

City of Lexington, Oklahoma

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

For the Year Ended June 30, 2011

SAUNDERS & ASSOCIATES, PLLC

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CITY OF LEXINGTON, OKLAHOMA

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Lexington
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, 2011, which collectively comprise the City of Lexington, Oklahoma's basic financial statements as listed in the table of contents. We also have audited the financial statements of the City's non-major governmental fund presented as supplementary information in the accompanying combining fund financial statements as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the City of Lexington, Oklahoma's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2011 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 39 through 40 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.

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


SAUNDERS & ASSOCIATES, PLLC
Certified Public Accountants

December 6, 2011

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2011

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, 2011. Please read it in conjunction with the City's financial statements, which begin on page 10.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 10 and 11) 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 12. 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 Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

- **Governmental Activities** – Most of the City's basic services are reported here, including the 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.

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2011

UNAUDITED

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 12 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 available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in reconciliation at the bottom of the fund financial statements.
- *Proprietary Funds* – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Generally, proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets 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 Assets 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 Assets on page 19. 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.

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2011

UNAUDITED

THE CITY AS A WHOLE

Net Assets

The City's combined net assets increased 17.4% from \$1,874,416 to \$2,201,470. (See Table 1) In comparison, last years net assets increased 3.2%.

TABLE 1 – NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>		<u>Total</u>
	<u>06/30/11</u>	<u>06/30/10</u>	<u>06/30/11</u>	<u>06/30/10</u>	<u>06/30/11</u>	<u>06/30/10</u>	<u>% Change</u>
Capital Assets	\$ 415,780	\$ 458,555	\$ 1,218,074	\$ 1,201,154	\$ 1,633,854	\$ 1,659,709	-1.6%
Current and Other Assets	<u>219,922</u>	<u>170,602</u>	<u>1,213,145</u>	<u>1,139,363</u>	<u>1,433,067</u>	<u>1,309,965</u>	<u>9.4%</u>
Total Assets	<u>\$ 635,702</u>	<u>\$ 629,157</u>	<u>\$ 2,431,219</u>	<u>\$ 2,340,517</u>	<u>\$ 3,066,921</u>	<u>\$ 2,969,674</u>	<u>3.3%</u>
Long-Term Liabilities	\$ 136,747	\$ 89,457	\$ 728,704	\$ 652,354	\$ 865,451	\$ 741,811	16.7%
Other Liabilities	<u>40,186</u>	<u>95,765</u>	<u>82,677</u>	<u>257,682</u>	<u>122,863</u>	<u>353,447</u>	<u>-65.2%</u>
Total Liabilities	<u>\$ 176,933</u>	<u>\$ 185,222</u>	<u>\$ 811,381</u>	<u>\$ 910,036</u>	<u>\$ 988,314</u>	<u>\$ 1,095,258</u>	<u>-9.8%</u>
Net Assets:							
Invested in Capital Assets net of related debt	\$ 415,780	\$ 458,555	\$ 577,061	\$ 375,998	\$ 992,841	\$ 834,553	19.0%
Restricted	0	0	50,751	55,247	50,751	55,247	-8.1%
Unrestricted	<u>83,175</u>	<u>(14,620)</u>	<u>1,074,703</u>	<u>999,236</u>	<u>1,157,878</u>	<u>984,616</u>	<u>17.6%</u>
Total Net Assets	<u>\$ 498,955</u>	<u>\$ 443,935</u>	<u>\$ 1,702,515</u>	<u>\$ 1,430,481</u>	<u>\$ 2,201,470</u>	<u>\$ 1,874,416</u>	<u>17.4%</u>

Net assets of the City's governmental activities increased 12.4% (\$498,955 compared to \$443,935). Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased 668.9% from \$(14,620) to \$83,175.

The net assets of our business-type activities increased by 19.0% (\$1,702,515 compared to \$1,430,481).

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2011

UNAUDITED

Changes in Net Assets

The City's total revenues increased by 9.3% (\$226,499). The total cost of all new programs and services decreased 2.2% (\$61,402). Table 2 and the narrative that follows consider the operations of governmental and business-type activities separately.

TABLE 2 – CHANGES IN NET ASSETS

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total Primary</u> <u>Government</u>		<u>Total</u> <u>% Change</u>
	<u>06/30/11</u>	<u>06/30/10</u>	<u>06/30/11</u>	<u>06/30/10</u>	<u>06/30/11</u>	<u>06/30/10</u>	
Program Revenues:							
Charges for Services	\$ 177,533	\$ 185,583	\$ 2,145,265	\$ 2,039,958	\$ 2,322,818	\$ 2,225,214	4.4%
Operating Grants/ Contributions	217,651	39,788	0	0	217,651	39,788	447.0%
Capital Grants/ Contributions	94,250	94,250	0	0	94,250	94,250	0.0%
General Revenues:							
Franchise Taxes	105,040	100,690	0	0	105,040	100,690	4.3%
Public Service Taxes	351,107	352,775	0	0	351,107	352,775	-0.5%
Interest	2,363	2,864	7,625	10,710	9,988	13,574	-26.4%
Miscellaneous	657	4,402	1,675	7,994	2,332	12,396	-81.2%
Total Revenues	<u>948,621</u>	<u>780,025</u>	<u>2,154,565</u>	<u>2,058,662</u>	<u>3,103,186</u>	<u>2,838,687</u>	<u>9.3%</u>
Program Expenses:							
Administration	312,143	283,965	394,877	316,732	707,020	600,697	17.1%
Police	555,699	538,924	0	0	555,699	538,924	3.1%
Fire	29,952	44,884	0	0	29,952	44,884	-33.3%
Civil Defense	1,614	3,114	0	0	1,614	3,114	-48.2%
Ambulance	84,938	85,018	0	0	84,938	85,018	-0.1%
Street and Alley	120,457	234,492	0	0	120,457	234,492	-48.6%
Parks and Recreation	2,595	3,179	0	0	2,595	3,179	-18.4%
Economic Development	17,103	16,809	0	0	17,103	16,809	1.7%
HOME Grant Program	0	0	0	0	0	0	0.0%
Water	0	0	156,467	144,508	156,467	144,508	8.3%
Wastewater	0	0	53,290	47,560	53,290	47,560	12.0%
Refuse Collection	0	0	156,714	153,485	156,714	153,485	2.1%
Electric	0	0	833,469	908,050	833,469	908,050	-8.2%
Total Expenses	<u>1,124,501</u>	<u>1,210,385</u>	<u>1,594,817</u>	<u>1,570,335</u>	<u>2,719,318</u>	<u>2,780,720</u>	<u>-2.2%</u>
Excess Before Contributions Etc.	(175,880)	(430,360)	559,748	448,327	383,868	57,967	562.2%
Transfers	285,155	444,748	(285,155)	(444,748)	0	0	0.0%
Special Items	0	0	(2,559)	0	(2,559)	0	100.0%
Extraordinary Items	0	0	0	0	0	0	0.0%
Changes in Net Assets	<u>\$ 109,275</u>	<u>\$ 14,388</u>	<u>\$ 272,034</u>	<u>\$ 43,579</u>	<u>\$ 381,309</u>	<u>\$ 57,967</u>	<u>557.8%</u>

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2011

UNAUDITED

Governmental Activities

Revenues for the City's governmental activities increased by 21.6% (\$168,596), while total expenses decreased by 7.1% (\$85,884). With the transfer in of funds from the business-type activities, the net assets for governmental activities increased 659.5%.

