

CITY OF LEXINGTON, NEBRASKA

FINANCIAL STATEMENTS

September 30, 2009

CITY OF LEXINGTON, NEBRASKA

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the city of Lexington, Nebraska presents this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2009. This discussion is to be considered in conjunction with the additional information provided in the transactions, events, and conditions reflected in the City's financial statements.

FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities by \$40,618,431 (net assets). Of this amount, \$3,452,380 (unrestricted net assets) may be used to meet the government's ongoing obligations to its citizens and creditors.

The City's total net assets increased by \$985,557 in comparison with the previous year. Of this amount, \$529,741 was the increase from governmental activities. This increase was due primarily to the additions to Capital Assets such as the Hike / Bike Trail and Monroe Street improvements, and a reduction in liabilities. Business-type activities net assets increased by \$455,816. Additions to Capital Assets such as the Walnut Overhead Distribution Conversion and the North Sub-station Feeder Conversion are primarily responsible for this increase.

The City's governmental funds reported combined ending fund balances of \$2,461,740, an increase of \$348,516 in comparison with the prior year. Of this total fund balance, 56%, or \$1,378,465 is available for spending at the City's discretion (unreserved fund balance).

The unreserved fund balance for the general fund was \$827,393, approximately 13 percent of total general fund expenditures.

The City's total long-term debt decreased \$884,983. This decrease is due to debt payments made during the year. The long-term debt balance includes bonded and non-bonded debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's basic financial statements are comprised of three components: 1) the government-wide financial statements 2) fund financial statements and 3) notes to the financial statements. In addition to the basic financial statements this report contains supplementary information.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two being reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the position of the City is improving or declining.

The *statement of activities* presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the event causing the change occurs,

regardless of the timing of the related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a portion of their costs through user fees and charges (business-type activities). Governmental activities of the City include general administrative services, planning and zoning, public safety, aging services, library, aquatic, recreation and parks, cemeteries, and streets. Also included are economic development and housing as well as debt service. Business-type activities include electric, water, sewer, sanitation, landfill, and ambulance.

The government-wide financial statements include not only the City of Lexington itself (known as the primary government), but also a legally separate City of Lexington Community Redevelopment Authority for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government.

The government-wide financial statements can be found on pages 3-5 of the report.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific purposes. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All City funds are divided into three categories: governmental, proprietary, and fiduciary.

Governmental Funds

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

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

The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated

presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for all its funds. A budgetary comparison statement has been provided for all funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 6-10 of this report.

Proprietary Funds

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water, sewer, sanitation, landfill, and ambulance. Internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its health fund and central garage. Because these services benefit both governmental and business-type functions, they have been allocated to the governmental and business-type activities in the government-wide financial statements based on usage.

Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric, water, sewer, sanitation, landfill, and ambulance; all except the ambulance fund are considered to be major funds of the City. Internal service funds are also presented individually in the proprietary fund financial statement section.

The basic proprietary fund financial statements can be found on pages 11-15 of the report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Currently, the city of Lexington has no fiduciary funds as defined by the Governmental Accounting Standards Board.

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.

Notes to the financial statements can be found on pages 16 – 38 of the report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This analysis requires focus on the current-year results in comparison with the prior year and the positive and negative aspects of this comparison.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the city of Lexington, assets exceeded liabilities by \$40,618,431 at September 30, 2009.

By far, the largest portion of the City's net assets (80 percent) reflects its investment in capital assets (e.g., land, buildings, improvements, utility plant, infrastructure, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

City of Lexington
Condensed Statement of Net Assets
September 30, 2009

	Governmental Activities		Business Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and Other Assets	4,491,046	4,423,226	6,984,206	7,432,953	11,475,252	11,856,179
Capital Assets	23,868,383	23,983,432	23,329,936	22,410,522	47,198,319	46,393,954
Total Assets	28,359,429	28,406,658	30,314,142	29,843,475	58,673,571	58,250,133
Long-Term Liabilities						
Outstanding	4,548,497	5,044,362	10,275,962	10,705,049	14,824,459	15,749,411
Other Liabilities	1,467,081	1,548,188	1,763,597	1,319,660	3,230,678	2,867,848
Total Liabilities	6,015,578	6,592,550	12,039,559	12,024,709	18,055,137	18,617,259
Net Assets:						
Invested in Capital Assets						
net of related debt	18,798,740	18,402,377	13,487,648	12,194,666	32,286,388	30,597,043
Restricted	703,142	425,109	4,176,521	4,811,199	4,879,663	5,236,308
Unrestricted	2,841,967	2,986,622	610,413	812,901	3,452,380	3,799,523
Total Net Assets	\$ 22,343,849	\$ 21,814,108	\$ 18,274,582	\$ 17,818,766	\$ 40,618,431	\$ 39,632,874

An additional portion of the City's net assets, 11 percent, represents resources that are subject to external restrictions on their use. The remaining balance of unrestricted net assets, 9% (\$3,452,380) may be used to meet the government's ongoing obligations to citizens and creditors.

At September 30, 2009, the City is able to report positive balances in all three categories of net assets; for the government as a whole, as well as for its separate governmental and business-type activities.

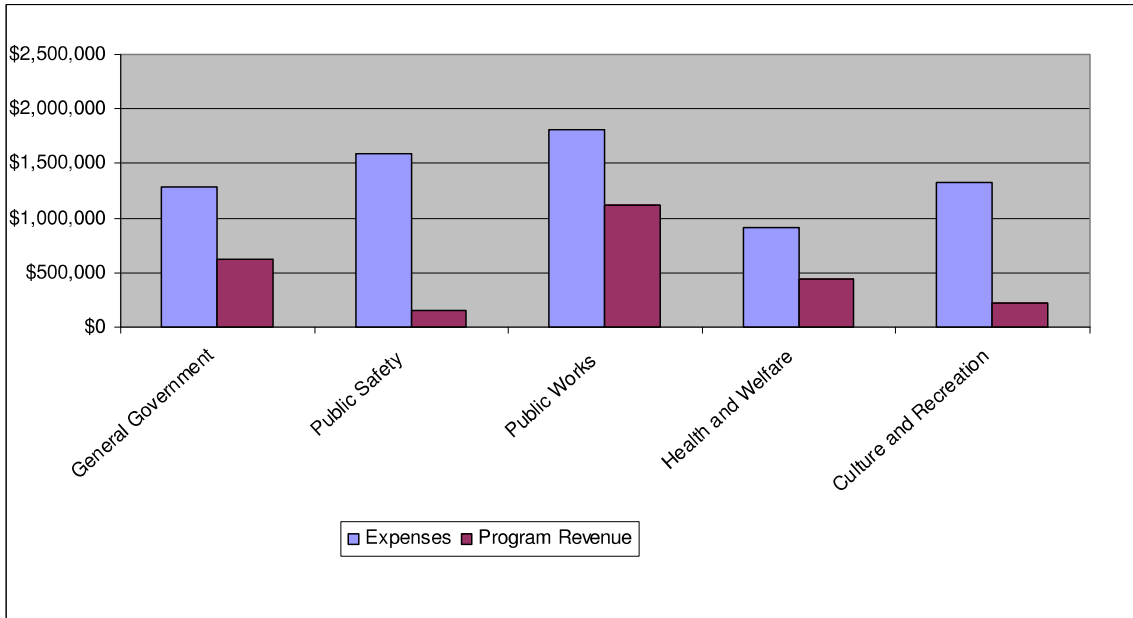
City of Lexington
Condensed Statement of Activities and Change in Net Assets
for the Year Ended September 30, 2009

	Governmental Activities		Business Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program Revenues:						
Charges for Services	1,084,886	1,487,540	16,019,740	14,222,937	17,104,626	15,710,477
Operating Grants & Contributions	995,469	1,017,207	-	-	995,469	1,017,207
Capital Grants & Contributions	484,025	646,662	49,701	49,701	533,726	696,363
General Revenues:						
Property and Other Taxes	1,632,393	1,587,810		-	1,632,393	1,587,810
Sales and Use Tax	1,787,650	1,815,123		-	1,787,650	1,815,123
Franchise Taxes	971,304	901,846		-	971,304	901,846
Intergovernmental	157,016	262,650	13,141	82,917	170,157	345,567
Interest	45,572	67,162	86,322	113,978	131,894	181,140
Miscellaneous	269,879	256,133		2,402	269,879	258,535
Gain (Loss) on Sale of Assets	-	-		(12,000)	-	(12,000)
Transfers	18,000	(159,508)	(18,000)	159,508	-	-
Total Revenues	<u>7,446,194</u>	<u>7,882,625</u>	<u>16,150,904</u>	<u>14,619,443</u>	<u>23,597,098</u>	<u>22,502,068</u>
Expenses:						
General Government	1,283,400	1,187,647			1,283,400	1,187,647
Public Safety	1,590,688	1,813,249			1,590,688	1,813,249
Public Works	1,805,951	1,882,428			1,805,951	1,882,428
Health and Welfare	908,017	691,915			908,017	691,915
Culture and Recreation	1,328,397	1,261,909			1,328,397	1,261,909
Utilities / Ambulance			15,695,088	14,517,050	15,695,088	14,517,050
Total Expenses	<u>6,916,453</u>	<u>6,837,148</u>	<u>15,695,088</u>	<u>14,517,050</u>	<u>22,611,541</u>	<u>21,354,198</u>
Change In Net Assets	529,741	1,045,477	455,816	102,393	985,557	1,147,870
Net Assets 10-01-2008	<u>21,814,108</u>	<u>20,768,631</u>	<u>17,818,766</u>	<u>17,716,373</u>	<u>39,632,874</u>	<u>38,485,004</u>
Net Assets 09-30-2009	<u>\$ 22,343,849</u>	<u>\$ 21,814,108</u>	<u>\$ 18,274,582</u>	<u>\$ 17,818,766</u>	<u>\$ 40,618,431</u>	<u>\$ 39,632,874</u>

