

*City of Lexington, Oklahoma*

***REPORT ON AUDIT OF FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION***

*For the Year Ended June 30, 2015*

***SAUNDERS & ASSOCIATES, PLLC***

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CITY OF LEXINGTON, OKLAHOMA

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# *Saunders & Associates, PLLC*

## *Certified Public Accountants*

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### INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Lexington, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lexington, Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Lexington's basic financial statements as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **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, each major fund, and the aggregate remaining fund information of the City of Lexington, Oklahoma as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedules of net pension liability and contributions on pages 3 through 10 and 43 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lexington, Oklahoma's basic financial statements. The combining non-major fund financial statement and the schedule of expenditures of federal and state awards are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statement and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statement and the schedule of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2015 on our consideration of the City of Lexington, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lexington, Oklahoma's internal control over financial reporting and compliance.

*Saunders & Associates, PLLC*

SAUNDERS & ASSOCIATES, PLLC  
Certified Public Accountants  
Ada, Oklahoma

December 15, 2015

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

UNAUDITED

Our discussion and analysis of the City of Lexington's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the City's financial statements, which begin on page 11.

**FINANCIAL HIGHLIGHTS**

- The City's net position increased by \$158 thousand, or 7.1 percent as a result of this year's operations. While net position of our business-type activities decreased by \$19 thousand, or 1.3 percent, net position of our governmental activities increased by \$177 thousand, or 22.7 percent.
- During the year, the City had expenses that were \$499 thousand more than the \$719 thousand generated in tax and other revenues for governmental programs (before special items and transfers from business-type activities). This compares to last year when expenses exceeded revenues by \$568 thousand.
- In the City's business-type activities, revenues decreased to \$42 thousand (or 1.7 percent) while expenses increased less than 1%.
- Total cost of all of the City's programs decreased \$130 thousand (4.2%) with no new programs added this year.
- For the general fund, the resources available for appropriation were \$28 thousand less than budgeted; the resources transferred from the proprietary funds were \$84 thousand less than budgeted; and expenditures were kept \$127 thousand less than budgeted.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 11 and 12) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 13. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 5. One of the most important questions asked about the City's finances is, *"Is the City as a whole, better off or worse off as a result of the year's activities?"* The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

UNAUDITED

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

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

- **Governmental Activities** – Most of the City's basic services are reported here, including the police, fire, general administration, streets, parks, and ambulance. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities.
- **Business-Type Activities** – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water, sewer, sanitation, and electric systems are reported here.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 5. The fund financial statements begin on page 13 and provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes, or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like the sales tax restricted for street improvement). The City's two kinds of funds – *governmental and proprietary* – use different accounting approaches.

- **Governmental Funds** – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are non-spendable, restricted, committed, assigned or unassigned. These classifications of fund balance show the nature and extent of constraints placed on the City's fund balances by law, creditors, City Council, and the City's annually adopted budget. Unassigned fund balance is available for spending for any purpose. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* in a reconciliation at the bottom of the fund financial statements.

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

UNAUDITED

- *Proprietary Funds* – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Generally, proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. However, as the City does not record compensated absences within the funds, this difference between business type activities (reported in the Statement of Net Position and the Statement of Activities) and proprietary funds is described in a reconciliation at the bottom of the fund financial statements. Additional detail, such as cash flows is provided for the enterprise funds.

THE CITY AS TRUSTEE

Reporting the City's Fiduciary Responsibilities

The City is the trustee, or fiduciary, for the municipal court bond fund and the meter deposit fund. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 20. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE CITY AS A WHOLE

Net Position

The City's combined net position increased 7.1% from \$2,231,114 to \$2,390,057. (See Table 1) In comparison, last years' net position increased 5.6%.

TABLE 1 – NET ASSETS

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total Primary</u>		<u>Total</u>
	<u>Activities</u>		<u>Activities</u>		<u>Government</u>		
	<u>06/30/15</u>	<u>06/30/14</u>	<u>06/30/15</u>	<u>06/30/14</u>	<u>06/30/15</u>	<u>06/30/14</u>	<u>% Change</u>
Capital Assets	\$ 490,348	\$ 461,169	\$ 1,135,364	\$ 1,106,538	\$ 1,625,712	\$ 1,567,707	3.7%
Current and Other Assets	<u>607,190</u>	<u>524,331</u>	<u>1,070,368</u>	<u>1,134,483</u>	<u>1,677,558</u>	<u>1,658,814</u>	<u>1.1%</u>
Total Assets	<u>1,097,538</u>	<u>985,500</u>	<u>2,205,732</u>	<u>2,241,021</u>	<u>3,303,270</u>	<u>3,220,521</u>	<u>2.4%</u>
Total Deferred Outflows Of Resources	<u>3,195</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,195</u>	<u>0</u>	<u>100.0%</u>
Long-Term Liabilities	64,649	74,840	618,154	660,903	682,803	735,743	-7.2%
Other Liabilities	<u>66,662</u>	<u>126,961</u>	<u>159,196</u>	<u>132,703</u>	<u>225,858</u>	<u>259,664</u>	<u>-13.0%</u>
Total Liabilities	<u>131,311</u>	<u>201,801</u>	<u>777,350</u>	<u>793,606</u>	<u>908,661</u>	<u>995,407</u>	<u>-8.7%</u>
Total Deferred Inflows of Resources	<u>7,747</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,747</u>	<u>0</u>	<u>100.0%</u>
<b>Net Position:</b>							
Investment in Capital Assets, Net	490,348	461,169	448,649	426,538	938,997	887,707	5.8%
Restricted	524,742	405,799	34,826	35,432	559,568	441,231	26.8%
Unrestricted	( 53,415)	( 83,269)	944,907	985,445	891,492	902,176	-1.2%
Total Net Position	<u>\$ 961,675</u>	<u>\$ 783,699</u>	<u>\$ 1,428,382</u>	<u>\$ 1,447,415</u>	<u>\$ 2,390,057</u>	<u>\$ 2,231,114</u>	<u>7.1%</u>

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

UNAUDITED

Net position of the City's governmental activities increased 22.7% (\$961,675 compared to \$783,699). Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased 35.9% from \$(83,269) to \$(53,415).

The net position of our business-type activities decreased by 1.3% (\$1,428,382 compared to \$1,447,415).

Changes in Net Position

The City's total revenues decreased by 3.7% (\$120,024). The total cost of all new programs and services decreased 4.2% (\$130,819). Table 2 and the narrative that follows consider the operations of governmental and business-type activities separately.

TABLE 2 – CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total Primary Government		Total % Change
	06/30/15	06/30/14	06/30/15	06/30/14	06/30/15	06/30/14	
Program Revenues:							
Charges for Services	\$ 173,102	\$ 175,540	\$ 2,387,530	\$ 2,294,316	\$ 2,560,632	\$ 2,469,856	3.7%
Operating Grants/ Contributions	10,687	149,140	0	0	10,687	149,140	-92.8%
Capital Grants/ Contributions	36,290	2,500	0	128,450	36,290	130,950	-72.3%
General Revenues:							
Franchise Taxes	21,283	21,291	0	0	21,283	22,291	-4.5%
Public Service Taxes	474,728	444,603	0	0	474,728	444,603	6.8%
Interest	491	348	2,778	2,498	3,269	2,846	14.9%
Miscellaneous	2,472	2,437	2,624	9,886	5,096	12,323	-58.6%
Total Revenues	<u>719,053</u>	<u>796,859</u>	<u>2,392,932</u>	<u>2,435,150</u>	<u>3,111,985</u>	<u>3,232,009</u>	<u>-3.7%</u>
Program Expenses:							
Administration	342,663	317,550	282,201	270,617	624,864	588,167	6.2%
Police	637,883	637,447	0	0	637,883	637,447	0.1%
Fire	44,378	47,225	0	0	44,378	47,225	-6.0%
Civil Defense	3,584	2,012	0	0	3,584	2,012	78.1%
Ambulance	87,045	83,895	0	0	87,045	83,895	3.8%
Street and Alley	73,413	174,331	0	0	73,413	174,331	-57.9%
Parks and Recreation	29,193	10,390	0	0	29,193	10,390	181.0%
Economic Development	439	92,296	0	0	439	92,296	-99.5%
Water	0	0	178,457	214,777	178,457	214,777	-16.9%
Wastewater	0	0	64,992	64,422	64,992	64,422	0.9%
Refuse Collection	0	0	155,353	150,039	155,353	150,039	3.5%
Electric	0	0	1,081,307	1,046,726	1,081,307	1,046,726	3.3%
Total Expenses	<u>1,218,598</u>	<u>1,365,146</u>	<u>1,762,310</u>	<u>1,746,581</u>	<u>2,980,908</u>	<u>3,111,727</u>	<u>-4.2%</u>
Excess Before Contributions Etc.	( 499,545)	( 568,287)	630,622	688,569	131,077	120,282	9.0%
Transfers	669,212	628,084	( 669,212)	( 628,084)	0	0	0.0%
Non Employer Pension Contribution	3,894	0	0	0	3,894	0	100.0%
Special Items	807	( 1,164)	( 8,269)	0	( 7,462)	( 1,164)	541.1%
Extraordinary Items	0	0	0	0	0	0	0.0%
Changes in Net Position	<u>\$ 174,368</u>	<u>\$ 58,633</u>	<u>\$( 46,859)</u>	<u>\$ 60,485</u>	<u>\$ 127,509</u>	<u>\$ 119,118</u>	<u>7.0%</u>



CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

UNAUDITED

Governmental Activities

Revenues for the City's governmental activities decreased by 9.8% (\$77,806), while total expenses decreased by 10.7% (\$146,548). With the transfer in of funds from the business-type activities, the net position for governmental activities increased 22.7%.