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 % Change</u>	<u>Net Cost of Services</u>		<u>Total % Change</u>
	<u>06/30/11</u>	<u>06/30/10</u>		<u>06/30/11</u>	<u>06/30/10</u>	
Administration	\$ 312,143	\$ 283,965	9.9%	\$ 304,070	\$ 273,511	11.2%
Police	555,699	538,924	3.1%	474,166	451,133	5.1%
Fire	29,952	44,884	-33.3%	15,977	28,784	-44.5%
Civil Defense	1,614	3,114	-48.2%	1,614	3,114	-48.2%
Ambulance	84,938	85,018	-0.1%	(1,159)	(1,493)	-22.4%
Street and Alley	120,457	234,492	-48.6%	(135,069)	160,304	-184.3%
Parks and Recreation	2,595	3,179	-18.4%	2,595	3,179	-18.4%
Economic Development	17,103	16,809	1.7%	(27,147)	(27,441)	-1.1%
Total	\$ 1,124,501	\$ 1,210,385	-7.1%	\$ 635,047	\$ 891,091	-28.7%

The cost of all governmental activities this year was \$1,124,501 compared to \$1,210,385 last year (a decrease of \$85,884). Some of the costs were paid by those who directly benefited from the program. For 2010, the City received \$15,600 in grant funds for the fire department, \$74,188 for street repairs and \$44,250 for utility system improvements. For 2011, the City received \$12,125 in grant funds for the fire department, \$50,000 for street repairs, \$205,526 for storm damage repairs and \$44,250 for utility system improvements. Ultimately, the taxpayers financed \$456,147 (40.6%) 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 increased by 4.7% (\$2,154,565 in 2011 compared to \$2,058,662 in 2010) and expenses increased by 1.6% (\$1,594,817 in 2011 compared to \$1,570,335 in 2010). Transfers to governmental funds decreased 35.9% (\$285,155 in 2011 compared to \$444,748 in 2010).

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$190,975, which is an increase of \$112,204 (142.4%) over last year's total of \$78,771.

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2011

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 grants and to transfer appropriations from line item to line item.

With these adjustments, the actual revenues were below budgeted revenues by \$36,793 (6.9%). Additionally, actual expenditures were \$193,126 (15.8%) below budgeted expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2011, the City had \$7.6 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 \$164,756 (2.2%) over the last year.

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Building and Property	\$ 1,723,568	\$ 1,692,336	\$ 0	\$ 0	\$ 1,723,568	\$ 1,692,336
Water and Sewer						
Improvements	0	0	3,513,576	3,430,169	3,513,576	3,430,169
Vehicles	352,384	364,590	0	0	352,384	364,590
Equipment	<u>376,657</u>	<u>361,122</u>	<u>1,708,483</u>	<u>1,661,695</u>	<u>2,085,140</u>	<u>2,022,817</u>
Total	<u>\$ 2,452,609</u>	<u>\$ 2,418,048</u>	<u>\$ 5,222,059</u>	<u>\$ 5,091,864</u>	<u>\$ 7,674,668</u>	<u>\$ 7,509,912</u>

This year's major additions included:

City Hall Network and Systems Upgrade	\$ 18,966
Station #2 - Fire	29,132
Equipment – Fire	17,305
Water/Sewer Line Improvements	49,981
Sewer Improvements	33,426
City Hall Phone System	12,752
Vehicle – Electric Utilities	<u>40,000</u>
	<u>\$ 201,562</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 2011/2012 fiscal year include \$10,000 of equipment for the police department; \$20,000 of equipment for the fire department; \$80,000 for street improvements; \$80,000 for economic development; \$12,000 for the electric upgrades/maintenance; \$30,000 for water and sewer system upgrades/maintenance; and \$20,000 for administration equipment upgrades. Portions of these planned capital expenditures will be financed through grants.

CITY OF LEXINGTON, OKLAHOMA
MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2011

UNAUDITED

Debt

At year-end, the City had \$674,484 in outstanding bonds, notes and capital leases compared to \$866,516 last year. That is a decrease of 22.2% as shown in the following table.

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenue Bonds (backed by specific fee revenues)	\$ 0	\$ 0	\$ 615,250	\$ 630,250	\$ 615,250	\$ 630,250
Note Obligations (backed by City)	0	0	13,597	194,906	13,597	194,906
Capital Lease Obligations	<u>33,471</u>	<u>41,360</u>	<u>12,166</u>	<u>0</u>	<u>45,637</u>	<u>41,360</u>
Total	\$ <u>33,471</u>	\$ <u>41,360</u>	\$ <u>641,013</u>	\$ <u>825,156</u>	\$ <u>674,484</u>	\$ <u>866,516</u>

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Lexington, due to snow and ice storms, had encountered large costs in the electric department, and losses in other departments as well as debris cleanup in fiscal year 2009/2010. In fiscal year 2010/2011 the City received approximately 75% of monies due to us from FEMA which enabled the City to pay debt incurred on fiscal year 2009/2010.

The City's elected and appointed officials considered many factors when setting the fiscal year 2012 budget. For 2012, the General Fund budget for expenditures is \$1.25 million, an increase of 2.3% over the final 2011 budget. Revenues for 2012 are budgeted at 1.27 million, after transfers, an increase of 6.1% over the 2011 final budget. The \$0.02 million difference in expenditures over revenues will come from the fund balance.

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.

Walt Allen
City Manager

BASIC FINANCIAL STATEMENTS

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF NET ASSETS

June 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash, Including Time Deposits	\$ 194,078	\$ 845,495	\$ 1,039,573
Internal Balances	(48,971)	48,971	0
Accounts Receivable			
Utility Fees	0	257,291	257,291
Other	41,344	667	42,011
Interest Receivable	0	0	0
Total Current Assets	<u>186,451</u>	<u>1,152,424</u>	<u>1,338,875</u>
Non-Current Assets:			
Restricted Cash, Including Time Deposits	0	60,721	60,721
Deferred Expense (Note 8)	33,471	0	33,471
Property, Plant and Equipment:			
Buildings and Property	1,723,568	0	1,723,568
Water and Sewer Improvements	0	3,513,576	3,513,576
Vehicles	352,384	0	352,384
Equipment	376,657	1,708,483	2,085,140
Less: Accumulated Depreciation	(2,036,829)	(4,003,985)	(6,040,814)
Total Non-Current Assets	<u>449,251</u>	<u>1,278,795</u>	<u>1,728,046</u>
TOTAL ASSETS	<u>\$ 635,702</u>	<u>\$ 2,431,219</u>	<u>\$ 3,066,921</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Current Liabilities:			
Accounts Payable	\$ 19,434	\$ 26,808	\$ 46,242
Other Payables	13	9,585	9,598
Current Portion - Compensated Absences	12,435	6,274	18,709
Current Portion - Long-Term Debt	8,304	40,010	48,314
Total Current Liabilities	<u>40,186</u>	<u>82,677</u>	<u>122,863</u>
Non-Current Liabilities:			
Compensated Absences	71,394	45,024	116,418
Long-Term Debt	25,167	601,003	626,170
Total Non-Current Liabilities	<u>96,561</u>	<u>646,027</u>	<u>742,588</u>
Total Liabilities	<u>136,747</u>	<u>728,704</u>	<u>865,451</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	415,780	577,061	992,841
Restricted for Debt Service	0	50,751	50,751
Restricted for Streets and Alleys	31,113	0	31,113
Restricted for Streets and Alleys and Economic Development	118,656	0	118,656
Unrestricted	(66,594)	1,074,703	1,008,109
Total Net Assets	<u>498,955</u>	<u>1,702,515</u>	<u>2,201,470</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 635,702</u>	<u>\$ 2,431,219</u>	<u>\$ 3,066,921</u>