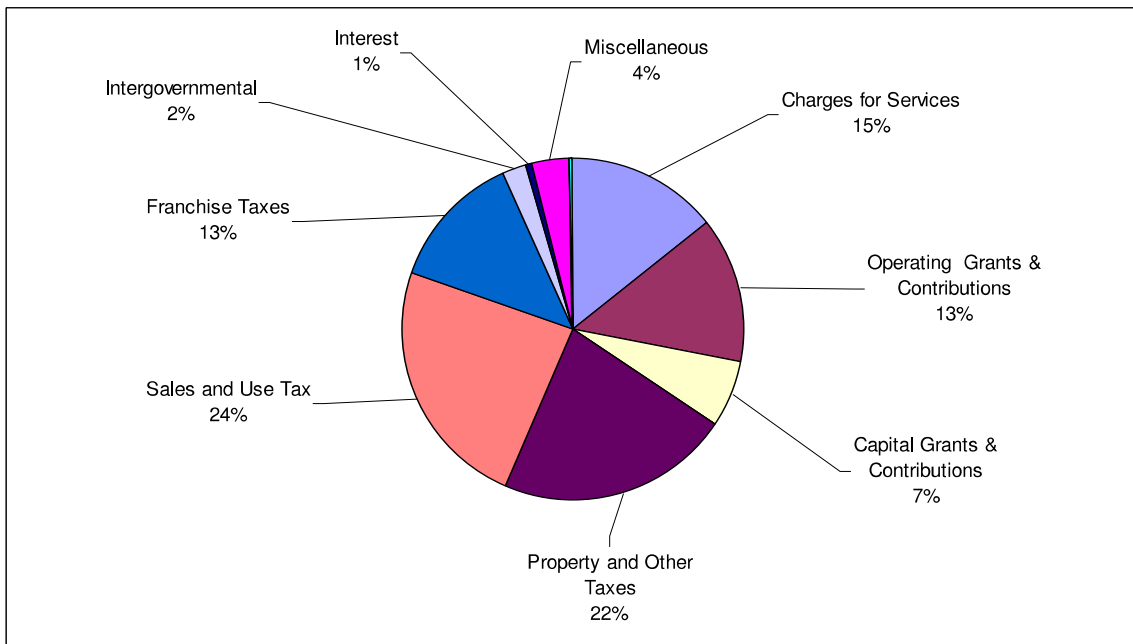
GOVERNMENTAL ACTIVITIES

Governmental activities increased the City’s net assets by \$529,741, accounting for 54 percent of the total growth in the net assets of the City.

Expense and Program Revenues – Governmental Activities



Revenue by Source – Governmental Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

GOVERNMENTAL FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of September 30, 2009, the City's governmental funds reported combined ending fund balances of \$2,461,740 an increase of \$348,516 in comparison with the prior year. Of the \$2.46 million, 56 percent constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance, 44 percent, is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts of the prior period.

The general fund is the chief operating fund of the City. At September 30, 2009, the unreserved fund balance of the general fund was \$827,393 while total fund balance was \$1,246,569. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 13 percent of total general fund expenditures.

PROPRIETARY FUNDS

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

Unrestricted net assets in the Proprietary Funds are \$610,413.

GENERAL FUND BUDGETARY HIGHLIGHTS

Major variances between revenues and expenditures and the adopted budget include the following:

- The General Fund budget revenue variance is a negative 19%, or approximately \$1,633,599. The General Fund budget expenditure variance is a positive 38%, or approximately \$3,795,105. These variances are primarily due to timing differences in federal aid projects

ALL FUNDS BUDGETARY COMPARISON

Actual combined revenue for all funds was comparable to the budget. Only an approximate 8% variance exists at year-end. All funds actual combined expenditures were also comparable to the budgeted amounts. Combined expenditures were approximately 3.6% under budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The City's capital assets for its government and business-type activities as of September 30, 2009, totals \$47,198,319 (net of accumulated depreciation). These capital assets include land, buildings, improvements, machinery and equipment, streets, bridges, storm sewers, electric plant, and water and sewer plant.

Major capital asset events during 2009 include the following:

- The City completed the Hike/Bike Trail spending \$403,352. The greatest portion of Monroe Street Improvements were completed at \$179,730. Legend Oaks paving was completed for \$73,130.
- The City spent \$83,356 on the Northwest Stormwater Detention Program, invested \$55,067 in the Recreation Complex Stadium, and another \$213,206 in other various smaller projects.
- Electric system projects included Walnut Street Sub-Station T2 Overhead Distribution improvements at \$1,045,828. The 34.5 Sub-T line continued at a cost of \$609,200. The North Sub Feeder Conversion made great progress for \$274,865. Other various projects totaled \$247,159.
- The Water department had only one major project and that for the Legend Oaks development at \$27,333.
- The Sewer department had two projects; the Secondary Digester was completed for \$72,214 this year, and the Legend Oaks development project was \$66,565.

City of Lexington
Capital Assets (net of depreciation)
September 30, 2009

	Governmental Activities		Business Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	3,097,527	3,080,915	329,520	329,520	3,427,047	3,410,435
Buildings and Improvements	5,864,266	6,004,196	5,302,354	5,634,256	11,166,620	11,638,452
Machinery and Equipment	1,519,752	1,377,680	1,019,397	1,109,076	2,539,149	2,486,756
Infrastructure	10,923,730	11,355,353			10,923,730	11,355,353
Utility Plant			12,273,375	13,267,985	12,273,375	13,267,985
Construction in Progress	2,463,108	2,165,287	4,405,290	2,069,686	6,868,398	4,234,973
Total	\$23,868,383	\$23,983,431	\$23,329,936	\$22,410,523	\$47,198,319	\$46,393,954

Additional Capital Asset information can be found in Note 6 on pages 27-28 of the report.

LONG-TERM DEBT

At September 30, 2009, the city of Lexington had total outstanding debt of \$14,911,928. Of this amount, \$3,410,000 is General Obligation bonded debt backed by the full faith and credit of the City. Combined Utilities Revenue bonded debt totals \$9,690,000. \$1,811,928 represents notes to finance equipment and other contracts approved by the City Council.

City of Lexington Total Outstanding Debt September 30, 2008 and 2009

	Governmental Activities		Business Type Activities		Total	
	2009	2008	2009	2008	2009	2008
GO Bonds	3,410,000	3,745,000			3,410,000	3,745,000
Revenue Bonds			9,690,000	9,990,000	9,690,000	9,990,000
Notes Payable	1,659,641	1,836,056	152,287	225,855	1,811,928	2,061,911
Total	\$ 5,069,641	\$ 5,581,056	\$ 9,842,287	\$ 10,215,855	\$ 14,911,928	\$ 15,796,911

The City's total debt decreased \$884,983 during fiscal 2009. Payments to reduce bonded debt as well as non-bonded debt are responsible for this decrease.

State statutes do not limit the amount of general obligation or revenue bond debt a Nebraska city may issue.

Additional long-term debt information can be found in Note 8 on pages 29-32 of the report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Sales tax collections have increased by an average 3.16% over the past five years. Fiscal 2010 collections through February 2010 show a slight decrease compared to 2009. The City has been notified that fiscal year, 2010, will be the year Cornhusker Energy receives a refund of sales tax paid during construction of the plant. That refund, is approximately \$352,000 and will reduce the City's incoming sales tax dollars. The City has budgeted appropriately to allow for that refund.
- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing the City's budget for the 2010 fiscal year.

BOND INFORMATION DEPOSITORY

The following information is included at the request of the City's bond counsel. This data is required to be filed with the Municipal Securities Rulemaking Board (MSRB) through the Electronic Municipal Market Assess (EMMA) system along with the annual financial report. This document will then include all the information required for submission.

Electric Rates:	Summer May 1-Sep 30	Winter Oct 1-Apr 30	Fiscal 2009	Commercial - Large:	Summer	Winter	35
Effective Dates:				Base Charge per Month	\$19.00	\$19.00	
Billing Dates:	June-Oct	Nov-May	# of	Plus Demand Charge per kW	\$12.50	\$11.93	
Resolution #:	09-31	09-31	Users	Plus Energy Charge per kWh	\$0.0412	\$0.0377	
Council Approved:	12/22/2009	12/22/2009					
Effective Date:	1/1/2010	1/1/2010		Industrial - Non-Interruptible:	Summer	Winter	1
Begin Billing Date:	1/1/2010	1/1/2010		Base Charge per Month	\$50.00	\$50.00	
				Plus Demand Charge per kW	\$11.31	\$10.86	
Residential - Basic:	Summer	Winter	2,142	Plus Energy Charge per kWh	\$0.0394	\$0.0332	
Base Charge per Month	\$15.00	\$15.00					
First 500 kWh	\$0.1140	\$0.0979		Irrigation: Non-Interruptible	All Year Rate		15
Over 500 kWh	\$0.0694	\$0.0474		Horsepower Charge, per HP	\$55.75		
Minimum Bill -	\$15.00	\$15.00		Plus all kWh, per kWh	\$0.0591		
Residential - All Electric:	Summer	Winter	1,206	Municipal Street Lights:	All Year Rate		N/A
Base Charge per Month	\$12.00	\$12.00		Base Charge per Month	\$2,500.00		
First 500 kWh	\$0.1124	\$0.0836		Plus All kWh, per kWh	\$0.0503		
Over 500 kWh	\$0.0673	\$0.0427					
Minimum Bill -	\$12.00	\$12.00		Municipal Power & Light:	All Year Rate		49
				Charge per Month per meter	\$12.00		
Commercial - Small:	Summer	Winter	485	Plus All kWh, per kWh	\$0.0532		
Base Charge per Month	\$15.00	\$15.00					
First 1,000 kWh	\$0.1320	\$0.1228		Yard Light Service:	Unmetered		75
Over 1,000 kWh	\$0.0750	\$0.0703		Charge per Month	\$10.00		
Minimum Bill -	\$15.00	\$15.00					
Commercial - Heat:	Summer	Winter	53	High Tension Service:	Summer	Winter	2
Base Charge per Month	\$15.00	\$15.00		Effective Dates:	June-Oct	Nov-May	
First 1,000 kWh	\$0.1324	\$0.1131		Billing Dates:	July-Nov	Dec-June	
Next 4,000 kWh	\$0.1108	\$0.0523		Energy time periods are as follows:			
Over 5,000 kWh	\$0.0673	\$0.0436		Summer On Peak	Mon - Sat	1001-2200	
Minimum Bill -	\$15.00	\$15.00		Off-Peak	All Other Hours		
				Winter On-Peak	Mon - Sat	0801-2200	
				Off-Peak	All Other Hours		
				All hours on New Years Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day shall be considered Off-Peak.			