Table 3 presents the cost of each of the City's programs, as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

TABLE 3 – GOVERNMENTAL ACTIVITIES

	<u>Total Cost of Services</u>		<u>Total</u>	<u>Net Cost of Services</u>		<u>Total</u>
	<u>06/30/15</u>	<u>06/30/14</u>	<u>%</u>	<u>06/30/15</u>	<u>06/30/14</u>	<u>%</u>
			<u>Change</u>			<u>Change</u>
Administration	\$ 342,663	\$ 317,550	7.9%	\$ 313,511	\$ 298,570	5.0%
Police	637,883	637,447	0.1%	568,471	551,744	3.0%
Fire	44,378	47,225	-6.0%	27,744	39,512	-29.8%
Civil Defense	3,584	2,012	78.1%	3,584	2,012	78.1%
Ambulance	87,045	83,895	3.8%	( 3,768)	( 1,361)	176.9%
Street and Alley	73,413	174,331	-57.9%	65,413	94,508	-30.8%
Parks and Recreation	29,193	10,390	181.0%	23,125	( 39,315)	-158.8%
Economic Development	439	92,296	-99.5%	439	92,296	-99.5%
Total	<u>\$ 1,218,598</u>	<u>\$ 1,365,146</u>	<u>-10.7%</u>	<u>\$ 998,519</u>	<u>\$ 1,037,966</u>	<u>-3.8%</u>

The cost of all governmental activities this year was \$1,218,598 compared to \$1,365,146 last year (a decrease of \$146,548). Some of the costs were paid by those who directly benefited from the program. For 2015, the City received \$4,484 in grant funds for the fire department and \$10,000 in capital contribution for purchase of fire truck. For 2014, the City received \$6,413 in grant funds for the fire department, \$11,000 community development grant funds for community investment project, and \$79,823 in emergency funds from the State of Oklahoma during the bridge repair. Ultimately, the taxpayers financed \$496,011 (40.7%) of the cost with the remainder of the costs primarily being covered through a transfer in from the business-type activities.

Business-Type Activities

Revenues of the City's business type activities decreased by 1.7% (\$2,392,932 in 2015 compared to \$2,435,150 in 2014) and expenses increased by 0.9% (\$1,762,310 in 2015 compared to \$1,746,581 in 2014). In 2014 the City received \$128,450 in community development grant funds for rehabilitation of the water tower. Transfers to governmental funds increased 6.5% (\$669,212 in 2015 compared to \$628,084 in 2014).

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 13) reported a combined fund balance of \$551,890, which is an increase of \$140,290 (34.1%) over last year's total of \$411,600.

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

UNAUDITED

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the budget several times. The budget revisions were to set up budgets for restricted donations and to transfer appropriations from line item to line item.

With these adjustments, the actual revenues were below budgeted revenues by \$28,769 (5.1%). Additionally, actual expenditures were \$127,574 (9.7%) below budgeted expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2015, the City had \$8.1 million invested in capital assets, including police and fire equipment, buildings, park facilities, electric utility equipment, and water and sewer lines. (See table below). This amount represents a net increase of \$100,006 (1.2%) over the last year.

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Building and Property	\$ 1,836,907	\$ 1,752,336	\$ 0	\$ 0	\$ 1,836,907	\$ 1,752,336
Construction in Progress	0	58,464	0	0	0	58,464
Water and Sewer Improvements	0	0	3,809,571	3,756,828	3,809,571	3,756,828
Vehicles	524,696	373,479	0	0	524,696	373,479
Equipment	<u>234,052</u>	<u>379,543</u>	<u>1,737,332</u>	<u>1,721,901</u>	<u>1,971,383</u>	<u>2,101,444</u>
Total	<u>\$ 2,595,655</u>	<u>\$ 2,563,822</u>	<u>\$ 5,546,903</u>	<u>\$ 5,478,729</u>	<u>\$ 8,142,557</u>	<u>\$ 8,042,551</u>

This year's major additions included:

Building Renovations (New Roofs)	\$ 28,690
Parking Lot – Charlie McCown Park	21,259
Fire Truck	34,185
3 Vehicles – Light Department	96,000
Sewer System Improvements	<u>61,324</u>
	<u>\$ 241,458</u>

More detailed information about the City's capital assets is presented in Note 1 and Note 7 of the financial statements.

Capital expenditures planned for the 2015/2016 fiscal year include \$3,000 of equipment for the police department; \$27,200 of equipment for the fire department; \$95,000 for street improvements; \$75,000 for economic development; \$10,000 for the electric storage building and \$10,000 for sewer line replacement. Portions of these planned capital expenditures will be financed through grants.

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

UNAUDITED

Debt

At year-end, the City had \$687,715 in outstanding bonds and notes compared to \$687,220 last year. That is a decrease of less than 1% as shown in the following table.

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenue Bonds (backed by specific fee revenues)	\$ 0	\$ 0	\$ 605,000	\$ 680,000	\$ 605,000	\$ 680,000
Capital Lease Obligations	0	7,220	0	0	0	0
Note Obligations	0	0	81,715	0	81,715	7,220
Total	<u>\$ 0</u>	<u>\$ 7,220</u>	<u>\$ 686,715</u>	<u>\$ 680,000</u>	<u>\$ 686,715</u>	<u>\$ 603,273</u>

More detailed information about the City's long-term debt is presented in Note 8 to the financial statements.

Long-Term Liabilities – At the end of June 30, 2015, the City had \$51,177 in long-term liabilities for the City's proportionate share of the Net Pension Obligation. (See table below.)

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Net Pension Obligation			
Firefighter's	\$ 51,177	\$ 0	\$ 51,177
Police	0	0	0
Total	<u>\$ 51,177</u>	<u>\$ 0</u>	<u>\$ 51,177</u>

The fiscal year ended June 30, 2015 is the first year the net pension obligation is displayed in the financial statements. More detailed information about the City's pension plans for firefighter's and police officer's is presented in Note 1, Note 5 and Note 12 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Lexington, due to economic factors that were present in 2014-2015 fiscal years, have elected to continue the implementation of stringent expense controls for all city associates requiring total prior expenditure approvals.

The City has received notification from DEQ informing the City of Notice of Violation requiring submission of an engineering report for construction of a disinfection system at our wastewater treatment facility. The estimated cost of treatment facility replacement is \$3 Million dollars. Construction is set to begin in or around January 2016. The loan has been secured through OWRB, and the rate increases in Sewer and Water have been approved by the City Council of Lexington. The rate increases went into effect in August 2014, and are as follows: water \$14.00 for the first 1,000 gallons, and \$6.20 for the next 1,000 gallons. The fee increased at a rate of an additional 5 cents per 1,000 gallons up to 5,000 gallons and over.

Additionally, ODOT is set to begin a reconstruction project of the US 77 bridge between Lexington and Purcell. This project is scheduled to be a multi-year Project, which could cause an economic downturn for the City of Lexington.

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

UNAUDITED

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES, CONTINUED

The City's elected and appointed officials considered many factors when setting the fiscal year 2015-2016 budget. For 2014-2015, the General Fund budget for expenditures was \$1.29 million. The total revenues for 2015-2016 are budgeted at \$4,132,350 million, and the General Fund is budgeted at 1,319,400 million.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the city's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the City Manager's Office at 111 East Broadway, Lexington, Oklahoma.

Chris Coker  
City Manager

BASIC FINANCIAL STATEMENTS

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF NET POSITION

June 30, 2015

	Primary Government		
<u>ASSETS</u>	Governmental Activities	Business-Type Activities	Total
<u>Current Assets:</u>			
Cash, Including Time Deposits	\$ 548,017	\$ 690,019	\$ 1,238,036
Internal Balances	0	0	0
Accounts Receivable			
Utility Fees	0	333,113	333,113
Other	59,173	2,260	61,433
Interest Receivable	0	0	0
Total Current Assets	607,190	1,025,392	1,632,582
<u>Non-Current Assets:</u>			
Restricted Cash, Including Time Deposits	0	44,976	44,976
Deferred Expense (Note 8)	0	0	0
Property, Plant and Equipment:			
Buildings and Property	1,836,907	0	1,836,907
Construction in Progress	0	0	0
Water and Sewer Improvements	0	3,809,571	3,809,571
Vehicles	524,696	0	524,696
Equipment	234,052	1,737,332	1,971,384
Less: Accumulated Depreciation	(2,105,307)	(4,411,539)	(6,516,846)
Total Non-Current Assets	490,348	1,180,340	1,670,688
Total Assets	1,097,538	2,205,732	3,303,270
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Pension Activities	3,195	0	3,195
Total Deferred Outflows of Resources	3,195	0	3,195
<u>LIABILITIES</u>			
<u>Current Liabilities:</u>			
Accounts Payable	46,545	38,123	84,668
Accrued Payroll	8,755	4,769	13,524
Other Payables	0	15,074	15,074
Current Portion - Compensated Absences	11,362	6,357	17,719
Current Portion - Long-Term Debt	0	94,873	94,873
Total Current Liabilities	66,662	159,196	225,858
<u>Non-Current Liabilities:</u>			
Compensated Absences	13,472	26,312	39,784
Net Pension Obligation	51,177	0	51,177
Long-Term Debt	0	591,842	591,842
Total Non-Current Liabilities	64,649	618,154	682,803
Total Liabilities	131,311	777,350	908,661
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Pension Activities	7,747	0	7,747
Total Deferred Inflows of Resources	7,747	0	7,747
<u>NET POSITION</u>			
Net Investment in Capital Assets	490,348	448,649	938,997
Restricted for Debt Service	0	34,826	34,826
Restricted for Streets and Alleys	80,026	0	80,026
Restricted for Streets and Alleys and Economic Development	421,157	0	421,157
Restricted for Police Department	3,778	0	3,778
Restricted for Parks and Recreation	19,781	0	19,781
Unrestricted	(53,415)	944,907	891,492
Total Net Position	\$ 961,675	\$ 1,428,382	\$ 2,390,057