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

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government	
				Governmental Activities	Business Type Activities
PRIMARY GOVERNMENT:					
Governmental Activities:					
Administration	\$ 312,143	\$ 8,073	\$ 0	\$ (304,070)	\$ (304,070)
Police	555,699	81,533	0	(474,166)	(474,166)
Fire	29,952	1,850	12,125	(15,977)	(15,977)
Civil Defense	1,614	0	0	(1,614)	(1,614)
Ambulance	84,938	86,097	0	1,159	1,159
Street and Alley	120,457	0	205,526	135,069	135,069
Parks and Recreation	2,595	0	0	(2,595)	(2,595)
Economic Development	17,103	0	0	27,147	27,147
Total Governmental Activities	1,124,501	177,553	217,651	(635,047)	(635,047)
Business-Type Activities:					
Administration	394,877	0	0	0	(394,877)
Water	156,467	372,370	0	0	215,903
Wastewater	53,290	176,224	0	0	122,934
Refuse Collection	156,714	178,749	0	0	22,035
Electric	833,469	1,417,922	0	0	584,453
Total Business-Type Activities	1,594,817	2,145,265	0	0	550,448
TOTAL PRIMARY GOVERNMENT	\$ 2,719,318	\$ 2,322,818	\$ 217,651	\$ (635,047)	\$ (84,599)
General Revenues:					
Taxes:					
Franchise Taxes				105,040	0
Public Service Taxes				351,107	0
Grants and Contributions not restricted to specific programs				0	0
Unrestricted Investment Earnings				2,363	7,625
Miscellaneous				657	1,675
Special Item				0	(2,559)
Transfers				285,155	(285,155)
Total General Revenues, Special Items and Transfers			94,250	744,322	(278,414)
Change in Net Assets				109,275	272,034
Net Assets, June 30, 2010, As Restated				389,680	1,430,481
Net Assets, June 30, 2011				498,955	1,702,515
				\$	\$

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

CITY OF LEXINGTON, OKLAHOMA

BALANCE SHEET -
GOVERNMENTAL FUNDS

June 30, 2011

	General Fund	Special Revenue Restricted Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash, Including Time Deposits	\$ 55,232	\$ 109,434	\$ 29,412	\$ 194,078
Due From Other Funds	1,624	0	0	1,624
Accounts Receivable:				
Utility Fees	0	0	0	0
Other	27,271	10,748	1,701	39,720
TOTAL ASSETS	\$ 84,127	\$ 120,182	\$ 31,113	\$ 235,422
LIABILITIES				
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 0
Due to Other Funds	44,057	390	0	44,447
Total Liabilities	44,057	390	0	44,447
FUND EQUITY				
Fund Balances:				
NonSpendable	0	0	0	0
Restricted for:				
Streets and Alleys	0	0	31,113	31,113
Streets and Alleys & Economic Development	0	119,792	0	119,792
Committed for:				
Streets and Alleys	0	0	0	0
Assigned	23,050	0	0	23,050
Unassigned	17,020	0	0	17,020
Total Fund Equity	40,070	119,792	31,113	190,975
TOTAL LIABILITIES AND FUND EQUITY	\$ 84,127	\$ 120,182	\$ 31,113	\$ 235,422
Fund equity - total governmental funds				\$ 190,975
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.				415,780
Long Term Debt Obligations of governmental activities are not financial uses and therefore are not reported in the funds.				(33,471)
Deferred Expense (See Note 8)				33,471
Liability for capital lease (Phone Equipment) recorded in Enterprise Fund. (See Note 9)				(12,166)
Liability for vehicle (2008 Police Vehicle) recorded in Enterprise Fund. (See Note 9)				(6,516)
Liability for vehicle (2006 Police Vehicle) recorded in Enterprise Fund. (See Note 9)				(4,153)
Liability for tractor recorded in Enterprise Fund. (See Note 9)				(1,136)
Compensated absences are not reported in the fund financial statements (See Note 1).				(83,829)
Net assets of governmental activities				\$ 498,955

* 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, 2011

<u>REVENUES</u>	General Fund	Special Revenue Restricted Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
Taxes	\$ 306,836	\$ 130,084	\$ 19,227	\$ 456,147
Licenses and Permits	7,086	0	0	7,086
Intergovernmental	12,125	299,776	0	311,901
Charges for Services	84,370	0	0	84,370
Ambulance Assessments	86,097	0	0	86,097
Interest	2,186	139	38	2,363
Miscellaneous	657	0	0	657
Total Revenues	<u>499,357</u>	<u>429,999</u>	<u>19,265</u>	<u>948,621</u>
<u>EXPENDITURES</u>				
Current:				
Administration	251,533	0	0	251,533
Police	563,019	0	0	563,019
Fire	76,857	0	0	76,857
Civil Defense	1,614	0	0	1,614
Ambulance	84,938	0	0	84,938
Street and Alley	56,852	67,061	0	123,913
Parks and Recreation	2,595	0	0	2,595
Economic Development	0	17,103	0	17,103
Total Expenditures	<u>1,037,408</u>	<u>84,164</u>	<u>0</u>	<u>1,121,572</u>
Excess of Revenues Over (Under) Expenditures	(538,051)	345,835	19,265	(172,951)
Other Financing Sources (Uses):				
Operating Transfers In (Out)	<u>584,325</u>	<u>(299,170)</u>	<u>0</u>	<u>285,155</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	46,274	46,665	19,265	112,204
Fund Balance, June 30, 2010	<u>(6,204)</u>	<u>73,127</u>	<u>11,848</u>	<u>78,771</u>
FUND BALANCE, JUNE 30, 2011	<u>\$ 40,070</u>	<u>\$ 119,792</u>	<u>\$ 31,113</u>	<u>\$ 190,975</u>
Net change in fund balances - total governmental funds				\$ 112,204
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 (\$64,072) exceeded depreciation (\$52,592) in the current period.				11,480
Reduction of liability for vehicle (2008 Ford Pickup) recorded in Enterprise Fund (See Note 8 & 9).				1,840
Liability for phone lease recorded in Enterprise Fund (See Note 8 & 9).				(12,166)
Reduction of liability for tractor recorded in Enterprise Fund (See Note 8 & 9).				4,422
Reduction of liability for police vehicle (2006 Crown Victoria) recorded in Enterprise Fund (See Note 8 & 9).				3,293
Reduction of liability for police vehicle (2008 Crown Victoria) recorded in Enterprise Fund (See Note 8 & 9).				4,552
Compensated absences are not reported in the fund financial statements (See Note 1).				(16,350)
Change in net assets of governmental activities				<u>\$ 109,275</u>

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

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

June 30, 2011

	Enterprise Funds		
	Light Fund	LPWA Fund	Total
ASSETS			
Current Assets:			
Cash, Including Time Deposits	\$ 597,711	\$ 247,784	\$ 845,495
Due From Other Funds	25,667	23,971	49,638
Accounts Receivable	174,127	83,164	257,291
Interest Receivable	0	0	0
Total Current Assets	797,505	354,919	1,152,424
Non-Current Assets:			
Restricted Cash, Including Time Deposits	9,970	50,751	60,721
Property, Plant and Equipment:			
Water and Sewer Improvements	0	3,513,576	3,513,576
Equipment	1,504,717	203,766	1,708,483
Less: Accumulated Depreciation	(1,161,390)	(2,842,595)	(4,003,985)
Total Non-Current Assets	353,297	925,498	1,278,795
TOTAL ASSETS	\$ 1,150,802	\$ 1,280,417	\$ 2,431,219
LIABILITIES AND NET ASSETS			
<u>Liabilities:</u>			
Current Liabilities:			
Accounts Payable	\$ 0	\$ 0	\$ 0
Other Payables	9,585	0	9,585
Due to Other Funds	6,275	20,533	26,808
Current Portion - Long-Term Debt	0	40,010	40,010
Total Current Liabilities	15,860	60,543	76,403
Non-Current Liabilities:			
Long-Term Debt	0	601,003	601,003
Total Non-Current Liabilities	0	601,003	601,003
Total Liabilities	15,860	661,546	677,406
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	343,327	233,734	577,061
Restricted for Debt Service	0	50,751	50,751
Unreserved	791,615	334,386	1,126,001
Total Net Assets	1,134,942	618,871	1,753,813
TOTAL LIABILITIES AND NET ASSETS	\$ 1,150,802	\$ 1,280,417	\$ 2,431,219
Net Assets - total proprietary funds			\$ 1,753,813
Compensated absences are not reported in the fund financial statements (See Note 1).			(51,298)
Net Assets of Business Type Activities			\$ 1,702,515