The High Tension rate shall be based upon a cost-plus calculation obtained from real-time metering. The rate shall include the actual cost of wholesale electricity purchased plus a percentage added to cover the required electric utility margin. The High Tension rate will be calculated, charged, and managed buy the City Manager.

Water Rates:			Fiscal	Residential Sanitation:			Fiscal
Resolution #:	09-32			Resolution #:	09-29		
Council Approved:	12/22/2009		2009	Council Approved:	12/8/2009		2009
Effective Date:	1/1/2010		# of	Effective Date:	1/1/2010		# of
Begin Billing Date:	1/1/2010		Users	Begin Billing Date:	1/1/2010		Users
Residential Metered:	Monthly		2,399	Flat Rate Residential	Monthly \$14.00 (Daily usage will be prorated)		2,700
First 5,000 gallons	\$12.75	minimum per 1,000 gallons					
Over 5,000 gallons	\$0.85						88
Residential Flat Rate:	\$19.75 per dwelling unit		148				
Multi-Unit Service Fee:	\$6.75 per dwelling unit - with more than one dwelling unit served by a single meter		630	Residential customers who are 65 years or older and live alone may qualify for a rate of:	\$12.00 per month		
Commercial Metered:			443	Resolution #:	08-12		
First 5,000 gallons	\$12.75	minimum per 1,000 gallons		Council Approved:	5/13/2008		
Over 5,000 gallons	\$0.85			Effective Date:	6/1/2008		
				Begin Billing Date:	6/1/2008		
				End Billing Date:	4/30/2009		
Industrial Metered:	\$0.2244 per 1,000 gallons		1	This fee terminated by order of City Manager			
				FCA-Fuel Cost Adjustment	\$1.05		
Sanitary Sewer Rates:				Billed separate of regular sanitation fee.			
Resolution #:	08-24		Fiscal	This fee will not be prorated.			
Council Approved:	12/9/2008		2009				
Effective Date:	1/1/2009		# of				
Begin Billing Date:	1/1/2009		Users				
Flat Rate Residential (Daily usage will be prorated)	\$23.00	Monthly	2,961				
Flat Rate Commercial	\$23.00	Monthly	340				
Commercial Metered Minimum	\$2.10 \$16.00	per 1,000 gallons					
Industrial	As determined by City Manager.		3				
Fiscal Year	2009						
Population	10,011						
Taxable Valuation	267,064,986						
Number of Employees	80						

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the city of Lexington's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Lexington, Office of the Finance Director, 406 East 7th Street, Lexington, NE 68850.



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INDEPENDENT AUDITORS' REPORT

Honorable Mayor, City Council and
City Manager
Lexington, Nebraska

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, the major funds, and the aggregate remaining fund information of the City of Lexington, Nebraska, as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, the major funds, and the aggregate remaining fund information of the City of Lexington, Nebraska, as of September 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof 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 March 19, 2010, on our consideration of the City of Lexington, Nebraska's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Contryman Associates P.C.

Certified Public Accountants
Lexington, Nebraska

March 19, 2010

CITY OF LEXINGTON, NEBRASKA

STATEMENT OF NET ASSETS

September 30, 2009

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash	2,257,103	363,976	2,621,079	0
Cash with County Treasurer	47,823	0	47,823	0
Receivables	1,636,330	1,630,710	3,267,040	0
Internal balances	(313,303)	313,303	0	0
Due from other governmental agencies	105,017	0	105,017	0
Due from component unit	10,000	0	10,000	0
Inventories	0	350,432	350,432	0
Restricted assets:				
Cash	703,142	3,993,724	4,696,866	6,305
Investments	0	182,797	182,797	0
Receivables	0	0	0	298,381
Capital assets				
Nondepreciable	5,560,634	4,734,014	10,294,648	1,178,672
Depreciable - net	18,307,747	18,595,921	36,903,668	31,164
Deferred charges	44,934	149,264	194,198	0
TOTAL ASSETS	28,359,427	30,314,141	58,673,568	1,514,522
LIABILITIES				
Accounts payable and accrued expenses	426,093	1,138,105	1,564,198	0
Retainage payable	83,577	0	83,577	0
Due to other governmental agencies	169,716	0	169,716	0
Long-term liabilities				
Due within one year				
Bonds, capital leases and contracts	521,144	431,289	952,433	165,740
Accrued interest	86,598	140,785	227,383	52,180
Compensated absences	179,953	53,418	233,371	0
Due in more than one year				
Bonds, capital leases and contracts	4,548,497	9,410,998	13,959,495	850,889
Due to city	0	0	0	10,000
Customer deposits	0	153,884	153,884	0
Accrued landfill closure costs	0	711,080	711,080	0
TOTAL LIABILITIES	6,015,578	12,039,559	18,055,137	1,078,809

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

STATEMENT OF NET ASSETS (CONTINUED)

September 30, 2009

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
NET ASSETS				
Invested in capital assets, net of related debt	18,798,740	13,487,648	32,286,388	193,207
Restricted for:				
Special revenue	664,099	0	664,099	0
Debt service	0	4,176,521	4,176,521	0
Other purposes	39,043	0	39,043	242,506
Unrestricted	2,841,967	610,413	3,452,380	0
 TOTAL NET ASSETS	 <u>22,343,849</u>	 <u>18,274,582</u>	 <u>40,618,431</u>	 <u>435,713</u>

See accompanying notes.

CITY OF LEXINGTON, NEBRASKA

STATEMENT OF ACTIVITIES

Year Ended September 30, 2009

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
General government	1,283,400	619,017	0	0
Public safety	1,590,688	157,345	0	0
Public works	1,805,951	29,212	821,567	272,937
Health and welfare	908,017	133,823	172,220	131,935
Culture and recreation	1,328,397	145,489	1,682	79,153
TOTAL GOVERNMENTAL ACTIVITIES	6,916,453	1,084,886	995,469	484,025
BUSINESS-TYPE ACTIVITIES:				
Electric	12,409,383	12,570,924	0	0
Water	1,139,437	1,138,406	0	0
Sewer	1,528,266	1,681,128	0	49,701
Sanitation	446,537	474,241	0	0
Landfill	3,947	0	0	0
Ambulance	167,518	155,041	0	0
TOTAL BUSINESS-TYPE ACTIVITIES	15,695,088	16,019,740	0	49,701
TOTAL PRIMARY GOVERNMENT	22,611,541	17,104,626	995,469	533,726
COMPONENT UNIT:				
Community Redevelopment Authority	342,476	467,506	0	0

GENERAL REVENUE:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for specific purposes

Sales taxes

Franchise taxes

Intergovernmental

Interest income

Miscellaneous

Transfers

TOTAL GENERAL REVENUE, SPECIAL ITEMS, AND TRANSFERS

CHANGE IN NET ASSETS

Net assets - beginning

NET ASSETS - ENDING

See accompanying notes.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
(664,383)		(664,383)	
(1,433,343)		(1,433,343)	
(682,235)		(682,235)	
(470,039)		(470,039)	
<u>(1,102,073)</u>		<u>(1,102,073)</u>	
<u>(4,352,073)</u>		<u>(4,352,073)</u>	
	161,541	161,541	
	(1,031)	(1,031)	
	202,563	202,563	
	27,704	27,704	
	(3,947)	(3,947)	
	<u>(12,477)</u>	<u>(12,477)</u>	
	<u>374,353</u>	<u>374,353</u>	
<u>(4,352,073)</u>	<u>374,353</u>	<u>(3,977,720)</u>	
			<u>125,030</u>
1,521,975	0	1,521,975	0
110,418	0	110,418	
1,787,650	0	1,787,650	0
971,304	0	971,304	0
157,016	13,141	170,157	0
45,572	86,322	131,894	14,617
269,879	0	269,879	0
<u>18,000</u>	<u>(18,000)</u>	<u>0</u>	<u>0</u>
<u>4,881,814</u>	<u>81,463</u>	<u>4,963,277</u>	<u>14,617</u>
529,741	455,816	985,557	139,647
<u>21,814,108</u>	<u>17,818,766</u>	<u>39,632,874</u>	<u>296,066</u>
<u>22,343,849</u>	<u>18,274,582</u>	<u>40,618,431</u>	<u>435,713</u>

CITY OF LEXINGTON, NEBRASKA

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2009

	General Fund	Federal Grants
ASSETS:		
Cash - unrestricted	2,125,028	0
Cash with County Treasurer	42,069	0
Receivables (net)	550,405	624,046
Due from other funds	155,469	600,714
Receivable from other governments	97,612	10,000
Restricted assets:		
Cash	39,043	192,584
TOTAL ASSETS	3,009,626	1,427,344
LIABILITIES:		
Accounts payable	224,280	2,604
Retainage payable	83,577	0
Due to other funds	1,030,792	0
Payable to other governments	0	169,716
Deferred revenue	185,162	418,339
Other accrued expenses	239,246	0
TOTAL LIABILITIES	1,763,057	590,659
FUND BALANCES:		
Reserved for:		
Special revenue funds	0	192,584
Cemetery maintenance	39,043	0
Due to other funds-more than one year	380,133	0
Unreserved	827,393	644,101
Unreserved, reported in non-major:		
Special revenue funds	0	0
Debt service funds	0	0
TOTAL FUND BALANCES	1,246,569	836,685
TOTAL LIABILITIES AND FUND BALANCES	3,009,626	1,427,344

See accompanying notes.