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

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2015

	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<b>PRIMARY GOVERNMENT:</b>							
Governmental Activities:							
Administration	\$ 342,663	\$ 10,862	\$ 0	\$ 18,290	\$ (313,511)		\$ (313,511)
Police	637,883	69,277	135	0	(568,471)		(568,471)
Fire	44,378	2,150	4,484	10,000	(27,744)		(27,744)
Civil Defense	3,584	0	0	0	(3,584)		(3,584)
Ambulance	87,045	90,813	0	0	3,768		3,768
Street and Alley	73,413	0	0	8,000	(65,413)		(65,413)
Parks and Recreation	29,193	0	6,068	0	(23,125)		(23,125)
Economic Development	439	0	0	0	(439)		(439)
Total Governmental Activities	<u>1,218,598</u>	<u>173,102</u>	<u>10,687</u>	<u>36,290</u>	<u>(998,519)</u>		<u>(998,519)</u>
Business-Type Activities:							
Administration	282,201	0	0	0		\$ (282,201)	(282,201)
Water	178,457	406,642	0	0		228,185	228,185
Wastewater	64,992	233,141	0	0		168,149	168,149
Refuse Collection	155,353	184,331	0	0		28,978	28,978
Electric	1,081,307	1,563,416	0	0		482,109	482,109
Total Business-Type Activities	<u>1,762,310</u>	<u>2,387,530</u>	<u>0</u>	<u>0</u>		<u>625,220</u>	<u>625,220</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 2,980,908</b>	<b>\$ 2,560,632</b>	<b>\$ 10,687</b>	<b>\$ 36,290</b>	<b>(998,519)</b>	<b>625,220</b>	<b>(373,299)</b>
General Revenues:							
Taxes:							
Franchise Taxes					21,283	0	21,283
Public Service Taxes					474,728	0	474,728
Grants and Contributions not restricted to specific programs					0	0	0
Unrestricted Investment Earnings					491	2,778	3,269
Miscellaneous					2,472	2,624	5,096
Non-Employer Pension Contribution					3,894	0	3,894
Special Item					807	(8,269)	(7,462)
Transfers					669,212	(669,212)	0
Total General Revenues, Special Items and Transfers					<u>1,172,887</u>	<u>(672,079)</u>	<u>500,808</u>
Change in Net Position					174,368	(46,859)	127,509
Net Position, June 30, 2014, As Restated					787,307	1,475,241	2,262,548
NET POSITION, JUNE 30, 2015					<u>\$ 961,675</u>	<u>\$ 1,428,382</u>	<u>\$ 2,390,057</u>

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

CITY OF LEXINGTON, OKLAHOMA

BALANCE SHEET -  
GOVERNMENTAL FUNDS

June 30, 2015

	General Fund	Special Revenue Restricted Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash, Including Time Deposits	\$ 41,236	\$ 428,475	\$ 78,306	\$ 548,017
Due From Other Funds	135	0	0	135
Accounts Receivable:				
Utility Fees	0	0	0	0
Other	45,236	12,082	1,720	59,038
Total Assets	<u>86,607</u>	<u>440,557</u>	<u>80,026</u>	<u>607,190</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Total Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 86,607</u>	<u>\$ 440,557</u>	<u>\$ 80,026</u>	<u>\$ 607,190</u>
 <u>LIABILITIES</u>				
Accounts Payable	\$ 27,145	\$ 19,400	\$ 0	\$ 46,545
Accrued Payroll	8,755	0	0	8,755
Due to Other Funds	0	0	0	0
Total Liabilities	<u>35,900</u>	<u>19,400</u>	<u>0</u>	<u>55,300</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Total Deferred Inflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>FUND BALANCE</u>				
NonSpendable	0	0	0	0
Restricted for:				
Streets and Alleys	0	0	80,026	80,026
Streets and Alleys & Economic Development	0	421,157	0	421,157
Police Department	3,778	0	0	3,778
Parks & Recreation	19,781	0	0	19,781
Committed for:				
Streets and Alleys	0	0	0	0
Assigned	0	0	0	0
Unassigned	27,148	0	0	27,148
Total Fund Balance	<u>50,707</u>	<u>421,157</u>	<u>80,026</u>	<u>551,890</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$ 86,607</u>	<u>\$ 440,557</u>	<u>\$ 80,026</u>	<u>\$ 607,190</u>
Fund equity - total governmental funds				\$ 551,890
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.				490,348
Long Term Debt Obligations of governmental activities are not financial uses and therefore are not reported in the funds.				0
Deferred Expense (See Note 8)				0
Compensated absences are not reported in the fund financial statements (See Note 1).				(24,834)
Deferred outflows of resources - pension activities apply to future periods and therefore are not reported in the funds.				3,195
Deferred inflows of resources - pension activities apply to future periods and therefore are not reported in the funds.				(7,747)
Net pension obligation in governmental activities is not due and payable in current period and therefore is not reported in the funds.				<u>(51,177)</u>
Net position of governmental activities				<u>\$ 961,675</u>

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



CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2015

	General Fund	Special Revenue Restricted Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>				
Taxes	\$ 325,255	\$ 150,170	\$ 20,586	\$ 496,011
Licenses and Permits	8,989	0	0	8,989
Intergovernmental	4,484	0	0	4,484
Charges for Services	73,300	0	0	73,300
Ambulance Assessments	90,813	0	0	90,813
Donations	6,203	0	0	6,203
Interest	491	0	0	491
Miscellaneous	21,100	0	0	21,100
Total Revenues	<u>530,635</u>	<u>150,170</u>	<u>20,586</u>	<u>701,391</u>
<u>EXPENDITURES</u>				
Current:				
Administration	285,411	0	0	285,411
Police	644,605	0	0	644,605
Fire	74,927	0	0	74,927
Civil Defense	3,584	0	0	3,584
Ambulance	87,045	0	0	87,045
Street and Alley	74,694	1,250	(2,494)	73,450
Parks and Recreation	29,193	0	0	29,193
Economic Development	0	32,098	0	32,098
Total Expenditures	<u>1,199,459</u>	<u>33,348</u>	<u>(2,494)</u>	<u>1,230,313</u>
Excess of Revenues Over (Under) Expenditures	(668,824)	116,822	23,080	(528,922)
Other Financing Sources (Uses):				
Operating Transfers In (Out)	<u>669,212</u>	<u>0</u>	<u>0</u>	<u>669,212</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	388	116,822	23,080	140,290
Fund Balance, June 30, 2014	<u>50,319</u>	<u>304,335</u>	<u>56,946</u>	<u>411,600</u>
FUND BALANCE, JUNE 30, 2015	<u>\$ 50,707</u>	<u>\$ 421,157</u>	<u>\$ 80,026</u>	<u>\$ 551,890</u>
Net change in fund balances - total governmental funds				\$ 140,290
Amounts reported for governmental activities in the statement of activities are different because:				
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$65,844) exceeded depreciation (\$55,135) in the current period.				10,709
Business type activity capital contribution not recorded in the fund financial statements.				18,290
Asset reassignment from business type activity not recorded in fund financial statements.				8,000
Loss on Disposition of Assets is not recorded in the fund financial statements.				(7,821)
Compensated absences are not reported in the fund financial statements (See Note 1).				3,626
Pension obligation is not reported in the funds. This amount represents the current year change.				<u>1,274</u>
Change in net position of governmental activities				<u>\$ 174,368</u>

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

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

June 30, 2015

	<u>Enterprise Funds</u>		<u>Total</u>
	<u>Light Fund</u>	<u>LPWA Fund</u>	
<b><u>ASSETS</u></b>			
Current Assets:			
Cash, Including Time Deposits	\$ 458,100	\$ 231,919	\$ 690,019
Due From Other Funds	0	2,260	2,260
Accounts Receivable	216,081	117,032	333,113
Interest Receivable	0	0	0
Total Current Assets	<u>674,181</u>	<u>351,211</u>	<u>1,025,392</u>
Non-Current Assets:			
Restricted Cash, Including Time Deposits	10,150	34,826	44,976
Property, Plant and Equipment:			
Water and Sewer Improvements	0	3,809,571	3,809,571
Equipment	1,558,665	178,667	1,737,332
Less: Accumulated Depreciation	(1,244,399)	(3,167,140)	(4,411,539)
Total Non-Current Assets	<u>324,416</u>	<u>855,924</u>	<u>1,180,340</u>
Total Assets	<u>998,597</u>	<u>1,207,135</u>	<u>2,205,732</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Total Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>
<b><u>LIABILITIES</u></b>			
Current Liabilities:			
Accounts Payable	16,742	21,381	38,123
Accrued Payroll	3,251	1,518	4,769
Other Payables	12,654	2,420	15,074
Due to Other Funds	0	0	0
Current Portion - Long-Term Debt	14,873	80,000	94,873
Total Current Liabilities	<u>47,520</u>	<u>105,319</u>	<u>152,839</u>
Non-Current Liabilities:			
Long-Term Debt	66,842	525,000	591,842
Total Non-Current Liabilities	<u>66,842</u>	<u>525,000</u>	<u>591,842</u>
Total Liabilities	<u>114,362</u>	<u>630,319</u>	<u>744,681</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Total Deferred Inflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>
<b><u>NET POSITION</u></b>			
Net Investment in Capital Assets	232,551	216,098	448,649
Restricted for Debt Service	0	34,826	34,826
Unrestricted	651,684	325,892	977,576
Total Net Position	<u>\$ 884,235</u>	<u>\$ 576,816</u>	<u>\$ 1,461,051</u>

Net Position - total proprietary funds \$ 1,461,051

Compensated absences are not reported in the fund financial statements (See Note 1). (32,669)

Net Position of Business Type Activities \$ 1,428,382

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

## CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION

## PROPRIETARY FUNDS

For the Year Ended June 30, 2015

	Enterprise Funds		Total
	Light Fund	LPWA Fund	
<u>Operating Revenues:</u>			
Electric Charges	\$ 1,563,416	\$ 0	\$ 1,563,416
Water Charges	0	406,642	406,642
Garbage Charges	0	184,331	184,331
Sewer Charges	0	233,141	233,141
	<u>1,563,416</u>	<u>824,114</u>	<u>2,387,530</u>
<u>Operating Expenses:</u>			
Administration:			
Personnel Services	82,170	10,008	92,178
Materials and Supplies	765	166	931
Other Services and Charges	64,840	7,571	72,411
Depreciation	41,578	74,750	116,328
	<u>189,353</u>	<u>92,495</u>	<u>281,848</u>
<u>Water:</u>			
Personnel Services	0	116,316	116,316
Materials and Supplies	0	14,922	14,922
Other Services and Charges	0	35,603	35,603
	<u>0</u>	<u>166,841</u>	<u>166,841</u>
<u>Wastewater:</u>			
Personnel Services	0	19,189	19,189
Materials and Supplies	0	3,704	3,704
Other Services and Charges	0	42,099	42,099
	<u>0</u>	<u>64,992</u>	<u>64,992</u>
<u>Refuse Collection:</u>			
Other Services and Charges	0	155,353	155,353
	<u>0</u>	<u>155,353</u>	<u>155,353</u>