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

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS

PROPRIETARY FUNDS

For the Year Ended June 30, 2011

	Enterprise Funds		Total
	Light Fund	LPWA Fund	
<u>Operating Revenues:</u>			
Electric Charges	\$ 1,417,922	\$ 0	\$ 1,417,922
Water Charges	0	372,370	372,370
Garbage Charges	0	178,749	178,749
Sewer Charges	0	176,224	176,224
Total Operating Revenues	<u>1,417,922</u>	<u>727,343</u>	<u>2,145,265</u>
<u>Operating Expenses:</u>			
Administration:			
Personnel Services	70,391	9,932	80,323
Materials and Supplies	1,455	802	2,257
Other Services and Charges	100,859	32,709	133,568
Depreciation	30,797	92,097	122,894
Total Administration	<u>203,502</u>	<u>135,540</u>	<u>339,042</u>
<u>Water:</u>			
Personnel Services	0	88,689	88,689
Materials and Supplies	0	23,096	23,096
Other Services and Charges	0	34,043	34,043
Total Water	<u>0</u>	<u>145,828</u>	<u>145,828</u>
<u>Wastewater:</u>			
Personnel Services	0	16,757	16,757
Materials and Supplies	0	14,727	14,727
Other Services and Charges	0	21,806	21,806
Total Wastewater	<u>0</u>	<u>53,290</u>	<u>53,290</u>
<u>Refuse Collection:</u>			
Other Services and Charges	0	156,714	156,714
Total Refuse Collection	<u>0</u>	<u>156,714</u>	<u>156,714</u>

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

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS

PROPRIETARY FUNDS

For the Year Ended June 30, 2011

	Enterprise Funds		Total
	Light Fund	LPWA Fund	
<u>Electric:</u>			
Personnel Services	126,639	0	126,639
Materials and Supplies	21,926	0	21,926
Other Services and Charges	17,882	0	17,882
Power Purchases	663,423	0	663,423
Total Electric	829,870	0	829,870
Total Operating Expenses	1,033,372	491,372	1,524,744
Net Operating Income	384,550	235,971	620,521
<u>Non-Operating Revenue (Expense):</u>			
Interest Revenue	6,067	1,558	7,625
Interest Expense	0	(20,060)	(20,060)
Other	1,675	0	1,675
Gain (Loss) on Sale of Asset	(2,559)	0	(2,559)
Intergovernmental	0	0	0
Bad Debt Expense	(26,801)	(16,301)	(43,102)
Total Non-Operating Revenues (Expense)	(21,618)	(34,803)	(56,421)
Net Income Before Other Financing Sources and (Uses)	362,932	201,168	564,100
<u>Other Financing Sources (Uses):</u>			
Capital Contributions	0	0	0
Prior Year Encumbrance Voided	0	0	0
Operating Transfers In (Out)	(278,494)	(6,661)	(285,155)
Total Other Financing Sources (Uses)	(278,494)	(6,661)	(285,155)
Change in Net Assets	84,438	194,507	278,945
Net Assets, June 30, 2010	1,050,504	424,364	1,474,868
NET ASSETS, JUNE 30, 2011	\$ 1,134,942	\$ 618,871	\$ 1,753,813
Change in Net Assets - total proprietary funds			\$ 278,945
Compensated absences are not reported in the fund financial statements (See Note 1).			(6,911)
Change in Net Assets of business-type activities			\$ 272,034

* 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, 2011

	Enterprise Funds		
	Light Fund	LPWA Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers	\$ 1,423,461	\$ 719,011	\$ 2,142,472
Payments to suppliers	(806,355)	(286,888)	(1,093,243)
Payments to employees	(197,030)	(115,378)	(312,408)
Other receipts (payments)	1,675	0	1,675
Net Cash Provided (Used) by Operating Activities	<u>421,751</u>	<u>316,745</u>	<u>738,496</u>
<u>Cash Flows From Non-Capital Financing Activities:</u>			
Operating Transfers (To) From Other Funds	<u>(281,638)</u>	<u>(6,875)</u>	<u>(288,513)</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(281,638)</u>	<u>(6,875)</u>	<u>(288,513)</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Proceeds from capital debt	0	126,577	126,577
Purchases of capital assets	(58,966)	(83,407)	(142,373)
Principal paid on capital debt	0	(310,720)	(310,720)
Interest paid on capital debt	0	(20,060)	(20,060)
Other receipts (payments)	0	0	0
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(58,966)</u>	<u>(287,610)</u>	<u>(346,576)</u>
<u>Cash Flows Provided by Investing Activities:</u>			
Interest and dividends	<u>6,067</u>	<u>1,558</u>	<u>7,625</u>
Net Cash Provided (Used) by Investing Activities	<u>6,067</u>	<u>1,558</u>	<u>7,625</u>
Net Increase (Decrease) in Cash and Cash Equivalents	87,214	23,818	111,032
Cash and Cash Equivalents, June 30, 2010	<u>520,467</u>	<u>274,717</u>	<u>795,184</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2011	<u>\$ 607,681</u>	<u>\$ 298,535</u>	<u>\$ 906,216</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, 2011

	Enterprise Funds		
	Light Fund	LPWA Fund	Total
<u>Cash Consists of:</u>			
Cash on Hand	\$ 600	\$ 0	\$ 600
Demand Deposits	194,823	103,317	298,140
Certificates of Deposit	402,288	144,467	546,755
Restricted Deposits	9,970	50,751	60,721
TOTAL CASH, END OF YEAR	\$ <u>607,681</u>	\$ <u>298,535</u>	\$ <u>906,216</u>
<u>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</u>			
Operating income (loss)	\$ 359,424	\$ 219,670	\$ 579,094
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	30,797	92,097	122,894
Change in assets and liabilities:			
Receivables, net	32,340	7,969	40,309
Accounts and other payables	(810)	(2,991)	(3,801)
Net Cash Provided by Operating Activities	\$ <u>421,751</u>	\$ <u>316,745</u>	\$ <u>738,496</u>

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

CITY OF LEXINGTON, OKLAHOMA
STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

June 30, 2011

	Agency Funds				Total
	Disburse- ment Fund	Meter Deposit	Payroll	Municipal Court	
<u>ASSETS</u>					
Cash, Including Time Deposits	\$ 0	\$ 95,603	\$ 210	\$ 396	\$ 96,209
Accounts Receivable	0	0	0	0	0
Due From Other Funds	46,242	0	0	13	46,255
TOTAL ASSETS	\$ 46,242	\$ 95,603	\$ 210	\$ 409	\$ 142,464
 <u>LIABILITIES</u>					
Accounts Payable	\$ 45,575	\$ 0	\$ 210	\$ 409	\$ 46,194
Due To Other Funds	667	1,624	0	0	2,291
Meter Deposit Liability	0	93,979	0	0	93,979
TOTAL LIABILITIES	\$ 46,242	\$ 95,603	\$ 210	\$ 409	\$ 142,464

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

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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*). Governments are also required to follow the pronouncements of the *Financial Accounting Standards Board (FASB)* issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies in GAAP and used by the City are discussed in subsequent sections.

Reporting Entity - For financial reporting purposes, the City complies with *Governmental Accounting Standards Board (GASB) Cod. Sec. 2100*, in defining the City's financial reporting entity. All of the activities described above are included in the City's reporting entity. The public trust listed below was determined to be part of the City of Lexington's reporting entity based on the degree of oversight responsibility which includes, but is not limited to (1) selection of governing authority, (2) designation of management, (3) ability to significantly influence operations, (4) accountability for fiscal matters and (5) scope of public service.

Lexington Public Works Authority - 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.

Due to the significance of the scope of public service and the relationship of the governing body of the Authority to the City Council, the Public Works Authority is considered a component unit of the City's reporting entity and is included in this financial report.