<u>Economic Development</u>	<u>Debt Service Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
0	0	0	2,125,028
0	5,754	0	47,823
401,538	60,341	0	1,636,330
0	0	0	756,183
0	0	7,405	115,017
<u>471,415</u>	<u>0</u>	<u>100</u>	<u>703,142</u>
<u>872,953</u>	<u>66,095</u>	<u>7,505</u>	<u>5,383,523</u>
10,000	0	3,453	240,337
0	0	0	83,577
0	82,888	16,604	1,130,284
0	0	0	169,716
401,538	51,587	0	1,056,626
0	0	1,997	241,243
<u>411,538</u>	<u>134,475</u>	<u>22,054</u>	<u>2,921,783</u>
471,415	0	100	664,099
0	0	0	39,043
0	0	0	380,133
(10,000)	0	0	1,461,494
0	0	(14,649)	(14,649)
0	(68,380)	0	(68,380)
<u>461,415</u>	<u>(68,380)</u>	<u>(14,549)</u>	<u>2,461,740</u>
<u>872,953</u>	<u>66,095</u>	<u>7,505</u>	<u>5,383,523</u>

CITY OF LEXINGTON, NEBRASKA

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

September 30, 2009

Total fund balance, governmental funds	2,461,740
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 this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	23,868,381
Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	1,056,626
The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.	68,407
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.	(5,111,305)
Net Assets of Governmental Activities in the Statement of Net Assets	<u><u>22,343,849</u></u>

See accompanying notes.

CITY OF LEXINGTON, NEBRASKA

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUNDS

Year Ended September 30, 2009

	General Fund	Federal Grants
REVENUE:		
Local and county sources:		
Property taxes	1,516,083	0
Sales taxes	1,774,294	0
Other miscellaneous taxes	942,360	0
Licenses and permits	16,051	0
Charges for services	794,582	0
Interest and loan principal	19,177	142,214
Miscellaneous	82,126	106,567
Donations and private grants	85,653	0
Rent	96,430	0
State sources	1,038,470	0
Federal sources	391,795	91,350
TOTAL REVENUE	6,757,021	340,131
EXPENDITURES:		
Current:		
General government	1,288,092	0
Public safety	1,538,886	0
Public works	752,169	0
Health and welfare	380,805	224,631
Culture and recreation	1,115,553	0
Debt service:		
Principal	0	0
Interest and other charges	0	0
Capital outlay	1,060,357	0
TOTAL EXPENDITURES	6,135,862	224,631
REVENUE OVER (UNDER) EXPENDITURES	621,159	115,500

(Continued on next page.)

<u>Economic Development</u>	<u>Debt Service Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
0	110,418	0	1,626,501
0	0	0	1,774,294
0	0	0	942,360
0	0	0	16,051
0	0	0	794,582
11,807	4,982	25	178,205
281,997	0	216	470,906
0	0	88,758	174,411
0	0	0	96,430
0	8,912	0	1,047,382
0	0	84,032	567,177
<u>293,804</u>	<u>124,312</u>	<u>173,031</u>	<u>7,688,299</u>
0	0	0	1,288,092
0	0	0	1,538,886
0	1,468	0	753,637
171,538	0	108,709	885,683
0	0	0	1,115,553
0	544,955	0	544,955
0	204,160	0	204,160
0	0	0	1,060,357
<u>171,538</u>	<u>750,583</u>	<u>108,709</u>	<u>7,391,323</u>
<u>122,266</u>	<u>(626,271)</u>	<u>64,322</u>	<u>296,976</u>

CITY OF LEXINGTON, NEBRASKA

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUNDS (CONTINUED)

Year Ended September 30, 2009

	<u>General Fund</u>	<u>Federal Grants</u>
OTHER FINANCING SOURCES (USES)		
Proceeds from long-term debt, net	33,540	0
Transfers in	96,608	0
Transfers out	(822,558)	0
TOTAL OTHER FINANCING SOURCES (USES)	<u>(692,410)</u>	<u>0</u>
REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(71,251)	115,500
Fund balances - beginning	1,317,820	721,185
FUND BALANCES - ENDING	<u><u>1,246,569</u></u>	<u><u>836,685</u></u>

See accompanying notes.

<u>Economic Development</u>	<u>Debt Service Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
0	0	0	33,540
167,500	576,450	0	840,558
0	0	0	(822,558)
<u>167,500</u>	<u>576,450</u>	<u>0</u>	<u>51,540</u>
289,766	(49,821)	64,322	348,516
171,649	(18,559)	(78,871)	2,113,224
<u>461,415</u>	<u>(68,380)</u>	<u>(14,549)</u>	<u>2,461,740</u>

CITY OF LEXINGTON, NEBRASKA

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

Year Ended September 30, 2009

Net change in fund balances - total governmental funds:	348,516
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays exceeded depreciation in the current period.	(123,071)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.	(258,795)
The issuance of long-term debt (e.g. bonds, leases, notes) 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 as expenses when debt is first issued, whereas, these 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.	507,633
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds: Accrued interest not reflected on Governmental funds	(2,490)
Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and information technology, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.	57,948
Change in net assets of governmental activities	<u>529,741</u>

See accompanying notes.

CITY OF LEXINGTON, NEBRASKA

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

September 30, 2009

	Electric	Water
CURRENT ASSETS:		
Cash	154,559	0
Accounts receivable, net	972,046	246,063
Due from other funds	0	0
Receivables from other governments	0	0
Inventories	236,393	113,926
TOTAL CURRENT ASSETS	1,362,998	359,989
NON-CURRENT ASSETS:		
Restricted assets:		
Cash	3,247,135	656,319
Due from other funds	628,361	0
Fixed assets (net)	8,653,127	4,870,250
Deferred charges	65,556	12,526
TOTAL NON-CURRENT ASSETS	12,594,179	5,539,095
TOTAL ASSETS	13,957,177	5,899,084
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	1,001,120	14,999
Salaries payable	6,550	5,565
Accrued interest payable	74,922	12,120
Due to other funds	0	0
Compensated absences	12,700	21,150
Current portion of long-term debt	130,899	31,563
TOTAL CURRENT LIABILITIES	1,226,191	85,397
NON-CURRENT LIABILITIES:		
Customer deposits	153,884	0
Due to other funds	0	1,046
Bonds, notes and loans payable	3,829,732	803,437
Accrued landfill closure costs	0	0
TOTAL NON-CURRENT LIABILITIES	3,983,616	804,483
TOTAL LIABILITIES	5,209,807	889,880
NET ASSETS		
Invested in capital assets, net of related debt	4,692,496	4,035,250
Restricted for debt service	3,247,135	656,319
Unrestricted	807,739	317,635
TOTAL NET ASSETS	8,747,370	5,009,204

See accompanying notes.

Sewer	Sanitation	Landfill	Ambulance	Total Enterprise Funds	Internal Service Funds
0	97,938	0	111,478	363,975	132,074
312,622	99,978	0	0	1,630,709	0
0	0	0	0	0	2,722
0	0	0	0	0	0
113	0	0	0	350,432	0
<u>312,735</u>	<u>197,916</u>	<u>0</u>	<u>111,478</u>	<u>2,345,116</u>	<u>134,796</u>
0	0	273,068	0	4,176,522	0
0	0	0	0	628,361	0
9,525,750	3,401	115,983	161,425	23,329,936	0
71,182	0	0	0	149,264	0
<u>9,596,932</u>	<u>3,401</u>	<u>389,051</u>	<u>161,425</u>	<u>28,284,083</u>	<u>0</u>
<u>9,909,667</u>	<u>201,317</u>	<u>389,051</u>	<u>272,903</u>	<u>30,629,199</u>	<u>134,796</u>
89,321	0	8,476	6,031	1,119,947	116,082
6,042	0	0	0	18,157	1,330
50,947	0	0	2,796	140,785	0
0	0	0	0	0	3,162
19,568	0	0	0	53,418	7,053
253,390	0	0	15,437	431,289	0
<u>419,268</u>	<u>0</u>	<u>8,476</u>	<u>24,264</u>	<u>1,763,596</u>	<u>127,627</u>
0	0	0	0	153,884	0
252,774	0	0	0	253,820	0
4,727,415	0	0	50,414	9,410,998	0
0	0	711,080	0	711,080	0
<u>4,980,189</u>	<u>0</u>	<u>711,080</u>	<u>50,414</u>	<u>10,529,782</u>	<u>0</u>
<u>5,399,457</u>	<u>0</u>	<u>719,556</u>	<u>74,678</u>	<u>12,293,378</u>	<u>127,627</u>
4,544,945	3,401	115,983	95,574	13,487,649	0
0	0	0	0	3,903,454	0
(34,735)	197,916	(446,488)	102,651	944,718	7,169
<u>4,510,210</u>	<u>201,317</u>	<u>(330,505)</u>	<u>198,225</u>	<u>18,335,821</u>	<u>7,169</u>

CITY OF LEXINGTON, NEBRASKA

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS

Year Ended September 30, 2009

	Electric	Water
OPERATING REVENUE:		
Charges for services	12,455,688	1,113,240
Reimbursements from other funds	0	0
Miscellaneous	115,235	25,168
TOTAL OPERATING REVENUE	12,570,923	1,138,408
OPERATING EXPENSES:		
Operating expenses	11,635,628	868,246
Supplies	0	0
Medical expenses	0	0
Depreciation and amortization	596,652	244,701
TOTAL OPERATING EXPENSES	12,232,280	1,112,947
OPERATING INCOME (LOSS)	338,643	25,461
NON-OPERATING REVENUE (EXPENSES):		
Interest income	31,636	11,169
Operating grants and contributions	5,172	5,139
Interest expense	(180,303)	(34,095)
TOTAL NON-OPERATING REVENUE (EXPENSES)	(143,495)	(17,787)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	195,148	7,674
Capital contributions	0	0
Transfers out	0	0
NET INCOME (LOSS)	195,148	7,674
Net assets - beginning	8,552,222	5,001,530
NET ASSETS - ENDING	8,747,370	5,009,204

See accompanying notes.