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

## CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION

## PROPRIETARY FUNDS

For the Year Ended June 30, 2015

	Enterprise Funds		Total
	Light Fund	LPWA Fund	
<u>Electric:</u>			
Personnel Services	182,641	0	182,641
Materials and Supplies	25,757	0	25,757
Other Services and Charges	6,616	0	6,616
Power Purchases	856,533	0	856,533
Total Electric	1,071,547	0	1,071,547
Total Operating Expenses	1,260,900	479,681	1,740,581
Net Operating Income	302,516	344,433	646,949
<u>Non-Operating Revenue (Expense):</u>			
Interest Revenue	1,698	1,080	2,778
Interest Expense	(3,602)	(12,789)	(16,391)
Other	2,450	174	2,624
Gain (Loss) on Sale of Asset	(3,983)	(4,286)	(8,269)
Other - Asset Reassignment	(8,000)	0	(8,000)
Intergovernmental	0	0	0
Total Non-Operating Revenues (Expense)	(11,437)	(15,821)	(27,258)
Net Income Before Other Financing Sources and (Uses)	291,079	328,612	619,691
<u>Other Financing Sources (Uses):</u>			
Capital Contributions	0	0	0
Debt Issue Costs	0	0	0
Trustee Fees	0	0	0
Operating Transfers In (Out)	(430,212)	(239,000)	(669,212)
Total Other Financing Sources (Uses)	(430,212)	(239,000)	(669,212)
Change in Net Position	(139,133)	89,612	(49,521)
Net Position, June 30, 2014	1,023,368	487,204	1,510,572
NET POSITION, JUNE 30, 2015	\$ 884,235	\$ 576,816	\$ 1,461,051
Change in Net Position - total proprietary funds			\$ (49,521)
Compensated absences are not reported in the fund financial statements (See Note 1).			2,662
Change in Net Position of business-type activities			\$ (46,859)

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

## CITY OF LEXINGTON, OKLAHOMA

## STATEMENT OF CASH FLOWS

## PROPRIETARY FUNDS

For the Year Ended June 30, 2015

	Enterprise Funds		
	Light Fund	LPWA Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers	\$ 1,566,465	\$ 797,373	\$ 2,363,838
Payments to suppliers	(940,578)	(266,661)	(1,207,239)
Payments to employees	(264,182)	(145,315)	(409,497)
Net Cash Provided (Used) by Operating Activities	<u>361,705</u>	<u>385,397</u>	<u>747,102</u>
<u>Cash Flows From Non-Capital Financing Activities:</u>			
Other receipts (payments)	2,450	174	2,624
Operating Transfers (To) From Other Funds	(430,211)	(240,047)	(670,258)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(427,761)</u>	<u>(239,873)</u>	<u>(667,634)</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Proceeds from capital debt	96,050	0	96,050
Purchases of capital assets	(96,000)	(65,425)	(161,425)
Principal paid on capital debt	(14,335)	(75,000)	(89,335)
Interest paid on capital debt	(3,602)	(12,789)	(16,391)
Other receipts (payments)	<u>0</u>	<u>0</u>	<u>0</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(17,887)</u>	<u>(153,214)</u>	<u>(171,101)</u>
<u>Cash Flows Provided by Investing Activities:</u>			
Interest and dividends	<u>1,698</u>	<u>1,080</u>	<u>2,778</u>
Net Cash Provided (Used) by Investing Activities	<u>1,698</u>	<u>1,080</u>	<u>2,778</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(82,245)	(6,610)	(88,855)
Cash and Cash Equivalents, June 30, 2014	<u>550,495</u>	<u>273,355</u>	<u>823,850</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2015	<u>\$ 468,250</u>	<u>\$ 266,745</u>	<u>\$ 734,995</u>

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

## CITY OF LEXINGTON, OKLAHOMA

## STATEMENT OF CASH FLOWS

## PROPRIETARY FUNDS

For the Year Ended June 30, 2015

	Enterprise Funds		
	Light Fund	LPWA Fund	Total
<u>Cash Consists of:</u>			
Cash on Hand	\$ 600	\$ 0	\$ 600
Demand Deposits	46,513	111,449	157,962
Certificates of Deposit	410,987	120,470	531,457
Restricted Deposits	10,150	34,826	44,976
	<u>468,250</u>	<u>266,745</u>	<u>734,995</u>
TOTAL CASH, END OF YEAR	\$ <u>468,250</u>	\$ <u>266,745</u>	\$ <u>734,995</u>
<u>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</u>			
Operating income (loss)	\$ 302,516	\$ 344,433	\$ 646,949
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	41,578	74,750	116,328
Change in assets and liabilities:			
Receivables, net	3,049	(26,741)	(23,692)
Accounts and other payables	14,562	(7,045)	7,517
	<u>361,705</u>	<u>385,397</u>	<u>747,102</u>
Net Cash Provided by Operating Activities	\$ <u>361,705</u>	\$ <u>385,397</u>	\$ <u>747,102</u>

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

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

June 30, 2015

	Agency Funds			
	Meter Deposit	Payroll	Municipal Court	Total
<u>ASSETS</u>				
Cash, Including Time Deposits	\$ 112,424	\$ 251	\$ 610	\$ 113,285
Accounts Receivable	0	0	0	0
Due From Other Funds	0	0	0	0
<b>TOTAL ASSETS</b>	<b>\$ 112,424</b>	<b>\$ 251</b>	<b>\$ 610</b>	<b>\$ 113,285</b>
 <u>LIABILITIES</u>				
Accounts Payable	\$ 0	\$ 251	\$ 475	\$ 726
Due To Other Funds	2,260	0	135	2,395
Meter Deposit Liability	110,164	0	0	110,164
<b>TOTAL LIABILITIES</b>	<b>\$ 112,424</b>	<b>\$ 251</b>	<b>\$ 610</b>	<b>\$ 113,285</b>

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

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lexington operates under the Statutory Council Manager form of government, and provides the following services: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The following is a summary of the more significant accounting policies of the City.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (*Statements and Interpretations*). The more significant accounting policies in GAAP and used by the City are discussed in subsequent sections.

Reporting Entity – These financial statements present the City and its component unit, the Lexington Public Works Authority. As defined by GASB No. 14, component units are legally separate entities that are included in the City's reporting entity because of the significance of their operating or financial relationships with the City.

Pursuant to Title 60 of Oklahoma Statutes, the City provides utility services through the Lexington Public Works Authority. The Authority is a public trust with the City of Lexington as beneficiary. The members of the City Council of the City of Lexington serve as trustees of the Authority.

Basic Financial Statements – Government-Wide Statements - The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's police, fire, civil defense and ambulance protection, parks recreation, street and alley, economic development, and general administrative services are classified as governmental activities. The City's electric, water, sewer, and refuse services are classified as business-type activities.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (police, fire, public works, etc.). The functions are also supported by general government revenues (sales and use taxes, certain intergovernmental revenues, fines, permits and charges, 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 function (police, fire, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

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

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.



CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basic Financial Statements - 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 assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activity categories. Non-major funds by category are summarized into a single column. *GASB Statement No. 34* sets forth minimum criteria (percentage of the assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements.

The following fund types are used by the City:

**Governmental Funds** – 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 to expenditures for specific purposes. Presently, the City utilizes two special revenue funds:

- Sales Tax Improvement Fund – Used to account for and report financial resources that are restricted for street improvement projects and economic development. See related Note 4.
- Street and Alley Fund – Used to account for and report financial resources that are restricted for construction, maintenance, repair, improvement, or lighting of streets and alleys.

**Proprietary Funds** – The focus of proprietary fund measurement is upon determination of operating income, changes in net position, 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 for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues. (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs. The City's Enterprise Funds are the two funds of the Lexington Public Works Authority, the LPWA Fund and the Light Fund.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

**Fiduciary Funds** – Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs.

**Agency Funds** – Agency Funds account for assets held by the City in a purely custodial capacity. Since agency funds are custodial in nature (i.e., assets equal liabilities), they do not involve the measurement of results of operations.

The City's fiduciary funds are presented in the fiduciary fund financial statements by type (agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Basis of Accounting - Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

**Accrual** - Both governmental and business-type activities in the governmental-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**Modified Accrual** – The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Recent Accounting Pronouncements – In June 2012, GASB issued *Statement No. 68, "Accounting and Financial Reporting for Pensions" – an amendment of GASB Statement No. 27 (GASB 68)*. The objective of GASB 68 is to improve accounting and financial reporting for pensions by state and local governments, and to improve information where support for pensions has been provided by other entities. This statement establishes standards for measuring and recognizing liabilities, deferred inflows and outflows of resources, and expenses. For defined benefit pensions, it identifies methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their present value and attribute that value to periods of employee service. The City adopted this statement effective July 1, 2014.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial Statement Amounts:

Cash and Cash Equivalents – For purposes of the Statement of Cash Flows, the enterprise funds consider all highly liquid investments (including restricted assets) to be cash equivalents. All certificates of deposit, other time deposits and investments are considered cash equivalents.

Investments – Investments consist of insured certificates of deposit and are stated at cost, which approximates market.

Inventories – The purchase of materials and supplies inventory is recorded as an expenditure at the time of purchase. Therefore, no amounts representing inventory purchased but not used are reflected in any fund.

Interfund Transactions – During the course of normal operations, the City has transactions between funds including expenditures and transfers of resources to provide services, purchase assets and service debt. Transactions, which are normal and recurring between funds, are recorded as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Reserves – Reserves are recorded to signify that a portion of the fund equity is segregated from future use and is not available for appropriation or expenditure.