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 Assets, 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 City's net assets are reported in three components:

- Invested in capital assets, net of related debt – 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.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- Restricted net assets – consists of net 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.
- Unrestricted – all other net assets are reported in this category.

The City first utilizes restricted resources to finance qualifying activities.

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 (property, 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 grant.

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 assets resulting from the current year's activities.

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, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the 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.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

Enterprise Funds are required to be used to account for operations 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.

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.

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, liabilities, 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.

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.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Encumbrances - Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are reported to reserve that portion of the applicable appropriation, is used in the general fund. For budgetary purposes, appropriations lapse at fiscal year end, except for the portion related to encumbered amounts. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be honored during the subsequent year.

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 the balance sheets of 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, 2011 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Grants</u>	<u>Other</u>	<u>Total Receivables</u>
Governmental Activities:					
General	\$ 0	\$ 29,489	\$ 0	\$ 1,624	\$ 31,113
Ambulance	8,981	0	0	0	8,981
Fire	<u>1,250</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,250</u>
Total Governmental Activities	<u>\$ 10,231</u>	<u>\$ 29,489</u>	<u>\$ 0</u>	<u>\$ 1,624</u>	<u>\$ 41,344</u>
Business-Type Activities:					
Administration	\$ 0	\$ 0	\$ 0	\$ 667	\$ 667
Electric	174,127	0	0	0	174,127
Water	43,079	0	0	0	43,079
Sewer	21,623	0	0	0	21,623
Garbage	<u>18,462</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>18,462</u>
Total Business-Type Activities	<u>\$ 257,291</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 667</u>	<u>\$ 257,291</u>

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

Payables – Payables at June 30, 2011 were as follows:

	(Misc.) <u>Other</u>	<u>Vendors</u>	(Sales Tax) <u>Other</u>	<u>Total Payables</u>
Governmental Activities:				
General	\$ <u>13</u>	\$ <u>19,434</u>	\$ <u>0</u>	\$ <u>19,447</u>
Total Governmental Activities	\$ <u>13</u>	\$ <u>19,434</u>	\$ <u>0</u>	\$ <u>19,447</u>
Business-Type Activities:				
Administration	\$ 0	\$ 0	\$ 0	\$ 0
Electric	0	6,275	9,585	15,860
Water/Sewer/Garbage	<u>0</u>	<u>20,533</u>	<u>0</u>	<u>20,533</u>
Total Business-Type Activities	\$ <u>13</u>	\$ <u>26,808</u>	\$ <u>9,585</u>	\$ <u>36,393</u>

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

Capital Assets – Capital assets purchased or acquired with a useful life in excess of one year are reported at historical cost or estimated historical cost. 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. 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

GASB Statement 34 requires the City to report and depreciate new infrastructure assets effective with the beginning of the current year. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is not required; therefore, the City has elected to report infrastructure assets prospectively.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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. 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 8).

Fund Equity – As of these financial statements, the City has adopted *GASB Statement No. 54*, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

- Non-spendable Fund Balance – Amounts constrained to specific purposes by their providers (such as inventory) or are required to be maintained intact.
- Restricted Fund Balance – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions or by enabling legislation.
- Committed Fund Balance – Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. City ordinance). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned Fund Balance – Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned fund balance – Amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The City would typically use restricted fund balances first, followed by committed resources, then 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 assigned fund balance of \$23,050 at June 30, 2011 which represents the portion of the current year fund balance appropriated to meet budgeted expenditures for fiscal year 2011/2012.

NOTE 2: BUDGETARY ACCOUNTING AND CONTROL

The City operates under the Oklahoma Municipal Budget Act of 1979 (the “Budget Act”). The budget, as adopted by the governing body, is filed with the State of Oklahoma Office of the Auditor and Inspector and with the County Excise Board.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 2: BUDGETARY ACCOUNTING AND CONTROL, CONTINUED

The City uses the following procedures in establishing the budgetary data:

- a. Prior to June 1, the City Manager submits to the council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted as regular Council meetings to obtain taxpayer comments. Public hearings are held no later than 15 days prior to the beginning of the budget year.
- c. Subsequent to the public hearings, but no later than seven days prior to July 1, the budget is legally enacted through the passage of a motion by the governing body.

Formal budgetary integration is employed as a management control device during the year for all fund types. The City prepares its budget on a basis different from the cash basis. The primary difference between the budget basis and the cash basis is that the budget basis treats encumbrances as expenditures.

The level of control, at which expenditures may not legally exceed appropriations, is at the object category level by department within a fund for each legally adopted fiscal operating budget. The Budget Act recognizes the following object categories as the minimum level of budgetary control by department within a fund:

- Personnel Services
- Materials and Supplies
- Other Services and Charges
- Capital Outlay
- Debt Service

NOTE 3: DEPOSITS, INVESTMENTS AND COLLATERAL

A. Oklahoma State Law, Title 62, Section 348.1 allows for investment of City funds in the following:

1. Direct obligations of the United States Government to the payment of which the full faith and credit of the Government of the United States or of the State of Oklahoma is pledged.
2. Certificates of deposit of savings and loan associations, banks, and trust companies when the certificates of deposit are secured by acceptable collateral as in the deposit of other public monies.
3. Savings accounts or savings certificates of savings and loan associations, banks and trust companies, to the extent that the accounts or certificates are fully insured.
4. Negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations. Any investments in these instruments must be fully collateralized with investments specified in previous paragraphs 1 through 3, where the collateral has been deposited with a trustee or custodian bank in an irrevocable trust or escrow account.

CITY OF LEXINGTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 3: DEPOSITS, INVESTMENTS AND COLLATERAL, CONTINUED

- B. There are no statutory limitations on the investment of funds of the City's Public Works Authority, which is reported as the City's enterprise funds in the combined financial statements.
- C. According to State Law, Title 62, Section 516.3, collateral to secure deposits of public funds must be:
1. U. S. Treasury bonds, notes or certificates payable by the Treasurer of the United States, issued by an agency of the United States under authority of an Act of Congress where the full faith and credit of the United states is pledged to the payment.
 2. State of Oklahoma bonds, notes or certificates payable by the State Treasurer, issued by an agency of the State under authority of an act of the legislature where full faith and credit is pledged to the payment.
 3. Bonds issued by any county in Oklahoma
 4. Bonds issued by any school district or board of education in Oklahoma
 5. Bonds issued by any city or town where an ad valorem tax levy is pledged to the payment, with certain restrictions of sinking fund indebtedness of the issuing city or town.
 6. A surety bond.
- D. During the year ended June 30, 2011, the City's deposits were limited to insured checking and savings accounts and collateralized certificates of deposit. At June 30, 2011, the amount of total bank deposits at certain financial institutions exceed the amount of insurance coverage; however, acceptable collateral was pledged in order that the deposits were secured at the respective financial institutions.
- E. During the year ended June 30, 2011, the City's investments were limited to those of the trustee bank accounts of the Public Works Authority relating to the debt issuance's of the enterprise funds.

NOTE 4: SALES TAX RESTRICTIONS

The City is currently receiving a 3.5% sales tax with the last 1.5% being added October 1, 1989 and renewed in 2011. This added sales tax of 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% tax is deposited in and used for the operations of the General Fund of the City.

NOTE 5: 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.

CITY OF LEXINGTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 6: PENSION PLANS

Defined Contribution Plan – The City provided, effective August 1, 1989, a pension benefit for all of its full-time employees through a defined contribution plan known as the City of Lexington Plan and Trust with the Oklahoma Municipal Retirement Fund (OMRF). In a defined contribution plan, benefits depend solely on the amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. The employee and the City each contribute an amount equal to 10% of the employee's base salary each month. The City's contributions for each employee, (and interest allocated to the employee's account) are fully vested after seven years of continuous service. City contributions for, and interest forfeited by employees who leave employment before 3 years of service, are disbursed to remaining employees.

The City's total payroll in fiscal year 2011 was \$674,015. Both the City and the covered employees made the required contributions, amounting to \$54,351 from each source, or \$108,702 in total.