<u>Sewer</u>	<u>Sanitation</u>	<u>Landfill</u>	<u>Ambulance</u>	<u>Total Enterprise Funds</u>	<u>Internal Service Funds</u>
1,604,981	474,241	0	154,775	15,802,925	240,794
0	0	0	0	0	834,441
76,148	0	0	266	216,817	485
<u>1,681,129</u>	<u>474,241</u>	<u>0</u>	<u>155,041</u>	<u>16,019,742</u>	<u>1,075,720</u>
691,781	446,537	3,947	135,590	13,781,729	234,737
1,483	0	0	0	1,483	0
0	0	0	0	0	779,439
644,719	0	0	25,262	1,511,334	0
<u>1,337,983</u>	<u>446,537</u>	<u>3,947</u>	<u>160,852</u>	<u>15,294,546</u>	<u>1,014,176</u>
<u>343,146</u>	<u>27,704</u>	<u>(3,947)</u>	<u>(5,811)</u>	<u>725,196</u>	<u>61,544</u>
34,781	1,707	4,449	2,031	85,773	1,310
2,829	0	0	0	13,140	0
(194,910)	0	0	(6,666)	(415,974)	0
<u>(157,300)</u>	<u>1,707</u>	<u>4,449</u>	<u>(4,635)</u>	<u>(317,061)</u>	<u>1,310</u>
185,846	29,411	502	(10,446)	408,135	62,854
49,701	0	0	0	49,701	0
0	(18,000)	0	0	(18,000)	0
235,547	11,411	502	(10,446)	439,836	62,854
<u>4,274,663</u>	<u>189,906</u>	<u>(331,007)</u>	<u>208,671</u>	<u>17,895,985</u>	<u>(55,685)</u>
<u>4,510,210</u>	<u>201,317</u>	<u>(330,505)</u>	<u>198,225</u>	<u>18,335,821</u>	<u>7,169</u>

CITY OF LEXINGTON, NEBRASKA

RECONCILIATION OF STATEMENT OF NET ASSETS OF PROPRIETARY FUNDS TO STATEMENT OF NET ASSETS OF BUSINESS-TYPE ACTIVITIES

September 30, 2009

Total net assets - Utility Funds	18,335,821
----------------------------------	------------

Amounts reported for business-type activities in the statement of net assets are different because:

Certain Internal Service Fund assets and liabilities are included with business-type activities	(61,239)
--	----------

Net assets of business-type activities	<u>18,274,582</u>
--	-------------------

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET ASSETS OF PROPRIETARY FUNDS TO THE STATEMENT OF ACTIVITIES OF BUSINESS-TYPE ACTIVITIES

Year Ended September 30, 2009

Net change in fund net assets - Utility Funds	439,836
---	---------

Amounts reported for business-type activities in the statement of activities are different because:

Net revenue (expense) of certain Internal Service Funds are reported with business-type activities	<u>15,980</u>
---	---------------

Change in net assets of business-type activities	<u>455,816</u>
--	----------------

See accompanying notes.

CITY OF LEXINGTON, NEBRASKA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended September 30, 2009

	<u>Electric</u>	<u>Water</u>
OPERATING ACTIVITIES:		
Receipts from customers	12,074,407	1,063,700
Receipts from Interfund Services	288,081	14,566
Miscellaneous revenue	115,235	25,168
Payments to suppliers	(10,056,619)	(397,684)
Payments to employees	(230,551)	(185,313)
Payments for franchise taxes to City	(617,539)	(49,702)
Payments for Interfund Services	(429,954)	(253,539)
Receipts of customer meter deposits	53,039	0
Refunds of customer meter deposits	(54,314)	0
NET OPERATING ACTIVITIES	<u>1,141,785</u>	<u>217,196</u>
NONCAPITAL FINANCING ACTIVITIES:		
Net change in due to (from) other funds	938,108	0
Federal sources	5,172	5,139
Capital contributions	0	0
Transfers to other funds	0	0
NET NONCAPITAL FINANCING ACTIVITIES	<u>943,280</u>	<u>5,139</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments:		
Bonds	(441,250)	(834,263)
Notes	0	0
Proceeds:		
Bonds	420,631	835,000
Bond issuance costs	(6,311)	(16,027)
Acquisition and construction of capital assets	(2,183,160)	(35,251)
Interest paid on bonds and notes	(119,251)	(23,460)
NET CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,329,341)</u>	<u>(74,001)</u>
INVESTING ACTIVITIES:		
Interest received	<u>31,636</u>	<u>11,169</u>
NET INCREASE (DECREASE) IN CASH	(212,640)	159,503
Cash - beginning of year	<u>3,614,334</u>	<u>496,816</u>
CASH - END OF YEAR	<u>3,401,694</u>	<u>656,319</u>
CASH RECONCILIATION:		
Unrestricted	154,559	0
Restricted	3,247,135	656,319
CASH TOTAL	<u>3,401,694</u>	<u>656,319</u>

(Continued on next page)

Sewer	Sanitation	Landfill	Ambulance	Total Enterprise Funds	Internal Service Fund
1,554,834	460,149	0	154,775	15,307,865	0
7,761	0	0	0	310,408	1,075,720
76,148	0	0	266	216,817	0
(392,373)	(446,537)	(34,442)	(133,603)	(11,461,258)	(991,039)
(194,075)	0	0	0	(609,939)	(39,181)
0	0	0	0	(667,241)	0
(47,542)	0	0	0	(731,035)	0
0	0	0	0	53,039	0
0	0	0	0	(54,314)	0
<u>1,004,753</u>	<u>13,612</u>	<u>(34,442)</u>	<u>21,438</u>	<u>2,364,342</u>	<u>45,500</u>
(938,110)	0	0	0	(2)	(11,116)
2,829	0	0	0	13,140	0
49,701	0	0	0	49,701	0
0	(18,000)	0	0	(18,000)	0
<u>(885,580)</u>	<u>(18,000)</u>	<u>0</u>	<u>0</u>	<u>44,839</u>	<u>(11,116)</u>
(3,389,487)	0	0	0	(4,665,000)	0
(43,878)	0	0	(29,690)	(73,568)	0
3,109,369	0	0	0	4,365,000	0
(46,638)	0	0	0	(68,976)	0
(140,229)	0	0	0	(2,358,640)	0
(193,414)	0	0	(4,817)	(340,942)	0
<u>(704,277)</u>	<u>0</u>	<u>0</u>	<u>(34,507)</u>	<u>(3,142,126)</u>	<u>0</u>
<u>34,781</u>	<u>1,706</u>	<u>4,449</u>	<u>2,031</u>	<u>85,772</u>	<u>1,310</u>
(550,323)	(2,682)	(29,993)	(11,038)	(647,173)	35,694
<u>550,323</u>	<u>100,620</u>	<u>303,061</u>	<u>122,516</u>	<u>5,187,670</u>	<u>96,380</u>
<u>0</u>	<u>97,938</u>	<u>273,068</u>	<u>111,478</u>	<u>4,540,497</u>	<u>132,074</u>
0	97,938	0	111,478	363,975	132,074
0	0	273,068	0	4,176,522	0
<u>0</u>	<u>97,938</u>	<u>273,068</u>	<u>111,478</u>	<u>4,540,497</u>	<u>132,074</u>

CITY OF LEXINGTON, NEBRASKA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)

Year Ended September 30, 2009

	Electric	Water
RECONCILIATION OF OPERATING INCOME TO NET OPERATING ACTIVITIES:		
Operating income (loss)	338,643	25,461
Items not requiring cash:		
Depreciation and amortization	596,652	244,701
(Increase) decrease in assets:		
Receivables	(93,200)	(34,974)
Inventories	7,306	(8,366)
Increase (decrease) in liabilities:		
Accounts payable and other accrued expenses	291,264	(9,626)
Accrued landfill closure costs	0	0
Customer deposits	1,120	0
NET OPERATING ACTIVITIES	1,141,785	217,196

See accompanying notes.

<u>Sewer</u>	<u>Sanitation</u>	<u>Landfill</u>	<u>Ambulance</u>	<u>Total Enterprise Funds</u>	<u>Internal Service Fund</u>
343,146	27,704	(3,947)	(5,811)	725,196	61,544
644,719	0	0	25,262	1,511,334	0
(42,386)	(14,092)	0	0	(184,652)	0
139	0	0	0	(921)	0
59,135	0	8,476	1,987	351,236	(16,044)
0	0	(38,971)	0	(38,971)	0
0	0	0	0	1,120	0
<u>1,004,753</u>	<u>13,612</u>	<u>(34,442)</u>	<u>21,438</u>	<u>2,364,342</u>	<u>45,500</u>

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government

The City of Lexington, Nebraska is a municipality located in Dawson County in the south central portion of Nebraska. It operates a City Manager form of government. Citizens elect five (5) council members at large who appoint the mayor.

The financial statements of the City are presented in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails.

Reporting Entity

The basic financial statements report on the government as a whole. They include the City of Lexington and its component unit. The discretely presented component unit reflects the financial information of the Community Redevelopment Authority (CRA). All of the board members of the CRA are appointed by the City Council. Its purpose is to develop, finance, and maintain business property.

Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole and report using the economic resources measurement focus on the accrual basis of accounting. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities are generally financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services

In the Statement of Net Assets, both the governmental and business-type activities are presented on a consolidated basis which recognizes all long-term assets, receivables, and long-term debt and obligations. The City's net assets are reported in three categories – invested in capital assets net of related debt; restricted net assets; and unrestricted net assets.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide Financial Statements Continued

The Statement of Activities reports both the gross and net cost of each of the City's governmental functions and business-type activities. The net costs of each governmental function are also supported by general government revenues (taxes and certain intergovernmental revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the governmental function or business-type activity.

Discretely Presented Component Unit – The CRA reports using the economic resources measurement focus on the accrual basis of accounting.

Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its asset, liabilities, reserves, fund equity, revenues and expenditures/expenses.

The governmental funds financial statements use the current financial resources measurement focus on 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 within 60 days after year end. Expenditures are generally recognized under the accrual basis of accounting when the related liability is incurred except for principal and interest on general obligation bonds, which are reported as expenditures when paid.

The following fund types are used by the City:

Governmental Fund Types

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

General Fund is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

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

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements Continued

Debt Service Funds are used to account for the accumulation of funds for the payment of principal, interest, and related costs on general long-term debt.