Receivables – Receivables at June 30, 2015 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Grants</u>	<u>Other</u>	<u>Total Receivables</u>
<b>Governmental Activities:</b>					
General	\$ 0	\$ 38,163	\$ 0	\$ 135	\$ 38,298
Ambulance	14,050	0	0	0	14,050
Fire	<u>6,825</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,825</u>
Total Governmental Activities	<u>\$ 20,875</u>	<u>\$ 38,163</u>	<u>\$ 0</u>	<u>\$ 135</u>	<u>\$ 59,173</u>
<b>Business-Type Activities:</b>					
Administration	\$ 0	\$ 0	\$ 0	\$ 2,432	\$ 2,432
Electric	216,081	0	0	0	216,081
Water	59,178	0	0	0	59,178
Sewer	32,861	0	0	0	32,861
Garbage	<u>24,821</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>24,821</u>
Total Business-Type Activities	<u>\$ 332,941</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,432</u>	<u>\$ 335,373</u>

Revenues – Substantially all governmental revenues are accrued. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on *GASB 33*. In applying *GASB Statement No. 33* to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Payables – Payables at June 30, 2015 were as follows:

	(Interest) <u>Other</u>	<u>Vendors</u>	(Sales Tax) <u>Other</u>	<u>Total Payables</u>
<b>Governmental Activities:</b>				
General	\$ 0	\$ 27,145	\$ 0	\$ 27,145
Restricted Sales Tax	0	19,400	0	19,400
Other Governmental	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Governmental Activities	<u>\$ 0</u>	<u>\$ 46,545</u>	<u>\$ 0</u>	<u>\$ 46,545</u>
<b>Business-Type Activities:</b>				
Administration	\$ 0	\$ 0	\$ 0	\$ 0
Electric	0	16,742	12,654	29,396
Water/Sewer/Garbage	<u>2,420</u>	<u>21,381</u>	<u>0</u>	<u>23,801</u>
Total Business-Type Activities	<u>\$ 2,420</u>	<u>\$ 38,123</u>	<u>\$ 12,654</u>	<u>\$ 53,197</u>

Expenditures – Expenditures are recognized when the related fund liability is incurred.

Capital Assets – Historically capital assets purchased or acquired with a useful life in excess of one year were reported at historical cost or estimated historical cost. During the fiscal year ended June 30, 2015, the City changed its capitalization threshold to \$2,500. All capital assets with a cost of less than \$2,500 were removed. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The City reports all major general infrastructure assets constructed or acquired in fiscal years ending after June 30, 2000, or that received major renovations, restorations, or improvements during that period. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives.

Buildings	40 years
Water and sewer system	5 – 25 years
Equipment	2 – 25 years
Vehicles	5 years

Compensated Absences – Under City personnel policies, City employees are granted vacation leave in varying amounts. Annual sick leave is earned at 10 hours per month for full-time employees with maximum accrual to 120 days with one-half of accrued sick leave payable at retirement or a prorated amount for years of service at resignation of employment. Retirement is defined as age 62 or older or age 50 plus 10 years of service. The City records vacation and sick leave expense at the time the leave is paid. Compensated absences are not accrued in the City fund financial statements and represent a reconciling item between the fund and government-wide presentations. (See related Note 7).

Deferred Outflows of Resources – The City reports decreases in net position/fund balance that relate to future periods as deferred outflows of resources in a separate section of its government-wide statement of net position, governmental funds balance sheets and proprietary funds statement of net position. The only deferred outflows of resources reported in this year's financial statements are related to pension activities. See related Note 5 – Pension Plans – Volunteer Firefighters and Police Officers for the components of deferred inflows related to pension activities.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Deferred Inflows of Resources – The City reports increases in net position/fund balance that apply to future periods as deferred inflows of resources in a separate section of its government-wide statement of net position, governmental funds balance sheets and proprietary funds statement of net position. The only deferred inflows of resources reported in this year's financial statements are related to pension activities. See related Note 5 – Pension Plans – Volunteer Firefighters and Police Officers for the components of deferred inflows related to pension activities.

Defining Operating Revenues and Expenses – The City's proprietary funds distinguish between operating and non-operating revenues and expenses. Operating revenues and expenses of the City's Light and LPWA funds consist of charges for services (including tap fees) and the cost of providing these services, including depreciation and excluding interest cost. All other revenues and expenses are reported as non-operating.

Government-Wide and Proprietary Fund Net Position – Government-wide and proprietary fund net position are divided into three components:

- Net Investment in Capital Assets – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted Net Position – consists of assets that are restricted by the City's creditors (for example, through debt covenants), by state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors (including those who have donated to the City's parks and police departments less related liabilities and deferred inflows of resources).
- Unrestricted – all other net position is reported in this category.

Fund Equity – In the governmental fund financial statements fund balances are classified as follows:

- Non-spendable – Amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
- Restricted – Amounts that can be spent only for specific purposes because of the City Charter, the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed – Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance or resolution.
- Assigned – Amounts that are designated by the Mayor for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by City Council.
- Unassigned – All amounts not included in other spendable classifications.

Use of Restricted Resources – When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the City's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In the governmental funds, the City's policy is to first apply the expenditure to restricted fund balances first, followed by committed resources than assigned resources then unassigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

The general fund has not assigned any of the June 30, 2015 fund balance to meet budgeted expenditures for fiscal year 2015/2016.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 2: DEPOSITS, INVESTMENTS AND COLLATERAL

Oklahoma statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure these funds. In addition, the City can invest in direct debt securities of the United States of America unless law expressly prohibits such an investment.

During the year ended June 30, 2015, the City's deposits were limited to insured checking and savings accounts and collateralized certificates of deposit. At June 30, 2015, the amount of total bank deposits at certain financial institutions exceeded the amount of insurance coverage; however, acceptable collateral was pledged in order that the deposits were secured at the respective financial institutions.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it.

Bank balances at year-end are categorized as follows to give an indication of the level of risk assumed by the organization.

Unreconciled

<u>Category</u>	<u>Balance Per Bank</u>
Insured or collateralized with securities held by the organization or by its agent in the organization's name.	\$ 306,000
Collateralized with securities held by the pledging financial institution's trust department.	1,053,330
Uncollateralized.	<u>0</u>
TOTAL	\$ <u>1,359,330</u>

NOTE 3: SALES TAX RESTRICTIONS

The City receives a 3.5% sales tax with the last 1.5% being added October 1, 1989 and renewed in 2014. In November 2013, voters approved an additional .5% sales tax to be effective January 1, 2014 through December 31, 2024, which raised the total sales tax to 4%. Of this amount, 1.5% is restricted by voter referendum to the payment of principal and interest on indebtedness incurred only for street improvement projects and economic development. The proceeds of this restricted sales tax are accounted for in the *Sales Tax Street Improvement Special Revenue Fund*. The remaining 2.5% tax is deposited in and used for the operations of the General Fund of the City.

CITY OF LEXINGTON, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 4: RESTRICTED ASSETS

Authority Promissory Note – Cash and investments are held by the trustee bank on behalf of the Public Works Authority for retirement of a promissory note. Such assets are held in trust to provide for debt service, a debt service reserve and project account. All such funds are for the purpose of insuring the payment of the indebtedness or for providing funds for designated projects. Cash is required to be transferred monthly from the operating account of the Enterprise Funds to the sinking fund account of the trustee bank.

NOTE 5: PENSION PLANS

Defined Contribution Plan – The City contributes to the City of Lexington 401k Plan (Plan), a defined contribution pension plan, for its full-time employees. Beginning March 4, 2015 the City's police officers pensions are through a separate defined benefit plan (see Police Pension section of Note 5 Pension Plans). The Plan is administered by July Business Services. Benefit terms, including contribution requirements, for the Plan are established and may be amended by the City Council. The City and employees are required to contribute 10% of employee's total earnings each month to individual employee accounts for each participating employee. For the year ended June 30, 2015, employee contributions totaled \$67,435, and the City recognized pension expense of \$67,435.

Employees are immediately vested in their own contributions and earnings on these contributions. Employees become vested in the City's contributions and earnings on City contributions after completion of 7 years of continuous service. Nonvested contributions are forfeited upon termination of employment and such forfeitures are disbursed to remaining employees' accounts.

The City had no liability to the Plan at June 30, 2015.

Volunteer Firefighters – Plan description. The City contributes to the Oklahoma Firefighters Pension and Retirement Plan ("Plan) which is a cost sharing multiple employer defined benefit pension plan covering members who have actively participated in firefighting activities. The plan is administered by the Oklahoma Firefighters Pension and Retirement System. The Plan provides defined retirement benefits based on members' final average compensation, age, and term of service; benefits upon disability; and survivor's benefits upon death of eligible members. The Plan benefits are established and amended by State statute. The Plan issues a publicly available financial report which includes financial statements and required supplementary information. That report may be obtained by writing to the Oklahoma Firefighters Pension and Retirement System, 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, Oklahoma 73105-3414.

Contributions. The contribution requirements of the Plan are at an established rate determined by Oklahoma statute and are not based on actuarial calculations. The City is required by State statute to contribute annually \$60 per volunteer firefighter. The City's contributions to the Plan for the year ended June 30, 2015 were \$960 which represents 100% of required contributions for the current fiscal year. Additionally, the State, a non-employer contributing entity, contributes a portion of the insurance premium tax collected through its taxing authority. For the fiscal year ended June 30, 2015 the City's proportionate share of non-employer contributions to the Plan were \$3,894.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 5: PENSION PLANS, CONTINUED

*Net Pension Liability.* At June 30, 2015 the City reported a liability of \$51,177 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2015 the City's proportion was 0.0050%. The employer allocation percentage represents the portion of the City's actual cash contributions divided by the total of all employer contributions for the year.

*Actuarial Assumptions.* The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	3%
Salary increases:	3.5% to 9.0% average, including inflation
Investment rate of	7.5% net of pension plan investment expense

Mortality rates were based on the RP2000 combined healthy with blue collar adjustment as appropriate, with adjustments for generational mortality improvement using scale AA for healthy lives and no mortality improvement for disabled lives.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	5.48%
Domestic equity	9.61%
International equity	9.24%
Real estate	7.76%
Other assets	6.88%



CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 5: PENSION PLANS, CONTINUED

*Discount Rate.* The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at the contractually required rates, determined by State statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 36% of the insurance premium, as established by statute. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate.* The following pension liability presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	<u>Discount Rate</u>	City's proportionate share of net pension <u>liability</u>
1% decrease	6.5%	\$67,140
Current discount rate	7.5%	\$51,177
1% increase	8.5%	\$38,236

*Plan Fiduciary Net Position.* Detailed information about the Plan's fiduciary net position is available in a separately issued Oklahoma Firefighters Pension and Retirement Plan financial report.

*Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* For the fiscal year ended June 30, 2015 the City recognized pension expense of \$4,596. At June 30, 2015 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual plan experience	\$ 1,219	\$ 0
Net difference between projected and actual earnings on plan investments	0	7,747
Changes in assumptions	0	0
Changes in proportion and differences between City's contributions and proportionate share of contributions	0	0
City's contributions subsequent to the measurement date	960	0
Total	<u>\$ 2,179</u>	<u>\$ 7,747</u>

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 5: PENSION PLANS, CONTINUED

The \$960 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net position liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Fiscal year ending June 30,	
2016	\$ (1,710)
2017	\$ (1,710)
2018	\$ (1,710)
2019	\$ (1,709)
2020	\$ 227
Thereafter	\$ 84

Police Officers – Plan description. The City contributes to the Oklahoma Police Pension and Retirement Plan ("Plan") which is a cost sharing multiple employer defined benefit pension plan covering members who have actively participated in being a police officer for an Oklahoma municipality or state agency which is a member of the Plan. The City has been a member of the Plan since 1977 but did not have any active members until March 4, 2015. The plan is administered by the Oklahoma Police Pension and Retirement System. The Plan provides defined retirement benefits based on members' final average compensation, age, and term of service; benefits upon disability; and survivor's benefits upon death of eligible members. The Plan benefits are established and amended by State statute. The Plan issues a publicly available financial report which includes financial statements and required supplementary information. That report may be obtained by writing to the Oklahoma Police Pension and Retirement System, 1001 N.W. 63<sup>rd</sup> Street, Suite 305, Oklahoma City, Oklahoma 73116-7335.

Contributions. The contribution requirements of the Plan are at an established rate determined by Oklahoma statute and are not based on actuarial calculations. The City is required by State statute to contribute 13% of the total earnings, excluding overtime, of each participant employed by the City. Each participant (police officer) contributes 8% of their total earnings, excluding overtime. The City's contributions to the Plan for the year ended June 30, 2015 were \$1,016 and participant's (police officer's) contributed \$625 which represents 100% of required contributions for the current fiscal year. Additionally, the State, a non-employer contributing entity, contributes a portion of the insurance premium tax collected through its taxing authority. For the fiscal year ended June 30, 2015 the City's proportionate share of non-employer contributions to the Plan were \$0.

Net Pension Liability. At June 30, 2015 the City reported a liability (asset) of \$0 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2014, and the total pension liability (asset) used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability (asset) was based on projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2015 the City's proportion was 0.0%. The employer allocation percentage represents the portion of the City's actual cash contributions divided by the total of all employer contributions for the year.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 5: PENSION PLANS, CONTINUED

*Actuarial Assumptions.* The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	3%
Salary increases:	4.5% to 17% average, including inflation
Investment rate of	7.5% net of pension plan investment expense
Mortality rates:	
Active employees (pre-retirement):	RP-2000 Blue Collar Healthy Combined table with age set back 4 years with fully generational improvement using Scale AA.
Active employees (post-retirement) and non-disabled pensioners:	RP-2000 Blue Collar Healthy Combined table with fully generational improvement using Scale AA.
Disabled pensioners:	RP-2000 Blue Collar Healthy Combined table with age set forward 4 years with fully generational improvement using Scale AA.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	2.83%
Domestic equity	6.47%
International equity	6.98%
Real estate	5.50%
Private equity	5.96%
Commodities	3.08%

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 5: PENSION PLANS, CONTINUED

*Discount Rate.* The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at the contractually required rates, determined by State statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 14% of the insurance premium, as established by statute. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate.* The following pension liability presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	<u>Discount Rate</u>	City's proportionate share of net pension <u>liability</u>
1% decrease	6.5%	\$0
Current discount rate	7.5%	\$0
1% increase	8.5%	\$0

*Plan Fiduciary Net Position.* Detailed information about the Plan's fiduciary net position is available in a separately issued Oklahoma Police Pension and Retirement Plan financial report.

*Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* For the fiscal year ended June 30, 2015 the City recognized pension expense of \$0. At June 30, 2015 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual plan experience	\$ 0	\$ 0
Net difference between projected and actual earnings on plan investments	0	0
Changes in assumptions	0	0
Changes in proportion and differences between City's contributions and proportionate share of contributions	0	0
City's contributions subsequent to the measurement date	<u>1,016</u>	<u>0</u>
Total	<u>\$ 1,016</u>	<u>\$ 0</u>

CITY OF LEXINGTON, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 5: PENSION PLANS, CONTINUED

The \$1,016 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net position liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Fiscal year ending June 30,	
2016	\$ 0
2017	\$ 0
2018	\$ 0
2019	\$ 0
2020	\$ 0
Thereafter	\$ 0

NOTE 6: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	Balance June 30, 2014	Increase	Decrease	Balance June 30, 2015
<b>Governmental Activities:</b>				
<u>Capital Assets Not Being Depreciated</u>				
Construction in Progress	\$ 58,464	\$ 0	\$( 58,464)	\$ 0
Total Capital Assets Not Being Depreciated	<u>58,464</u>	<u>0</u>	<u>( 58,464)</u>	<u>0</u>
<u>Other Capital Assets</u>				
Buildings and Property	1,752,336	108,414	( 23,843)	1,836,907
Vehicles	373,479	169,153	( 17,936)	524,696
Equipment	<u>379,544</u>	<u>0</u>	<u>( 145,492)</u>	<u>234,052</u>
Total Other Capital Assets	<u>2,505,359</u>	<u>277,567</u>	<u>( 187,271)</u>	<u>2,595,655</u>
<u>Accumulated Depreciation</u>				
Buildings and Property	( 1,412,066)	( 14,410)	18,325	( 1,408,151)
Vehicles	( 320,640)	( 160,728)	16,356	( 465,012)
Equipment	<u>( 369,948)</u>	<u>( 6,965)</u>	<u>144,769</u>	<u>( 232,144)</u>
Total Accumulated Depreciation	<u>( 2,102,654)</u>	<u>( 182,103)</u>	<u>179,450</u>	<u>( 2,105,307)</u>
Other Capital Assets, Net	<u>402,705</u>	<u>95,464</u>	<u>( 7,821)</u>	<u>490,348</u>
<u>Net Governmental Activities</u>				
Capital Assets, Net	<u>\$ 461,169</u>	<u>\$ 95,464</u>	<u>\$( 66,285)</u>	<u>\$ 490,348</u>

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

**NOTE 6: CAPITAL ASSETS, CONTINUED**

	<u>Balance</u> <u>June 30, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2015</u>
<b>Business Type Activities:</b>				
<u>Capital Assets</u>				
Water and Sewer Improvements	\$ 3,756,828	\$ 65,425	\$( 12,682)	\$ 3,809,571
Equipment	<u>1,721,901</u>	<u>96,000</u>	<u>( 80,569)</u>	<u>1,737,332</u>
Total Capital Assets	<u>5,478,729</u>	<u>161,425</u>	<u>( 93,251)</u>	<u>5,546,903</u>
<u>Accumulated Depreciation</u>				
Water and Sewer Improvements	( 2,926,228)	( 73,266)	10,115	( 2,989,379)
Equipment	<u>( 1,445,963)</u>	<u>( 43,062)</u>	<u>66,865</u>	<u>( 1,422,160)</u>
Total Accumulated Depreciation	<u>( 4,372,191)</u>	<u>( 116,328)</u>	<u>76,980</u>	<u>( 4,411,539)</u>
<u>Net Business Type Activities</u>				
Capital Assets, Net	<u>\$ 1,106,538</u>	<u>\$ 45,097</u>	<u>\$( 16,271)</u>	<u>\$ 1,135,364</u>

Depreciation expense was charged to governmental activities as follows:

<u>General Government:</u>	
Administration	<u>\$ 55,135</u>

**NOTE 7: LONG-TERM LIABILITIES**

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

**LONG-TERM DEBT:**

**Governmental Activities:**

**Lease/Purchase Payable:**

Lease/purchase payable to Clarence L. Boyd Company beginning April 28, 2008 for a John Deere Backhoe. The lease requires monthly payments of \$819 through April 28, 2015 with interest at 5.15%. The lease contains an appropriations clause. Under the terms of the lease, the equipment remains the property of the lessor until the final payment is made. The final payment was made in April 2015 and title to the equipment was transferred to the City.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

**NOTE 7: LONG-TERM LIABILITIES, CONTINUED**

**Business Type Activities:**

**Notes Payable:**

**LPWA:**

On April 3, 2014 the Lexington Public Works Authority (LPWA) issued Utility System Revenue Note, Series 2014 in the amount of \$680,000. The note bears an interest rate of 2.40% per annum and a maturity date of March 1, 2022. Monthly payments equal \$10,427. Proceeds from this note were used to pay off the LPWA's Series 2002 Note to the Oklahoma Water Resources Board and an outstanding note at 1<sup>st</sup> American Bank. The note is collateralized by pledge and assignment of revenues and receipts derived from water, sewer and garbage disposal services.

**Light Fund:**

On July 17, 2014, the Lexington Public Works Authority (Light Fund) entered into a promissory note in the amount of \$96,000 with First United Bank for three equipment trucks. The note bears an interest rate of 3.75% per annum, requires 72 monthly payments of \$1,495 and matures July 20, 2020. The note is collateralized by the three equipment trucks.

**Compensated Absences:**

**Governmental and Business-Type Activities:**

Compensated absences represent the estimated liability for employees' accrued vacation and sick leave for which employees are entitled to be paid upon termination. (See related Note 1). The retirement of this liability is paid from the General Fund and Enterprise Funds based on the assignment of an employee at termination.

Changes in long-term liabilities for the fiscal year 2014-15 include:

	Principal Balance 06/30/14	Additions	Retirements	Adjustments (1)	Principal Balance 06/30/15	Amounts Due Within One Year
<b><u>Governmental Activities:</u></b>						
Compensated Absences	\$ 89,070	\$ 33,806	\$ 37,431	\$( 60,611)	\$ 24,834	\$ 11,362
Lease/Purchase - CL Boyd Co.	<u>7,220</u>	<u>0</u>	<u>7,220</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Governmental Activities	<u>96,290</u>	<u>33,806</u>	<u>44,651</u>	<u>( 60,611)</u>	<u>24,834</u>	<u>11,362</u>
<b><u>Business-Type Activities:</u></b>						
<b><u>Bonds/Notes Payable –</u></b>						
Note Payable – First United Bank	0	96,050	14,335	0	81,715	14,873
Note Payable – Series 2014 Revenue Note	<u>680,000</u>	<u>0</u>	<u>75,000</u>	<u>0</u>	<u>605,000</u>	<u>80,000</u>
Total Bonds/Notes Payable	680,000	96,050	89,335	0	686,715	94,873
Compensated Activities	<u>63,157</u>	<u>23,173</u>	<u>25,835</u>	<u>( 27,826)</u>	<u>32,669</u>	<u>6,357</u>
Total Business-Type Activities	<u>743,157</u>	<u>119,223</u>	<u>115,170</u>	<u>( 27,826)</u>	<u>719,384</u>	<u>101,230</u>
TOTAL	\$ <u>839,447</u>	\$ <u>153,029</u>	\$ <u>159,821</u>	\$ <u>( 88,437)</u>	\$ <u>744,218</u>	\$ <u>112,592</u>

\* For governmental activities, compensated absences are liquidated by the general fund.