Defined Contribution Plan – City Manager – The City provided, effective October 1, 2002, a pension benefit for the City Manager through a defined contribution plan known as the City of Lexington Plan with the Oklahoma Municipal Retirement Fund. The plan is a variable funding plan. The City Manager is fully vested after 3 years of service. For the fiscal year ending June 30, 2011, contributions totaled \$5,865 from each source, or \$11,730 in total.

NOTE 7: CAPITAL ASSETS

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

	<u>Balance</u> <u>June 30, 2010</u>	<u>Adjustment</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2011</u>
Governmental Activities:					
<u>Capital Assets</u>					
Buildings and Property	\$ 1,692,336	\$ 0	\$ 31,232	\$ 0	\$ 1,723,568
Vehicles	364,590	0	1,500	(13,706)	352,384
Equipment (1)	361,122	0	31,340	(15,805)	376,657
Total Capital Assets	<u>2,418,048</u>	<u>0</u>	<u>64,072</u>	<u>(29,511)</u>	<u>2,452,609</u>
<u>Accumulated Depreciation</u>					
Building and Property	(1,314,582)	(54,255)	(10,799)	0	(1,379,636)
Vehicles	(319,938)	0	(21,767)	13,706	(327,999)
Equipment	(324,973)	0	(20,026)	15,805	(329,194)
Total Accumulated Depreciation	<u>(1,959,493)</u>	<u>(54,255)</u>	<u>(52,592)</u>	<u>29,511</u>	<u>(2,036,829)</u>
<u>Net Governmental Activities</u>					
Capital Assets	<u>\$ 458,555</u>	<u>\$(54,255)</u>	<u>\$(11,480)</u>	<u>\$ 0</u>	<u>\$ 415,780</u>
Business Type Activities:					
<u>Capital Assets</u>					
Water and Sewer Improvements	\$ 3,430,169	\$ 0	\$ 83,407	\$ 0	\$ 3,513,576
Equipment	1,661,695	0	58,966	(12,178)	1,708,483
Total Capital Assets	<u>5,091,864</u>	<u>0</u>	<u>142,373</u>	<u>(12,178)</u>	<u>5,222,059</u>

(1) Includes leased equipment of \$12,753 (see Capital Lease Note 8).

Amortization of leased equipment is included with the depreciation expense.

CITY OF LEXINGTON, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 7: CAPITAL ASSETS, CONTINUED

	<u>Balance</u> <u>June 30, 2010</u>	<u>Adjustment</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2011</u>
<u>Accumulated Depreciation</u>					
Water and Sewer Improvements	(2,557,917)	0	(89,989)	0	(2,647,906)
Equipment	(1,332,793)	0	(32,905)	9,619	(1,356,079)
Total Accumulated Depreciation	(3,890,710)	0	(122,894)	9,619	(4,003,985)
<u>Net Business Type Capital</u>					
Assets	<u>\$ 1,201,154</u>	<u>\$ 0</u>	<u>\$ 19,479</u>	<u>\$ (2,559)</u>	<u>\$ 1,218,074</u>

Depreciation expense was charged to governmental activities as follows:

General Government:
 Administration \$ 52,592

NOTE 8: 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 asset is recognized as a deferred expense in the Statement of Net Assets and is a reconciling item on the governmental fund financial statements. The balance at June 30, 2011 is \$33,471.

Business Type Activities:

Notes Payable:

LPWA – On December 23, 2002, the Lexington Public Works Authority (LPWA) entered into a promissory note in the amount of \$720,000 with the Oklahoma Water Resources Board for improvements to the water and wastewater system and to refinance debt pertaining to the water system. The note has an initial interest rate of 2.122% and thereafter at a variable rate to be set periodically by the Board. Monthly installments are paid to a trustee, Bank One, in Oklahoma City. Final maturity is September 15, 2032. This note is collateralized by pledge and assignment of revenues and receipts derived from water, sewer and garbage disposal services. Principal balance at June 30, 2011 is \$615,250.

Note payable to McClain County National Bank, dated September 11, 2006 in the amount of \$19,686. To be repaid in 60 monthly payments of \$390 each, and matures September 11, 2011. Note carries a 7% interest rate and is secured by a tractor. Principal balance at June 30, 2011 is \$1,136.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 8: LONG-TERM LIABILITIES, CONTINUED

Note payable to McClain County National Bank, dated September 15, 2006 in the amount of \$16,560. To be repaid in 60 monthly payments of \$328 each, and matures September 15, 2011. Note carries a 7% interest rate and is secured by a 2002 Chevy Pickup. Principal balance at June 30, 2011 is \$939.

Note payable to McClain County National Bank, dated September 15, 2006 in the amount of \$15,060. To be repaid in 60 monthly payments of \$298 each, and matures September 15, 2011. Note carries a 7% interest rate and is secured by a 2001 Chevy Pickup. Principal balance at June 30, 2011 is \$853.

Note payable to McClain County National Bank, dated October 22, 2007 in the amount of \$21,860. To be repaid in 60 payments of \$433 each, and matures October 22, 2012. Note carries an interest rate of 7% and is secured by a 2008 Ford Crown Victoria. Principal balance at June 30, 2011 is \$6,516.

Note payable to McClain County National Bank, dated August 7, 2007 in the amount of \$15,640. To be repaid in 60 payments of \$310 each and matures August 7, 2012. Note carries an interest rate of 7% and is secured by a 2006 Ford Crown Victoria. Principal balance at June 30, 2011 is \$4,153.

Capital Lease Payable:

Capital lease payable to Great American Leasing dated March 8, 2011 in the amount of \$15,457. To be repaid in 36 monthly payments of \$429 each, and matures March 8, 2014. Lease carries a \$12.95% interest rate and is for a telephone system. Principal balance at June 30, 2011 is \$12,166.

OTHER LIABILITIES – 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 2010-10 include:

	Principal Balance <u>06/30/10</u>	<u>Additions</u>	<u>Retirements</u>	Principal Balance <u>06/30/11</u>	Amounts Due Within <u>One Year</u>
<u>Governmental Activities:</u>					
Compensated Absences	\$ 67,479	\$ 29,064	\$ 12,714	\$ 83,829	\$ 12,435
Lease/Purchase - CL Boyd Co.	<u>41,360</u>	<u>0</u>	<u>7,889</u>	<u>33,471</u>	<u>8,304</u>
Total Governmental Activities	<u>108,839</u>	<u>29,064</u>	<u>20,603</u>	<u>117,300</u>	<u>20,739</u>
<u>Business-Type Activities:</u>					
<u>Capital Lease Payable –</u>					
Great American Leasing	<u>0</u>	<u>12,752</u>	<u>586</u>	<u>12,166</u>	<u>3,797</u>

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 8: LONG-TERM LIABILITIES, CONTINUED

	<u>Principal Balance 06/30/10</u>	<u>Additions</u>	<u>Retirements</u>	<u>Principal Balance 06/30/11</u>	<u>Amounts Due Within One Year</u>
<u>Bonds/Notes Payable –</u>					
Note Payable – Oklahoma Water Resource Board – 2000 Series	630,250	0	15,000	615,250	25,116
Note Payable – McClain County National Bank	5,558	0	4,422	1,136	1,136
Note Payable – McClain County National Bank	1,840	0	1,840	0	0
Note Payable – McClain County National Bank	4,661	0	3,722	939	939
Note Payable – McClain County National Bank	4,238	0	3,385	853	853
Note Payable – McClain County National Bank	100,095	0	100,095	0	0
Note Payable – McClain County National Bank	11,068	0	4,552	6,516	4,740
Note Payable – McClain County National Bank	60,000	40,000	100,000	0	0
Note Payable – McClain County National Bank	0	73,825	73,825	0	0
Note Payable – McClain County National Bank	<u>7,446</u>	<u>0</u>	<u>3,293</u>	<u>4,153</u>	<u>3,429</u>
Total Bonds/Notes Payable	825,156	113,825	310,134	628,847	36,213
Compensated Activities	<u>44,387</u>	<u>14,056</u>	<u>7,145</u>	<u>51,298</u>	<u>6,274</u>
Total Business-Type Activities	<u>869,543</u>	<u>140,633</u>	<u>317,865</u>	<u>692,311</u>	<u>46,284</u>
 TOTAL	 <u>\$ 978,382</u>	 <u>\$ 169,697</u>	 <u>\$ 338,468</u>	 <u>\$ 809,611</u>	 <u>\$ 67,023</u>