Proprietary Fund Types

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City:

Enterprise Funds are required to be used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) 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 revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments on a cost-reimbursement basis. Because the principal users of the internal services are the City's governmental activities, the financial statement of the internal service funds have been allocated to the governmental fund activities columns when presented in the government-wide financial statements. To the extent possible, the cost of these services is reported in the appropriate functional activity.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASBS No. 34 sets forth minimum criteria for the determination of major funds. Some funds may have been reclassified as major and nonmajor from the prior year.

The following funds are considered major funds:

Governmental Funds

General Fund as previously described

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements Continued

Federal Grant Funds is a special revenue fund that accounts for revenues and expenditures for the grants for community development.

Economic Development Funds account for revenues and expenditures for community economic development.

Debt Service Fund accounts for the accumulation of funds for the payment of principal, interest, and related costs on long-term debt.

Proprietary Funds

Enterprise Funds which account for the activities of the City's utility operation. (Electric, Water, Sewer, Sanitation, and Landfill)

Ambulance Fund accounts for activities of the City's ambulance services.

Financial Statement Amounts:

Cash

The City has defined cash to include cash on hand, cash in banks and certificates of deposit (valued at cost plus accrued interest to September 30, 2009).

Investments consist of U. S. Treasury notes and are reported at fair market value.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include property taxes, sales and use taxes, franchise taxes, grants, and interest.

Business-type activities report utilities including unbilled utilities, and interest as their major receivables.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Amounts Continued:

Receivables (Continued)

In the fund financial statements, material receivables in governmental funds include revenue accruals for property taxes, sales and use taxes, franchise taxes, grants and other similar intergovernmental revenues since they are usually measurable and available in 60 days. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual basis, but are not deferred in the government-wide financial statements in accordance with the accrual basis.

Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. At September 30, 2009, the balances of the allowance for doubtful accounts are:

General Fund	\$	10,000
Electric Fund		10,000
Water Fund		3,000
Sewer Fund		5,000
Sanitation Fund		2,000
Total	\$	<u>30,000</u>

Inventory Valuation

Proprietary Fund inventories are recorded at the lower of cost (average cost) or market, using the first-in first-out method.

Capital Assets

The City's policy is to capitalize purchased or donated capital assets, including improvements to capital assets that significantly extend the life of the assets, that have an estimated life of more than one year and a cost of \$5,000 or more. Cost includes original actual cost, estimated historical cost or the fair value at the date received of donated assets. Estimated historical cost was used to value the majority of the assets acquired prior to October 1, 2002 in the governmental activities.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Amounts Continued:

Capital Assets (Continued)

Depreciation of all exhaustible capital assets is recorded as an expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided using the straight-line method of depreciation over the estimated useful lives as follows:

Buildings	20 – 50 years
Improvements	10 – 20 years
Electric, water and sewer plants	30 – 50 years
Machinery and equipment	5 – 10 years
Infrastructure	10 - 50 years

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

Restricted Assets

Restricted assets include cash and investments that are restricted as to their use. The primary restricted assets are related to revenue bonds payable, and special revenue sources. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and then unrestricted resources as needed.

Deferred Debt Expense and Bond Discount

In the fund financial statements, bond discounts and issuance costs are recognized in the current period by governmental fund types. In proprietary fund types and government-wide financial statements, bond issuance costs and bond discounts are capitalized and amortized over the terms of the respective bonds using a method which approximates the effective interest method.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Amounts Continued:

Long-Term Debt

Long-term debt is reported in the government-wide statements and the proprietary fund statements. The long-term debt consists of notes payable, revenue bonds and general obligation bonds.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. Debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures.

Compensated Absences

The liability for compensated absences is recorded as current in other accrued expenses. In the fund financial statements, governmental funds report only the liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

Equity

In the government-wide statements, equity is classified as net assets and displayed in three components.

- 1) Invested in capital assets net of related debt – Consists of 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 improvement of those assets.
- 2) Restricted net assets – Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
- 3) Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Amounts Continued:

Equity Continued:

In the fund statements, governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide statements.

Revenues

Substantially all governmental fund revenues are accrued in the government-wide financial statements. Dawson County bills and collects property taxes and remits to the City monthly. These taxes are deemed to be received by the City when collected by the County Treasurer.

Operating revenues for proprietary funds are those that result from providing goods and services. Subsidies and grants, which finance either capital or current operations and other revenues, are reported as nonoperating revenue.

Expenditures

Expenditures are classified by function for both governmental and business-type activities in the government-wide financial statements. In the fund financial statements, expenditures are classified by character (current, capital outlay, and debt service) in the governmental funds, and as operating and nonoperating in the proprietary funds. Proprietary fund inventory costs are reported in the period when inventory items are used, rather than in the period purchased.

Interfund Activity

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Amounts Continued:

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: CUSTODIAL CREDIT RISK

The City maintains a cash, certificate of deposit, and investment pool that is available for use by all funds except those required to maintain separate accounts. Each fund type's portion of these pools is displayed on the balance sheet/statement of net assets as "Cash" or "Investments" under each fund's caption. State law requires that all funds held in depositories be fully insured or collateralized.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. For financial reporting, \$6,340,868 is considered uninsured and collateralized by the pledging financial institution.

Investment pools are under the custody of the City Treasurer. Investing is performed in accordance with investment policies complying with State Statutes. Pooled funds may be invested in certificates of deposits, time certificates, and in any securities in which the state investment officer is authorized to invest pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act and as provided in the authorized investment guidelines of the Nebraska Investment Council currently effective. Investments during the year were substantially the same as those at year-end.

NOTE 3: RESTRICTED CASH

Revenue Bond Funds

Under the terms of the revenue bond ordinances, all income and revenue from operation of the Enterprise Funds may be used only for specified purposes. Priorities are as follows:

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 3: RESTRICTED CASH (CONTINUED)

Bond Payment Subaccount

The Enterprise Funds are required to deposit monthly an amount equal to one-sixth of the amount of interest and one-twelfth of the amount of principal due on the next payment date. The amount restricted is \$255,504 at September 30, 2009.

Operating and Maintenance Account

The Enterprise Funds are required to set aside monthly an amount sufficient for the operation and maintenance of its combined utilities. The expenses of maintenance and operations of these utilities will be paid out of this account.

Bond Reserve Account

The Enterprise Funds are required to maintain in this account a specified sum based on the principal outstanding (\$885,610 at September 30, 2009). Funds in these accounts may be used at any time there is insufficient money available in the Bond Payment Subaccount to pay either principal or interest on the revenue bonds as they become due.

Surplus Account

After providing for payment into all of the above accounts, all remaining funds shall be transferred into the Surplus Account to be used as follows:

- (a) To replace any deficiency in the above accounts.
- (b) To declare in-lieu-of tax payment - so long as no deficiency exists in required payments to the above accounts, the utilities may declare an in-lieu-of tax payment to the City, which can be used for any purpose authorized by law.
- (c) To retire bonds prior to maturity and also includes cash from bond issue. The amount restricted is \$2,762,340.

Other Funds

In addition to the funds and accounts created by the revenue bond ordinances, the Enterprise Fund maintains the following special funds:

- (1) Landfill Closure-This account is used to set aside funds for the estimated post-closure costs at the landfill. The amount restricted is \$273,068.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 3: RESTRICTED CASH (CONTINUED)

Grant Funds

Under the terms of the grant agreements, certain special revenue funds are restricted as follows:

- (1) Community Development Block Grants and reuse monies. The amount restricted is \$192,584.
- (2) Meals on Wheels-Meal program and outreach for the elderly. The amount restricted is \$100.
- (3) Economic Development – The amount restricted is \$471,415.

Component Unit (CRA)

The amount restricted is \$6,305 for the component unit (CRA).

NOTE 4: RECEIVABLES

The receivables (net of allowances) for the City of Lexington are composed of the following:

	<u>General</u>	<u>Federal Grants</u>	<u>Economic Development</u>	<u>Debt Service</u>	<u>Enterprise</u>	<u>Component Unit</u>
Trade	4,101	0	0	0	394,544	0
Unbilled services	0	0	0	0	1,236,165	0
Taxes	82,758	0	0	14,568	0	0
Occupation taxes	46,084	0	0	0	0	0
Franchise taxes	72,199	0	0	0	0	0
Interest	0	14,002	0	1,678	0	16,803
Special assessments	0	0	0	44,095	0	0
Other	345,263	0	0	0	0	0
Loans	0	610,044	401,538	0	0	281,579
Totals	550,405	624,046	401,538	60,341	1,630,709	298,382

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 4: RECEIVABLES (CONTINUED)

The funds to pay for special assessment projects are generated through the levy of an assessment on individual property owners benefited by the project and through property taxes provided by the City to pay for the project's benefit to the general public. The assessments receivable from property owners reflected on the fund statement balance sheet are payable in annual installments of principal and interest over periods up to 10 years. The City is obligated to provide for the funding of any deficiency in the financing of these projects through the levy of property taxes. Delinquent special assessment receivables at September 30, 2009 were \$27,117.

NOTE 5: MAJOR CUSTOMERS

The City's Enterprise Funds have two major customer having sales of 10% or more of charges for utility services. The service charges to these customers during the year were \$6,287,456 or 41.3% of total utility service charges.