(1) See related Note 14.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

**NOTE 7: LONG-TERM LIABILITIES, CONTINUED**

Debt Service Reserve Requirement – Debt service requirements for the next 5 years and thereafter are as follows:

Governmental Activities:

None

Business-Type Activities:

	<u>First United Bank Note</u>		<u>Series 2014 Revenue Note</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015-16	\$ 14,873	\$ 3,064	\$ 80,000	\$ 14,040
2016-17	15,430	2,507	82,000	12,108
2017-18	16,009	1,928	84,000	10,128
2018-19	16,609	1,328	86,000	8,100
2019-20	17,233	705	89,000	6,024
2020-21 through 2021-22	<u>1,561</u>	<u>57</u>	<u>184,000</u>	<u>5,556</u>
<b>TOTAL</b>	<b>\$ <u>81,715</u></b>	<b>\$ <u>9,589</u></b>	<b>\$ <u>605,000</u></b>	<b>\$ <u>55,956</u></b>

**NOTE 8: INTERFUND TRANSACTIONS**

Inter-fund receivable/payable balances at June 30, 2015 were:

	<u>DUE FROM</u>								
	<u>Governmental Funds</u>			<u>Proprietary Funds</u>		<u>Agency Funds</u>			
	<u>General</u>	<u>Restricted Sales Tax</u>	<u>Street &amp; Alley</u>	<u>Light</u>	<u>LPWA</u>	<u>Meter Deposit</u>	<u>Payroll</u>	<u>Municipal Court</u>	
<b>Governmental Funds:</b>									
<b>D</b> General	\$ ---	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	
<b>U</b> Restricted Sales Tax	0	---	0	0	0	0	0	( 135)	
<b>E</b> Street & Alley	0	0	---	0	0	0	0	0	
<b>Proprietary Funds:</b>									
Light	0	0	0	---	0	0	0	0	
<b>T</b> LPWA	0	0	0	0	---	( 2,260)	0	0	
<b>Agency Funds:</b>									
Meter Deposit	0	0	0	0	2,260	---	0	0	
Payroll	0	0	0	0	0	0	---	0	
Municipal Court	135	0	0	0	0	0	0	---	
<b>Total</b>	<b>\$ <u>135</u></b>	<b>\$ <u>0</u></b>	<b>\$ <u>0</u></b>	<b>\$ <u>0</u></b>	<b>\$ <u>2,260</u></b>	<b>\$ <u>( 2,260)</u></b>	<b>\$ <u>0</u></b>	<b>\$ <u>( 135)</u></b>	<b>\$ <u>0</u></b>



CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

**NOTE 8: INTERFUND TRANSACTIONS, CONTINUED**

Operating Transfers – Interfund operating transfers between funds for the fiscal year ended June 30, 2015 were as follows:

	TRANSFER FROM								
	Governmental Funds			Proprietary Funds		Agency Funds			
	General	Restricted Sales Tax	Street & Alley	Light	LPWA	Meter Deposit	Payroll	Municipal Court	
<b>Governmental Funds:</b>									
T General	\$ ---	\$ 0	\$ 0	\$( 435,212)	\$( 234,000)	\$ 0	\$ 0	\$ 0	
R Restricted Sales Tax	0	---	0	0	0	0	0	0	
A Street & Alley	0	0	---	0	0	0	0	0	
<b>Proprietary Funds:</b>									
S Light	435,212	0	0	---	( 5,000)	0	0	0	
F LPWA	234,000	0	0	5,000	---	0	0		
<b>Agency Funds:</b>									
R Meter Deposit	0	0	0	0	0	---	0	0	
Payroll	0	0	0	0	0	0	---	0	
T Municipal Court	0	0	0	0	0	0	0	---	
<b>O Total</b>	<u>\$ 669,212</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$( 430,212)</u>	<u>\$( 239,000)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

**NOTE 9: LITIGATION**

At June 30, 2015, the City of Lexington was not involved in any pending or threatened litigation which would have a material impact on these financial statements.

**NOTE 10: RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages these various risks of loss as follows:

<b>Type of Loss</b>	<b>Method Managed</b>
a. Torts, errors and omissions	Purchased policy with the Oklahoma Municipal Assurance Group
b. Injuries to employees (Workers' Compensation)	Purchased policy with the Oklahoma Municipal Assurance Group (1)
c. Physical property loss and natural disasters	Purchased policies with the Oklahoma Municipal Assurance Group and State of Oklahoma Department of Central Services Risk Management Division

(1) Worker's Compensation Plan – The Oklahoma Municipal Assurance Group (OMAG) Worker's Compensation Plan (Plan) provides worker's compensation coverage through CompSource Oklahoma. The City pays into its own loss fund from which claims are paid. CompSource Oklahoma provides coverage in excess of the City's retention level (Loss Fund) which limits the City's liability to its retention level. The City has a right to return of any loss funds set aside for claims, which have not been paid out as benefits, or are not held in reserve for a pending claim. The City's funds on deposit with OMAG as of June 30, 2015 were as follows:

<u>Year</u>	<u>Loss Fund Available</u>
2013	\$ 28,387
2014	35,142
Total	<u>\$ 63,529</u>

Management believes such coverage is sufficient to preclude any significant uninsured losses to the City.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 11: LEASES

On May 10, 2013, the City entered into an operating lease for a copier. The lease calls for 60 monthly payments of \$207 and terminates May 10, 2018. Lease expense for the fiscal year ending June 30, 2015 was \$2,505.

On May 10, 2013, the City entered into an operating lease for a copier. The lease calls for 60 monthly payments of \$92. On August 5, 2014, the copier was traded in and a new lease was executed. The new lease calls for 60 monthly payments of \$236 and terminates July 5, 2019. Lease expense for the fiscal year ending June 30, 2015 was \$2,405.

On January 20, 2012, the City entered into an operating lease for a mailing system. The lease called for 51 monthly payments of \$628. On June 17, 2015 the mailing system was traded in and a new lease agreement was executed. The new lease terminates September 17, 2020 and calls for 12 monthly payments of \$611 and 51 monthly payments of \$751. Lease expense for the fiscal year ending June 30, 2015 was \$7,331.

Future minimum lease payments under leases with terms in excess of one year are as follows:

<u>June 30,</u>	
2016	\$ 12,648
2017	14,328
2018	13,914
2019	11,845
2020	9,248
2021	<u>2,253</u>
TOTAL	<u>\$ 64,236</u>

NOTE 12: CHANGES IN BEGINNING NET POSITION

The following changes in beginning net position were made:

- (1) Compensated Absences: A prior period adjustment was made to correct beginning compensated absences for unvested sick leave (see related Note 7).
- (2) Pension Obligations: The adoption of GASB 68 resulted in prior period adjustments to reflect beginning net pension obligation and deferred inflows and outflows of resources related to pension obligation (see related Note 1 – Recent Accounting Pronouncements).

	<u>Firefighter's</u>	<u>Police</u>	<u>Total</u>
Net Pension Liability, June 30, 2014	\$( 58,863)	\$ 0	\$( 58,863)
Deferred Outflows of Resources			
- Pension Activities, June 30, 2014	<u>1,860</u>	<u>0</u>	<u>1,860</u>
Prior Period Adjustment	<u>\$( 57,003)</u>	<u>\$ 0</u>	<u>\$( 57,003)</u>

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 12: CHANGES IN BEGINNING NET POSITION, CONTINUED

Beginning net position was restated to reflect these prior period adjustments as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Net Position, June 30, 2014, as previously stated	\$ 783,699	\$ 1,447,415	\$ 2,231,114
Correct Beginning Compensated Absences	60,611	27,826	88,437
Decrease Due to Adoption of GASB 68	<u>( 57,003)</u>	<u>0</u>	<u>( 57,003)</u>
Net Position, June 30, 2014, as restated	<u>\$ 787,307</u>	<u>\$ 1,475,241</u>	<u>\$ 2,262,548</u>

NOTE 13: SUBSEQUENT EVENTS

Date of Management Evaluation – Management of the City has evaluated subsequent events through December 15, 2015, which is the date the financial statements were available to be issued.

# *Saunders & Associates, PLLC*

## *Certified Public Accountants*

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Website: [www.saunderscpas.com](http://www.saunderscpas.com)

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

To the City Council  
City of Lexington, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lexington as of and for the year ended June 30, 2015, which collectively comprise the City of Lexington's basic financial statements and have issued our report thereon dated December 15, 2015. We also have audited the financial statements of each of the City of Lexington's non-major governmental funds presented as supplementary information in the accompanying combining fund financial statements of and for the year ended June 30, 2015, as listed in the table of contents. 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 of America.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered The City of Lexington's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lexington's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lexington's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The City of Lexington'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*.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance with applicable provisions of laws, regulations, contracts, and grant agreements and the results of our testing, and to provide an opinion on The City of Lexington's compliance but not to provide an opinion on the effectiveness of the City of Lexington's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The City of Lexington's compliance and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

*Saunders & Associates, PLLC*

SAUNDERS & ASSOCIATES, PLLC  
Certified Public Accountants  
Ada, Oklahoma

December 15, 2015

SUPPLEMENTAL INFORMATION

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL  
UNAUDITED  
GENERAL FUND