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

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

Governmental Activities:

	<u>Lease/ Purchase</u>	
	<u>Principal</u>	<u>Interest</u>
2011-12	\$ 8,304	\$ 1,530
2012-13	8,742	1,092
2013-14	9,203	631
2014-15	7,222	154
2015-16	0	0
2016-17 through 2020-21	0	0
2021-22 through 2025-26	0	0
2026-27 through 2030-31	0	0
2031-32 through 2032-33	0	0
TOTAL	<u>\$ 33,471</u>	<u>\$ 3,407</u>

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 8: LONG-TERM LIABILITIES, CONTINUED

	<u>Capital Lease</u>		<u>OWRB Note *</u>		<u>McClain County Bank</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011-12	\$ 3,797	\$ 1,355	\$ 25,116	\$ 906	\$ 11,097	\$ 1,439
2012-13	4,319	833	25,494	8,682	2,500	432
2013-14	4,050	244	25,880	8,296	0	0
2014-15	0	0	26,271	7,905	0	0
2015-16	0	0	26,668	7,508	0	0
2016-17 through 2020-21	0	0	139,502	31,378	0	0
2021-22 through 2025-26	0	0	150,361	20,519	0	6
2026-27 through 2030-31	0	0	162,063	8,817	0	0
2031-32 through 2032-33	0	0	33,895	195	0	0
TOTAL	<u>\$ 12,166</u>	<u>\$ 2,432</u>	<u>\$ 615,250</u>	<u>\$ 102,360</u>	<u>\$ 13,597</u>	<u>\$ 1,871</u>

* The OWRB notes require a minimum balance to be maintained in the specified accounts as debt service reserves. As of June 30, 2011 required reserve balances have been met.

NOTE 9: INTERFUND TRANSACTIONS

Interfund receivable and payable balances on the fund financial statements at June 30, 2011 were as follows:

Due From/Due To Analysis:

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General Funds:		
Meter Deposit Fund	\$ 1,624	\$ 0
Restricted Sales Tax Fund	0	0
Disbursement Fund	0	19,044
Municipal Court Fund	0	13
Light Fund	0	25,000
Special Revenue Funds:		
Street & Alley Fund	0	0
Restricted Sales Tax Fund	0	390
Total Governmental Funds	<u>1,624</u>	<u>44,447</u>
Enterprise Fund:		
LPWA:		
Disbursement Fund	0	20,533
General Fund	22,835	0
Restricted Sales Tax Fund	1,136	0
Light Fund:		
General Fund	25,000	0
Disbursement Fund	667	6,275
Total Enterprise Fund	<u>46,638</u>	<u>26,808</u>

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 9: INTERFUND TRANSACTIONS, CONTINUED

Due From/Due To Analysis:

	<u>Due From</u>	<u>Due To</u>
Agency:		
Disbursement Fund:		
General Fund	19,044	0
Street & Alley Fund	0	0
Restricted Sales Tax Fund	390	0
Light Fund	6,275	667
LPWA Fund	20,533	0
Payroll Fund:		
Light Fund	0	0
General Fund	0	0
LPWA Fund	0	0
Municipal Court Fund:		
General Fund	13	0
Meter Deposit Fund:		
General Fund	0	1,624
LPWA Fund	0	0
Light Fund	0	0
Total Agency Fund	<u>46,255</u>	<u>2,291</u>
TOTAL – ALL FUNDS	<u>\$ 97,517</u>	<u>\$ 73,546</u>

The difference of \$23,971 in inter-fund payables/receivables is due to the following:

The LPWA Fund reflects a “due from” the Restricted Sales Tax Fund in the amount of \$1,136. This is for the purchase of a tractor. (See related note payable in Note 8). However, the Restricted Sales Tax Fund only reflects a “due to” the LPWA Fund of \$0. The LPWA Fund is taking the risk that the Restricted Sales Tax fund will not meet the remaining obligation. However, in the governmental activities in the government-wide financial statements, \$1,136 was recorded as due to the business-type activities. This is a reconciling item on the governmental fund financial statements.

The LPWA Fund reflects a “due from” the General Fund in the amount of \$4,153. This is for the purchase of a Police Vehicle - 2006 Crown Victoria. (See related note payable in Note 8). However, the General Fund only reflects a “due to” the LPWA Fund of \$0. The LPWA Fund is taking the risk that the General Fund will not meet the remaining obligation. However, in the governmental activities in the government-wide financial statements, \$4,153 was recorded as due to the business-type activities. The difference is shown as a reconciling item on the governmental fund financial statements.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 9: INTERFUND TRANSACTIONS, CONTINUED

The LPWA Fund reflects a "due from" the General Fund in the amount of \$6,516. This is for the purchase of a Police Vehicle – 2008 Ford Crown Victoria. (See related note payable in Note 8.) However, the General Fund only reflects a "due to" the LPWA Fund of \$0. The LPWA Fund is taking the risk that the General Fund will not meet the remaining obligation. However, when recording the vehicle in the governmental activities in the government-wide financial statements, \$6,516 was also recorded a due to the business-type activities. This is a reconciling item on the governmental fund financial statements.

The LPWA Fund reflects a "due from" the General Fund in the amount of \$12,166. This is for the capital lease of a phone system. (See related note payable in Note 8. However, the General Fund only reflects a "due to" the LPWA Fund of \$0. The LPWA Fund is taking the risk that the General Fund will not meet the remaining obligation. However, in the governmental activities in the government-wide financial statements, \$12,166 was recorded as due to business-type activities. The difference is shown as a reconciling item on the governmental fund financial statements.

Operating Transfers – Interfund operating transfers between funds for the fiscal year ended June 30, 2011 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds:		
General:		
Light Fund	\$ 326,494	\$ 3,000
LPWA Fund	195,831	0
Restricted Sales Tax Fund	<u>65,000</u>	<u>0</u>
Total General Fund	<u>587,325</u>	<u>3,000</u>
Restricted Sales Tax Fund	<u>0</u>	<u>299,170</u>
Enterprise:		
Light Fund	48,000	326,494
LPWA Fund	<u>234,170</u>	<u>240,831</u>
Total Enterprise Fund	<u>282,170</u>	<u>567,325</u>
Non-Major Fund	<u>0</u>	<u>0</u>
TOTAL ALL FUNDS	<u>\$ 869,495</u>	<u>\$ 869,495</u>

NOTE 10: LITIGATION

At June 30, 2011, the City of Lexington was not involved in any pending or threatened litigation which would have a material impact on these financial statements.

CITY OF LEXINGTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 11: 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:

Type of Loss	Method Managed
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
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

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

NOTE 12: LEASES

On August 25, 2005, the City entered into an operating lease for a copier. The lease contains an appropriations clause. The lease calls for 60 monthly payments of \$138. Lease expense for the fiscal year ending June 30, 2011 was \$1,924.

On January 20, 2011, the City entered into an operating lease for a mailing system. The lease calls for 12 monthly payments of \$583. Lease expense for the fiscal year ending June 30, 2011 was \$5,946.

Additionally, the City leases equipment on a monthly basis. Lease expense for the fiscal year ending June 30, 2011 was \$5,392.

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

June 30, 2012	\$ <u>3,774</u>
TOTAL	\$ <u>3,774</u>

NOTE 13: SUBSEQUENT EVENTS

Date of Management Evaluation – Management of the City has evaluated subsequent events through December 6, 2011, which is the date the financial statements were available to be issued.