NOTE 6: CAPITAL ASSETS

The following is a summary of the capital assets for the year ended September 30, 2009:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental Activities:				
Land	3,080,914	29,270	12,657	3,097,527
Buildings and improvements	7,399,911	63,439	0	7,463,350
Machinery and equipment	2,859,767	351,590	0	3,211,357
Infrastructure	31,561,533	338,917	0	31,900,450
Construction in progress	2,165,289	820,743	522,924	2,463,108
Totals	47,067,414	1,603,959	535,581	48,135,792
Less accumulated depreciation:				
Buildings and improvements	1,395,715	203,369	0	1,599,084
Machinery and equipment	1,482,087	209,518	0	1,691,605
Infrastructure	20,206,180	770,540	0	20,976,720
Totals	23,083,982	1,183,427	0	24,267,409
Net	23,983,432	420,532	535,581	23,868,383

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 6: CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Business-Type Activities:				
Land	329,520	0	0	329,520
Buildings and improvements	8,389,776	1,288	0	8,391,064
Vehicles and equipment	2,493,307	463	0	2,493,770
Utility systems	33,160,255	21,286	0	33,181,541
Construction in progress	2,069,686	2,335,604	0	4,405,290
Totals	46,442,544	2,358,641	0	48,801,185
Less accumulated depreciation:				
Buildings and improvements	2,755,520	333,190	0	3,088,710
Vehicles and equipment	1,384,231	90,142	0	1,474,373
Utility systems	19,892,270	1,015,896	0	20,908,166
Totals	24,032,021	1,439,228	0	25,471,249
Net	22,410,523	919,413	0	23,329,936
Component Unit:				
Land	1,108,847	69,825	0	1,178,672
Building	1,250	31,645	0	32,895
Totals	1,110,097	101,470	0	1,211,567
Less accumulated depreciation	0	1,731	0	1,731
Net	1,110,097	99,739	0	1,209,836

Depreciation expense was charged to functions/programs as follows for the year ended September 30, 2009:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Component Unit</u>
General government	9,169	0	1,731
Public safety	68,130	0	0
Public works	860,578	0	0
Health and welfare	28,228	0	0
Culture and recreation	217,322	0	0
Electric	0	590,034	0
Water	0	229,945	0
Sewer	0	593,987	0
Ambulance	0	25,262	0
Totals	1,183,427	1,439,228	1,731

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 7: COMPENSATED ABSENCES

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Governmental activities	167,592	12,361	0	179,953	179,953
Business-type activities	58,049	0	4,631	53,418	53,418

NOTE 8: LONG-TERM DEBT

The City is in compliance with all significant requirements of various bonds. The following is a summary of transactions for indebtedness for the year ended September 30, 2009:

General Obligation Bonds Payable – Governmental Activities

<u>Issue Date</u>	<u>Due Date</u>	<u>Interest Rates</u>	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within one year</u>
9/1/2004	10/15/2024	1.75% to 4.95%	1,365,000	0	60,000	1,305,000	60,000
6/15/2008	6/15/2016	2.00% to 3.65^	2,380,000	0	275,000	2,105,000	280,000
Total			3,745,000	0	335,000	3,410,000	340,000

Notes Payable – Governmental Activities (secured by equipment and land)

<u>Issue Date</u>	<u>Due Date</u>	<u>Interest Rates</u>	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within one year</u>
9/30/2004	6/15/2016	3.25%	19,194	0	19,194	0	0
4/6/2005	4/6/2009	3.98%	14,578	0	14,578	0	0
11/14/2005	11/14/2010	3.98%	140,238	0	44,900	95,338	46,726
10/14/2008	10/14/2020	3.98%	519,995	0	31,049	488,946	32,474
1/12/2006	1/12/2014	4.25%	234,199	0	34,987	199,212	36,551
4/29/2008	5/1/2023	4.51%	500,000	0	23,934	476,066	25,129
11/19/2008	1/2/2013	6.25%	0	33,540	8,385	25,155	5,713
5/30/2008	6/1/2018	4.50%	407,852	0	32,928	374,924	34,551
Total			1,836,056	33,540	209,955	1,659,641	181,144
Total Governmental Activities			5,581,056	33,540	544,955	5,069,641	521,144

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 8: LONG-TERM DEBT (CONTINUED)

Revenue Bonds Payable – Business-Type Activities

<u>Issue Date</u>	<u>Due Date</u>	<u>Interest Rates</u>	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within one year</u>
9/27/2002	9/15/2017	1.85% to 4.70%	835,000	0	835,000	0	0
12/16/2003	12/15/2023	1.35% to 5.00%	3,745,000	0	3,745,000	0	0
9/28/2004	9/15/2024	1.65% to 4.85%	1,870,000	0	85,000	1,785,000	90,000
9/26/2008	10/15/2028	2.30% to 5.00%	3,540,000	0	0	3,540,000	115,000
5/12/2009	12/15/2023	1.00% to 4.50%	0	4,365,000	0	4,365,000	165,000
Total			9,990,000	4,365,000	4,665,000	9,690,000	370,000

Notes Payable – Business-Type Activities (secured by equipment and land)

<u>Issue Date</u>	<u>Due Date</u>	<u>Interest Rates</u>	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within one year</u>
6/1/2004	6/1/2009	3.91%	15,541	0	15,541	0	0
7/25/2006	7/25/2010	5.75%	13,433	0	6,524	6,909	6,909
12/15/2005	12/15/2010	4.125%	116,881	0	37,354	79,527	38,943
8/15/2007	10/15/2012	4.43%	80,000	0	14,149	65,851	15,437
Total			225,855	0	73,568	152,287	61,289

Total Business –Type Activities 10,215,855 4,365,000 4,738,568 9,842,287 431,289

General Obligation Bonds Payable – Component Unit

<u>Issue Date</u>	<u>Due Date</u>	<u>Interest Rates</u>	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within one year</u>
10/9/2001	12/1/2016	3.00%	37,975	0	3,985	33,990	4,106
11/1/2004	12/1/2020	7.00%	78,835	0	0	78,835	3,148
Total			116,810	0	3,985	112,825	7,254

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 8: LONG-TERM DEBT (CONTINUED)

Notes Payable – Component Unit (secured by building and land)

<u>Issue Date</u>	<u>Due Date</u>	<u>Interest Rates</u>	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within one year</u>
8/23/1999	12/1/2015	4.25%	150,580	0	18,755	131,825	66,000
1/11/2008	1/1/2018	7.00%	800,910	0	58,931	741,979	62,486
10/1/2007		0.00%	30,000	0	0	30,000	30,000
	Total		981,490	0	77,686	903,804	158,486
Total Component Unit			1,098,300	0	81,671	1,016,629	165,740
GRAND TOTALS			16,895,211	4,398,540	5,365,194	15,928,557	1,118,173

Interest expense was charged to functions/programs as follows:

Governmental activities:	Health and welfare	5,674
	Public safety	10,146
	Public works	188,340
Business-type activities:	Electric	180,303
	Water	34,095
	Sewer	194,910
	Ambulance	6,666
Component unit:	CRA	64,093

Maturities during the next five years and thereafter for the above bond and note categories are as follows:

	Governmental Activities		Business-Type Activities		Total
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2010	521,144	189,245	431,289	373,579	1,515,257
2011	524,011	172,886	566,705	352,335	1,615,937
2012	506,612	155,237	541,835	341,013	1,544,697
2013	513,126	137,917	562,458	327,862	1,541,363
2014	537,696	119,234	555,000	312,720	1,524,650
2015-2019	1,606,416	342,092	2,905,000	1,269,822	6,123,330
2020-2024	750,636	112,039	3,095,000	678,720	4,636,395
2025-2029	110,000	2,722	1,185,000	153,875	1,451,597
	5,069,641	1,231,372	9,842,287	3,809,926	19,953,226

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 8: LONG-TERM DEBT (CONTINUED)

Component Unit:

	Bonds		Notes		Total
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2010	7,246	8,149	133,738	66,555	215,688
2011	9,318	6,076	81,809	51,204	148,407
2012	9,809	5,586	87,131	45,881	148,407
2013	10,329	5,066	92,808	40,204	148,407
2014	10,880	4,514	98,865	34,147	148,406
2015-2019	50,814	13,423	409,453	69,518	543,208
2020-2021	14,428	7,022	0	0	21,450
	112,824	49,836	903,804	307,509	1,373,973

Currently the City is in the process of refinancing the 2004 general obligation bonds in the amount of \$1,245,000.

NOTE 9: INTERFUND BALANCES AND ACTIVITY

Due to and due from balances are used to record loans between funds for various cash flow purposes. The City estimates that those balances exceeding \$500,000 will not be paid back within one year.

Balances due to and from other funds:	<u>Due from</u>	<u>Due to</u>
General	155,469	1,030,792
Federal Grants	600,714	0
Debt Service	0	82,888
Nonmajor Governmental	0	16,604
Electric	628,361	0
Water	0	1,046
Sewer	0	252,774
Internal Service	2,722	3,162
Totals	1,387,266	1,387,266

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CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 9: INTERFUND BALANCES AND ACTIVITY (CONTINUED)

Transfers are used to move revenues between the funds. The transfers below are routine in nature.

	<u>Transfer In</u>	<u>Transfer Out</u>
General	96,608	822,558
Economic Development	167,500	0
Debt Service	576,450	0
Sanitation	0	18,000
Totals	840,558	840,558

NOTE 10: RETIREMENT COMMITMENTS

Defined Contribution Plan

All City employees except policemen, after meeting one year of service, have the option to participate in a defined contribution plan, with all plan contributions held and invested by the First National Bank of Omaha. Employees covered by the plan may contribute 3% to 6% of their salary to the plan, which is matched by the City up to 6%. Vesting provisions for City contributions provide for a period of up to 7 years to become fully vested. The City and employees each contributed \$85,629 for the year ended September 30, 2009.

The City's police officers employed after January 1, 1984, are covered under a defined contribution plan, with all funds held and invested in the American Funds by Benefit Plans. Employees covered by the plan contribute 6% of their salary to the plan, which is matched by the City. After the completion of four years of service, the vesting percentage increases by 10% for each additional completed year of service, up to 100%. The City and employees each contributed \$41,096 to the police officers' plan for the year ended September 30, 2009.

Deferred Compensation

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan assets are held in trust and all are solely the property and rights of the plan. They are not subject to the general creditors of the City. Thus, they are not included in these financial statements.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 11: LANDFILL CLOSURE COSTS

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 \$711,080 reported as postclosure care liability at September 30, 2009, represents the cumulative amount reported to date based on the use of 100 percent of the estimated capacity of the landfill. The City closed the landfill in May, 1997. Actual post closure costs may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by state and federal laws and regulations to make annual contributions to finance postclosure care. The City is in compliance with these requirements, and, at September 30, 2009, investments of \$273,068 are held for these purposes. The City expects that future inflation costs will be paid from interest earnings on these contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined, these costs may need to be covered by additional contributions from the City.