For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences Over (Under)	Actual Amounts GAAP Basis	Budgetary Basis Variance With Final Budget Positive (Negative)
	Original	Final				
<u>REVENUES</u>						
Taxes	\$ 320,500	\$ 320,500	\$ 325,255	\$ 0	\$ 325,255	\$ 4,755
Licenses and Permits	8,500	8,500	8,989	0	8,989	489
Intergovernmental	5,000	5,000	4,484	0	4,484	(516)
Charges for Services	107,400	107,400	73,300	0	73,300	(34,100)
Ambulance Assessment	88,500	88,500	90,813	0	90,813	2,313
Donations	0	6,104	6,203	0	6,203	99
Interest	500	500	491	0	491	(9)
Miscellaneous	3,600	22,900	21,100	0	21,100	(1,800)
Total Revenues	<u>534,000</u>	<u>559,404</u>	<u>530,635</u>	<u>0</u>	<u>530,635</u>	<u>(28,769)</u>
<u>EXPENDITURES</u>						
Departmental:						
Administration	325,220	313,220	278,035 (1)	7,376	285,411	35,185
Police	685,935	691,270	644,605	0	644,605	46,665
Fire	61,950	87,250	74,927	0	74,927	12,323
Civil Defense	3,600	3,600	3,584	0	3,584	16
Ambulance	87,000	87,100	87,045	0	87,045	55
Street and Alley	78,925	79,625	74,694	0	74,694	4,931
Parks and Recreation	51,425	57,592	29,193	0	29,193	28,399
Total Expenditures	<u>1,294,055</u>	<u>1,319,657</u>	<u>1,192,083</u>	<u>7,376</u>	<u>1,199,459</u>	<u>127,574</u>
Excess of Revenues Over (Under) Expenditures	(760,055)	(760,253)	(661,448)	(7,376)	(668,824)	98,805
Other Financing Sources (Uses):						
Operating Transfers In	764,000	764,000	679,084 (1)	(7,376)	671,708	(84,916)
Operating Transfers Out	(2,500)	(2,500)	(2,496)	0	(2,496)	4
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	1,445	1,247	15,140	(14,752)	388	13,893
Fund Balance, June 30, 2014	<u>42,671</u>	<u>42,671</u>	<u>42,671</u>	<u>0</u>	<u>42,671</u>	<u>0</u>
FUND BALANCE, JUNE 30, 2015	<u>\$ 44,116</u>	<u>\$ 43,918</u>	<u>\$ 57,811</u>	<u>\$ (14,752)</u>	<u>\$ 43,059</u>	<u>\$ 13,893</u>

Explanation of differences:

(1) Transfer from Light Fund and Capital Outlay expense for General Long Term Debt Payments (\$7,376)

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL  
UNAUDITED  
SPECIAL REVENUE FUND - RESTRICTED SALES TAX

For the Year Ended June 30, 2015

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	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Budget to</u>	<u>Actual</u>	<u>Budgetary</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>GAAP</u>	<u>Amounts</u>	<u>Variance</u>
			<u>Budgetary</u>	<u>Differences</u>	<u>GAAP</u>	<u>With</u>
			<u>Basis</u>	<u>Over (Under)</u>	<u>Basis</u>	<u>Final</u>
						<u>Positive</u>
						<u>(Negative)</u>
<b>REVENUES</b>						
Taxes	\$ 150,000	\$ 150,000	\$ 150,170	\$ 0	\$ 150,170	\$ 170
Intergovernmental	0	0	0	0	0	0
Interest	200	200	0	0	0	(200)
Total Revenues	<u>150,200</u>	<u>150,200</u>	<u>150,170</u>	<u>0</u>	<u>150,170</u>	<u>(30)</u>
<b>EXPENDITURES</b>						
Departmental:						
Street and Alley	75,000	75,000	19,400 (1)	(18,150)	1,250	55,600
Economic Development	75,000	75,000	32,098	0	32,098	42,902
Total Expenditures	<u>150,000</u>	<u>150,000</u>	<u>51,498</u>	<u>(18,150)</u>	<u>33,348</u>	<u>98,502</u>
Excess of Revenues Over (Under) Expenditures	200	200	98,672	18,150	116,822	98,472
Other Financing Sources (Uses):						
Operating Transfers In	0	0	0	0	0	0
Operating Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	200	200	98,672	18,150	116,822	98,472
Fund Balance, June 30, 2014	<u>304,335</u>	<u>304,335</u>	<u>304,335</u>	<u>0</u>	<u>304,335</u>	<u>0</u>
<b>FUND BALANCE, JUNE 30, 2015</b>	<u>\$ 304,535</u>	<u>\$ 304,535</u>	<u>\$ 403,007</u>	<u>\$ 18,150</u>	<u>\$ 421,157</u>	<u>\$ 98,472</u>

(1) Cancellation of prior year encumbrances.



CITY OF LEXINGTON, OKLAHOMA

SCHEDULE OF NET PENSION LIABILITY AND CONTRIBUTIONS - FIREFIGHTER'S PENSION

For the Year Ended June 30, 2015

Fiscal Year Ending June, 30,	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Town's Proportionate Share of Collective Net Pension Liability	\$ 51,177									
Town's Proportion of Collective Net Pension Liability	% 0.0050									
Plan's Fiduciary Net Position % of Total Pension Liability	% 68.12									
Required Employer Contributions	\$ 1,860 **									
Contributions in Relation to Required Contributions	\$ <u>1,860</u> **									
Contribution Deficiency (Excess)	\$ <u><u>0</u></u>									

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\* Information to present a 10 year history is not readily available.

\*\* Contributions represent two years of employer contributions due to firefighters Pension Plan Changing Plan year dates.

Notes to Required Supplementary Information

Note 1 - Employer Contributions: Contributions represent the City's actual contribution received by the Plan between July 1, 2013 and June 30, 2014. Contribution requirements are at an established rate determined by Oklahoma statute and are not based on actuarial calculations. The City is required by State statute to contribute annually \$60 per volunteer firefighter.

CITY OF LEXINGTON, OKLAHOMA

SCHEDULE OF NET PENSION LIABILITY AND CONTRIBUTIONS - POLICE PENSION

For the Year Ended June 30, 2015

Fiscal Year Ending June, 30,	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Town's Proportionate Share of Collective Net Pension Liability	\$ 0									
	% 0.0000%									
Town's Proportion of Collective Net Pension Liability										
Employer's Proportionate Share of Collective Net Pension Liability as a percentage of the covered -employee payroll	\$ 0									
Plan's Fiduciary Net Position % of Total Pension Liability	% 0.00%									
Required Employer Contributions	\$ 0									
Contributions in Relation to Required Contributions	\$ 0									
Contribution Deficiency (Excess)	<u>\$ 0</u>									
Covered Employee Payroll	\$ 0									
Contributions as a percentage of covered-employee payroll	% 0									

\* Information to present a 10 year history is not readily available.

Notes to Required Supplementary Information

Note 1 - Employer Contributions: Contributions represent the City's actual contribution received by the Plan between July 1, 2013 and June 30, 2014. Contribution requirements are at an established rate determined by Oklahoma statute and are not based on actuarial calculations. The City is required by State statute to contribute 13% of police officer's total earning, excluding overtime. The City did not have police officer's as active members in the Plan until March 4, 2015.

CITY OF LEXINGTON, OKLAHOMA

COMBINING GOVERNMENTAL FUND BALANCE SHEET

OTHER GOVERNMENTAL FUNDS

June 30, 2015

	<u>Special Revenue Street and Alley Fund</u>	<u>Total</u>
<u>ASSETS</u>		
Cash, Including Time Deposits	\$ 78,306	\$ 78,306
Accounts Receivable	1,720	1,720
Total Assets	<u>80,026</u>	<u>80,026</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Total Deferred Outflows of Resources	<u>0</u>	<u>0</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 80,026</u>	<u>\$ 80,026</u>
<u>LIABILITIES</u>		
Accounts Payable	\$ 0	\$ 0
Notes Payable	0	0
Due to Other Funds	0	0
Total Liabilities	<u>0</u>	<u>0</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Total Deferred Inflows of Resources	<u>0</u>	<u>0</u>
<u>FUND BALANCES</u>		
NonSpendable	0	0
Restricted for:		
Streets and Alleys	80,026	80,026
Committed for:		
Streets and Alleys	0	0
Assigned	0	0
Unassigned	0	0
Total Fund Balance	<u>80,026</u>	<u>80,026</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$ 80,026</u>	<u>\$ 80,026</u>

CITY OF LEXINGTON, OKLAHOMA

COMBINING GOVERNMENTAL FUND STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES

OTHER GOVERNMENTAL FUNDS

For the Year Ended June 30, 2015

	<u>Special Revenue Street and Alley Fund</u>	<u>Total</u>
<u>REVENUES</u>		
Taxes	\$ 20,586	\$ 20,586
Intergovernmental	0	0
Interest	<u>0</u>	<u>0</u>
Total Revenues	<u>20,586</u>	<u>20,586</u>
 <u>EXPENDITURES</u>		
Current:		
Economic Development	0	0
Street and Alley	<u>(2,494)</u>	<u>(2,494)</u>
Total Expenditures	<u>(2,494)</u>	<u>(2,494)</u>
Revenues Over (Under) Expenditures	23,080	23,080
Other Financing Sources (Uses):		
Operating Transfers In (Out)	<u>0</u>	<u>0</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	23,080	23,080
Fund Balance, June 30, 2014	<u>56,946</u>	<u>56,946</u>
FUND BALANCE, JUNE 30, 2015	<u>\$ 80,026</u>	<u>\$ 80,026</u>

CITY OF LEXINGTON, OKLAHOMA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended June 30, 2015

<u>Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
<u>FEDERAL:</u>			
U.S. Department of Housing and Urban Development Pass Through Oklahoma Department of Commerce: Community Development Block Grant	14.228	15685 CDBG-CIP 13	\$ <u>0</u>
TOTAL FEDERAL ASSISTANCE			<u>0</u>
<u>STATE:</u>			
Oklahoma Department of Agriculture - Oklahoma Forestry Services: Rural Fire Operational Grant		N/A	<u>4,484</u>
TOTAL STATE ASSISTANCE			<u>4,484</u>
TOTAL FEDERAL AND STATE ASSISTANCE			\$ <u><u>4,484</u></u>

CITY OF LEXINGTON, OKLAHOMA

STATUS OF PRIOR AUDIT FINDINGS

June 30, 2015

2014-001 CHECKS ISSUED WITHOUT AUTHORIZED SIGNATURES

Condition: Out of a population of 1,296 we noted 80 instances where checks did not contain three authorized signatures.

Current Status: This finding can be cleared.

2014-002 DEPOSITS EXCEEDED FDIC COVERGE AND COLLATERALIZATION

Condition: At June 30, 2014 the City's deposits exceeded FDIC and collateralization coverage by \$137,386.

Current Status: This finding can be cleared.

CITY OF LEXINGTON, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2015

None reported.