Increase in due to other funds	30,460
	<hr/>
Total cash flows provided by operating activities	(52,563)
CASH AND CASH EQUIVALENTS, beginning of year	<hr/> 449,227
CASH AND CASH EQUIVALENTS, end of year	<hr/> <u>\$ 396,664</u>

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

City of Lakeland, Tennessee
DEFERRED COMPENSATION AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Fiscal Year Ended June 30, 2002

	<u>Balance</u> <u>June 30, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2002</u>
ASSETS-				
Investments	\$ <u>154,772</u>	\$ <u>1,303</u>	\$ <u>-</u>	\$ <u>156,075</u>
 LIABILITIES-				
Deferred compensation benefits payable	\$ <u>154,772</u>	\$ <u>1,303</u>	\$ <u>-</u>	\$ <u>156,075</u>

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

OTHER FINANCIAL INFORMATION

The other financial information section of this report includes information not required to be included in the General Purpose Financial Statements and is provided for the purpose of additional analysis.

City of Lakeland, Tennessee
SCHEDULE OF GENERAL FIXED ASSETS - BY FUNCTION AND ACTIVITY
 June 30, 2002

	<u>Land</u>	<u>Buildings</u>	<u>Improvements Other than Buildings</u>	<u>Machinery and Equipment</u>	<u>Total</u>
GENERAL GOVERNMENT					
General administration	\$ 62,607	\$ 718,784	\$ -	\$ 253,651	\$ 1,035,042
PUBLIC WORKS					
Streets and highways	-	-	-	492,789	492,789
HEALTH, WELFARE, CULTURE AND RECREATION					
Parks	894,200	241,539	98,992	206,952	1,441,683
Total general fund fixed assets	\$ 956,807	\$ 960,323	\$ 98,992	\$ 953,392	\$ 2,969,514

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

City of Lakeland, Tennessee
SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS
For The Fiscal Year Ended June 30, 2002

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfer to Enterprise Fund</u>	<u>Ending Balance</u>
GENERAL GOVERNMENT					
General administration	\$ <u>1,002,869</u>	\$ <u>32,173</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,035,042</u>
PUBLIC WORKS					
Streets and highways	<u>374,078</u>	<u>118,711</u>	<u>-</u>	<u>-</u>	<u>492,789</u>
HEALTH, WELFARE, CULTURE AND RECREATION					
Parks	<u>1,247,082</u>	<u>194,601</u>	<u>-</u>	<u>-</u>	<u>1,441,683</u>
Total general fund fixed assets	\$ <u>2,624,029</u>	\$ <u>345,485</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,969,514</u>

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

City of Lakeland, Tennessee
 SEWER ENTERPRISE FUND
 SCHEDULE OF RATES/CUSTOMERS
 June 30, 2002

*1928 in
2000
Amount*

	<u>Residential Service</u>	<u>Commercial Service</u>
Sewer Service:		
Number of Customers	<u>904</u>	<u>34</u>
Minimum Rate	\$ <u>11</u>	\$ <u>45</u>
Maximum Rate	\$ <u>30</u>	\$ <u>No limit</u>

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

City of Lakeland, Tennessee
SCHEDULE OF SALARIES AND BONDS OF PRINCIPAL OFFICIALS
June 30, 2002

<u>Name</u>	<u>Position</u>	<u>Annual Salary</u>	<u>Amount of Bond</u>
Scott Carmichael	Mayor	\$ 6,000	\$ 5,000
Patra B. Temple	Commissioner	3,000	
Mark Hartz	Commissioner	3,000	
Judy Bennett	Commissioner	3,000	
Gerrit Verschuur	Commissioner	3,000	

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

City of Lakeland, Tennessee
SCHEDULE OF INSURANCE IN FORCE
June 30, 2002

The Risk Management Pool TMP-3192-03	Property Insurance	100% Replacement \$2,587,068 Buildings and Personal Property, \$22,492 Electronic Data Processing Equipment, \$112,061 Mobile Equipment, \$2,699,129 Boiler, Machinery, Automatic Coverage's, \$1,000 Deductible for all coverage's
	Crime Coverage's	\$150,000 Employee Dishonesty, \$150,000 Forgery or Alteration, \$100,000 Theft Disappearance or Destruction, \$100,000 Computer Fraud, \$500 Deductible Employee Dishonesty, \$1,000 Deductible Forgery or Alteration
The Risk Management Pool TML-067-03	General Liability and Personal Injury	\$130,000/\$350,000 Bodily Injury Tort Liability, \$50,000 Property Damage Tort Liability, \$50,000 Fire Damage, \$50,000 Each, Impounded Property, \$1,000 per Person, \$10,000 per Accident Medical Payment, \$1,000,000 Each, Other Loss \$50,000 non-monetary defense loss
	Automobile Liability	\$130,000/\$350,000 Bodily Injury; \$50,000 Property Damage; \$1,000,000 Per Occurrence; \$1,000 per person, \$10,000 Per Accident Medical Payments
	Uninsured Motorist	\$60,000 Per Occurrence Bodily Injury; \$50,000 Property Damage
	Comprehensive	\$500 Deductible Per Occurrence
	Collision	\$500 Deductible Per Occurrence
	Errors or Omissions	\$1,000,000 Per Occurrence; \$1,000 Deductible
The Risk Management Pool TWC-0394-02	Workman's Compensation	\$130,000 Bodily injury Each Accident; \$350,000 Bodily Injury by Policy Limit; \$130,000 Each Employee by Disease
American States Insurance Company EX972377	Recorder - Bond	\$20,000
American States Insurance Company 5996088	City Manager - Bond	\$20,000
American States Insurance Company EX-977661	Mayor - Bond	\$10,000
American States Insurance Company 5996090	City Clerk / Deputy City Recorder - Bond	\$10,000
American States Insurance Company E981436	Bookkeeper - Bond	\$10,000

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

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

We have audited the general purpose financial statements of the City of Lakeland, Tennessee (the City), and the combining, individual fund and account group financial statements and schedules as of and for the year ended June 30, 2002, and have issued our report thereon dated December 2, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements and the combining, individual fund and account group financial statements and schedules are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and combining, individual fund and account group financial statements and schedules and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in

amounts that would be material in relation to the general purpose financial statements and the combining, individual fund and account group financial statements and schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended solely for the information of the Mayor and Board of Commissioners, management, and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Germantown, Tennessee
December 2, 2002