NOTE 12: CONTINGENCIES

Federal and State Grants – In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liabilities for reimbursement which may arise as the result of these audits are not believed to be material.

The City is participating in grants (Special Revenue Funds) that have made loans to others for various purposes. These loans have forgivable clauses as follows:

- (a) The City has pledged a certificate of deposit totaling \$54,500 as loan guarantees for others. This loan will mature in January, 2010.
- (b) The City has owner-occupied housing with forgivable clauses totaling \$129,300. These clauses expire in 2022.

NOTE 13: ECONOMIC DEPENDENCY

The City of Lexington's Electric Department purchases all of its electricity for resale to customers from Nebraska Public Power District.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 14: FRANCHISE FEES

The Lexington Utility System (Enterprise Funds) pays franchise fees based on sales to the General Fund. The following is a list of franchise fees paid.

Electric	\$617,539
Water	\$49,702

NOTE 15: PROPERTY TAXES

Real estate taxes are levied December 1 of each year and become a lien on January 1 of the next year. Personal property taxes on owned or leased property are assessed as of January 1 of each year and become a lien on all personal property owned as of December 31 of that year. The first half of both taxes is delinquent May 1 and the second half delinquent September 1 of the following year. Taxes not paid by the due dates become delinquent and interest is assessed at 14%.

NOTE 16: RISK MANAGEMENT

On August 1, 1982, the City established a self-funded health care plan for the benefit of eligible City employees and their eligible dependents. The plan provides reimbursement for covered charges incurred as a result of medically necessary treatment for illness or injury up to a \$1,000,000 lifetime maximum. The City purchases commercial insurance for claims in excess of coverage provided by the Fund. At September 30, 2009, the City's maximum liability was \$35,000 per employee annually under the Plan.

The City makes monthly payments equal to the payments for claims. The Plan's assets are maintained in a local bank and administered by Corporate Benefit Services of America, Inc. The balance of this trust at September 30, 2009, is \$82,392. An additional amount is maintained by the City totaling \$49,682 at September 30, 2009.

The City 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. The City purchases commercial insurance for general liability, public official's liability, property coverage, workers' compensation coverage, commercial excess liability coverage, and crime and blanket bond coverage to minimize the effects of possible exposure to these risks. There have been no significant reductions in insurance coverage from coverage in the prior year. During the past three fiscal years, there have been no settlements exceeding the amount of the City's insurance coverage.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 17: AGREEMENTS

Management Agreement

The City has an agreement with Lexington Public Schools and Lexington Community Facilities Agency regarding the use, operation, maintenance, and lease of facilities jointly shared and constructed by above parties. The Schools are required to maintain the property. The City's original contribution towards construction constitutes sufficient consideration to cover future use of the facility by the City.

The City has an agreement with the Housing Authority of the City of Lexington for the management of rental units.

Communication Center Agreement

The City has an agreement with Dawson County, Nebraska, regarding a combined communication center to cover police and fire services on a 24-hour basis. The City pays an agreed-upon fee determined annually to the County.

Rural Fire District Agreement

The City has an agreement with the Lexington Rural Fire District for the City to provide fire and rescue protection for said District. The District reimburses the City for its share of costs.

Service Agreement and Contingency

The City of Lexington is an initial member of the Lexington Area Solid Waste Agency. This agency was formed to provide services and facilities for integrated solid waste management. The City is liable for its percentage of any defaults on bond payments by the agency.

Nebraska Public Power District

The City of Lexington has an agreement with Nebraska Public Power District for the maintenance, operation, and capital improvements for their electric system. Total fees paid to Nebraska Public Power District for the year ended September 30, 2009 were approximately \$2,763,000.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 18: COMMITMENTS

The City has various construction commitments with respect to projects as of September 30, 2009 totaling approximately \$1.4 million.

Subsequent to September 30, 2009, the City awarded construction projects totaling approximately \$935,000.

NOTE 19: OTHER REQUIRED DISCLOSURES

At September 30, 2009, the following funds had deficit fund balances/net assets:

	<u>Deficit Amount</u>
Meals on Wheels Fund – nonmajor fund	14,549
Debt Service Fund – major fund	68,381
Central Garage Fund – Internal Service	17,859
Employee Health Fund – Internal Service	31,285
Landfill Fund – major fund	330,505

The City will absorb more of the costs of the Meals on Wheels Fund to reduce the fund deficit. Debt Service will either increase their tax request or transfers from General Fund. Central Garage and Employee Health will increase their revenue/funding from other departments. On the Landfill Fund – the City will fund as needed for actual expenses.

NOTE 20: TRANSACTIONS WITH COMPONENT UNIT

The following transactions occurred between the City and its component unit (CRA):

<u>From Component Unit</u>	<u>To City</u>
Due to City	10,000
Note payable – housing	30,000
Bond payable	112,825
Interest payable	52,180
Interest expense	64,093

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 21: ENVIRONMENTAL REMEDIATION

The City is subject to laws and regulations relating to the protection of the environment. The City's policy is to accrue environmental and cleanup related costs of a non-capital nature when it is both probable that a liability has been incurred and when the amount can be reasonably estimated. Although it is not possible to quantify with any degree of certainty the potential impact of the City's continuing compliance efforts, management believes any future remediation or other compliance related costs will not have a material adverse effect on the financial condition or reported results of operations of the City.

NOTE 22: POST RETIREMENT BENEFITS

The City has post retirement benefits to cover health insurance for employees between the ages of 62 and full retirement age for Social Security. Estimated liability for the current participant is \$55,000. The benefit has seven possible participants and the current year expenditures were zero.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LEXINGTON, NEBRASKA

BUDGETARY COMPARISON SCHEDULE - (BUDGET AND ACTUAL)

CASH BASIS - ALL FUNDS

Year Ended September 30, 2009

	<u>Budget (Original & Final)</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUE:			
Local and county sources:			
Property and other taxes	880,246	2,603,219	1,722,973
Sales taxes	1,400,000	1,795,615	395,615
Charges and fees for services	21,751,060	17,828,774	(3,922,286)
Interest income	0	265,755	265,755
Miscellaneous	0	1,085,317	1,085,317
Donations and private grants	0	224,112	224,112
Intergovernmental	3,208,878	1,800,734	(1,408,144)
Bond/note proceeds	0	4,408,540	4,408,540
Transfers in	1,327,391	840,558	(486,833)
TOTAL REVENUE	<u>28,567,575</u>	<u>30,852,624</u>	<u>2,285,049</u>
EXPENDITURES:			
Governmental:			
General government	418,740	2,325,166	(1,906,426)
Public safety	2,038,896	1,535,964	502,932
Public works	815,569	739,838	75,731
Health and welfare	133,604	1,187,986	(1,054,382)
Culture and recreation	1,401,548	1,136,803	264,745
Community development and miscellaneous	2,809,775	342,476	2,467,299
Business-Type:			
Electric	12,247,916	11,388,979	858,937
Water	792,500	886,238	(93,738)
Sewer	799,400	633,990	165,410
Sanitation and landfill	755,337	480,979	274,358
Ambulance	134,270	133,603	667
Capital outlay	7,138,473	3,497,647	3,640,826
Debt service	1,486,523	6,001,235	(4,514,712)
Transfers out	1,327,391	851,674	475,717
TOTAL EXPENDITURES	<u>32,299,942</u>	<u>31,142,578</u>	<u>1,157,364</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>(3,732,367)</u>	<u>(289,954)</u>	<u>3,442,413</u>

See accompanying notes to Budgetary Comparison Schedule.

CITY OF LEXINGTON, NEBRASKA

NOTES TO BUDGETARY COMPARISON SCHEDULE

September 30, 2009

NOTE 1: BUDGET AND BUDGETARY ACCOUNTING

In compliance with Nebraska State Statutes, the City adopts a unified budget that encompasses all governmental funds, proprietary funds, and discretely presented component unit (CRA). It is prepared on the cash basis which differs from that used to present the financial statements in accordance with generally accepted accounting principles (GAAP). Such differences and their effect are summarized as follows:

Revenue over (under) expenditures and other financing sources uses (budgetary basis)	(289,954)
Adjustments:	
Adjust revenue for receivable accruals and deferrals	(4,562,718)
Adjust expenditures for payables	<u>5,843,525</u>
Revenue over (under) expenditures and other financing sources uses (GAAP basis)	<u>990,853</u>



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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*

Honorable Mayor, City Council and
City Manager
Lexington, Nebraska

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lexington, Nebraska as of and for the year ended September 30, 2009, which collectively comprise the City of Lexington, Nebraska's basic financial statements and have issued our report thereon dated March 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Lexington, Nebraska'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 of Lexington, Nebraska's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lexington, Nebraska's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Lexington, Nebraska's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Lexington, Nebraska's financial statements that is more than inconsequential will not be prevented or detected by the City of Lexington, Nebraska's internal control. We consider the deficiency described in the accompanying schedule of findings as 2009-1 to be a significant deficiency in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the deficiency described in the accompanying schedule of findings as 2009-1 is a material weakness.

Compliance and Other Matters

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

Response

City of Lexington, Nebraska's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs.

We did not audit City of Lexington, Nebraska's response and, accordingly, express no opinion on it.

This report is intended solely for the information and use of the City Council, audit committee, management, federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Contryman Associates P.C.

Certified Public Accountants
Lexington, Nebraska

March 19, 2010

CITY OF LEXINGTON, NEBRASKA

SCHEDULE OF FINDINGS

Year Ended September 30, 2009

Finding 2009-1

Condition – Communication between department heads at certain times is not sufficient as well as timely calculation of year end amounts for adjustments. Thus, entries were necessary to prevent material misstatement of the City of Lexington’s financial statements in the following areas:

City governmental funds:	Grant & Other Receivables
	Deferred revenue
	Retainage payable
Proprietary funds and Component unit:	Interest payables

Recommendation – The City needs to develop processes and procedures to obtain the information necessary to reconcile accounts in order to record necessary adjustments.

Management’s response – The City shall develop procedures to ensure that communication between department heads furnish the information necessary to record transactions for the City’s financial statements.