CITY OF LEXINGTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 14: CHANGES IN BEGINNING NET ASSETS

The following discloses the restatement of net assets as of the beginning of the fiscal year.

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Net Assets, June 30, 2010, as previously stated	\$ 443,935	\$ 1,430,481
Decrease due to error in prior years accumulated depreciation	(54,255)	<u>0</u>
Net Assets, June 30, 2011, as restated	<u>\$ 389,680</u>	<u>\$ 1,430,481</u>

Saunders & Associates, PLLC

Certified Public Accountants

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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

Honorable Mayor and City Council
City of Lexington
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, Oklahoma as of and for the year ended June 30, 2011, which collectively comprise the City of Lexington's basic financial statements, and have issued our report thereon dated December 6, 2011. We also have audited the financial statements of the City of Lexington's non-major governmental fund presented as supplementary information in the accompanying combining fund financial statements of and for the year ended June 30, 2011, 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.

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*.

This report is intended solely for the information and use of management, the city council members, others within the organization, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be used by anyone other than these specified parties.

Saunders & Associates, PLLC
SAUNDERS & ASSOCIATES, PLLC
Certified Public Accountants

December 6, 2011

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, 2011

	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				
REVENUES						
Taxes	\$ 321,600	\$ 321,600	\$ 306,836	\$ 0	\$ 306,836	\$ (14,764)
Licenses and Permits	8,200	8,200	7,086	0	7,086	(1,114)
Intergovernmental	8,000	12,300	12,125	0	12,125	(175)
Charges for Services	78,250	78,250	84,370	0	84,370	6,120
Ambulance Assessment	87,000	87,000	86,097	0	86,097	(903)
Interest	3,000	3,000	2,186	0	2,186	(814)
Miscellaneous	25,800	25,800	657	0	657	(25,143)
Total Revenues	531,850	536,150	499,357	0	499,357	(36,793)
EXPENDITURES						
Departmental:						
Administration	318,120	350,320	241,699	(1)	251,533	108,621
Police	605,260	620,060	563,019	0	563,019	57,041
Fire	70,550	87,250	76,857	0	76,857	10,393
Civil Defense	3,880	3,880	1,614	0	1,614	2,266
Ambulance	87,000	87,000	84,938	0	84,938	2,062
Street and Alley	61,890	66,790	56,852	0	56,852	9,938
Parks and Recreation	4,700	5,400	2,595	0	2,595	2,805
Total Expenditures	1,151,400	1,220,700	1,027,574	9,834	1,037,408	193,126
Excess of Revenues Over (Under) Expenditures	(619,550)	(684,550)	(528,217)	(9,834)	(538,051)	156,333
Other Financing Sources (Uses):						
Operating Transfers In	600,000	665,000	577,491	(1)	587,325	(87,509)
Operating Transfers Out	(3,000)	(3,000)	(3,000)	0	(3,000)	0
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(22,550)	(22,550)	46,274	0	46,274	68,824
Fund Balance, June 30, 2010	(6,204)	(6,204)	(6,204)	0	(6,204)	0
FUND BALANCE, JUNE 30, 2011	\$ (28,754)	\$ (28,754)	\$ 40,070	\$ 0	\$ 40,070	\$ 68,824
Explanation of differences:						
(1) Transfer from Light Fund and Capital Outlay expense for General Long Term Debt Payments						

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

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, 2011

	Budgeted Amounts	Actual	Budget to	Actual	Budgetary	Budgetary	
	Original	Final	GAAP	Amounts	Amounts	Variance	
			Differences	Budgetary	GAAP	With	
			Over (Under)	Basis	Basis	Final	
						Budget	
						Positive	
						(Negative)	
REVENUES							
Taxes	\$ 132,000	\$ 132,000	\$ 0	\$ 130,084	\$ 130,084	\$ (1,916)	
Intergovernmental	324,000	324,000	0	299,776	299,776	(24,224)	
Interest	400	400	0	139	139	(261)	
Total Revenues	456,400	456,400	0	429,999	429,999	(26,401)	
EXPENDITURES							
Departmental:							
Street and Alley	50,000	68,000	0	67,061	67,061	939	
Economic Development	410,000	292,000	(200,170)	217,273	17,103	74,727	
Total Expenditures	460,000	360,000	(200,170)	284,334	84,164	75,666	
Excess of Revenues Over (Under) Expenditures	(3,600)	96,400	200,170	145,665	345,835	49,265	
Other Financing Sources (Uses):							
Short-Term Debt Proceeds	0	0	0	0	0	0	
Operating Transfers In	0	0	0	0	0	0	
Operating Transfers Out	0	(100,000)	(200,170)	(99,000)	(299,170)	1,000	
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(3,600)	(3,600)	0	46,665	46,665	50,265	
Fund Balance, June 30, 2010	73,127	73,127	0	73,127	73,127	0	
FUND BALANCE, JUNE 30, 2011	\$ 69,527	\$ 69,527	\$ 0	\$ 119,792	\$ 119,792	\$ 50,265	

(1) Transfer to LPWA Fund and Capital Outlay expense for debt payments.

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

CITY OF LEXINGTON, OKLAHOMA

COMBINING GOVERNMENTAL FUND BALANCE SHEET

OTHER GOVERNMENTAL FUNDS

June 30, 2011

	<u>Special Revenue</u>	
	Street and Alley Fund	<u>Total</u>
<u>ASSETS</u>		
Cash, Including Time Deposits	\$ 29,412	\$ 29,412
Accounts Receivable	<u>1,701</u>	<u>1,701</u>
 TOTAL ASSETS	 <u>\$ 31,113</u>	 <u>\$ 31,113</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Liabilities:		
Accounts Payable	\$ 0	\$ 0
Notes Payable	0	0
Due to Other Funds	<u>0</u>	<u>0</u>
Total Liabilities	<u>0</u>	<u>0</u>
 Fund Balances:		
NonSpendable	0	0
Restricted for:		
Streets and Alleys	31,113	31,113
Committed for:		
Streets and Alleys	0	0
Assigned	0	0
Unassigned	<u>0</u>	<u>0</u>
Total Fund Equity	<u>31,113</u>	<u>31,113</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 31,113</u>	 <u>\$ 31,113</u>

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

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, 2011

	<u>Special Revenue Street and Alley Fund</u>	<u>Total</u>
<u>REVENUES</u>		
Taxes	\$ 19,227	\$ 19,227
Intergovernmental	0	0
Interest	<u>38</u>	<u>38</u>
Total Revenues	<u>19,265</u>	<u>19,265</u>
 <u>EXPENDITURES</u>		
Current:		
Economic Development	0	0
Street and Alley	<u>0</u>	<u>0</u>
Total Expenditures	<u>0</u>	<u>0</u>
Revenues Over (Under) Expenditures	19,265	19,265
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	19,265	19,265
Fund Balance, June 30, 2010	<u>11,848</u>	<u>11,848</u>
FUND BALANCE, JUNE 30, 2011	<u>\$ 31,113</u>	<u>\$ 31,113</u>

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

CITY OF LEXINGTON, OKLAHOMA

STATUS OF PRIOR AUDIT FINDINGS

June 30, 2011

10-1 DEFICIT FUND BALANCE

Criteria: In accordance with the Municipal Budget Act (11O.S., S.17-211) no expenditure or encumbrance may be authorized or made by any officer or employee which exceeds the fund balance for any fund.

Condition: The general fund had a deficit fund balance of \$6,204 as of June 30, 2010.

Current Status: This finding can be cleared.

10-2 BUDGETED DEFICIT FUND BALANCE

Criteria: In accordance with the Municipal Budget Act (11 O.S., S.17-211) it shall be unlawful for any officer or employee of the municipality in any budget year to create or authorize creation of a deficit in any fund.

Condition: The restricted sales tax fund had a deficit fund balance budgeted.

Current Status: This finding can be cleared.

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

CITY OF LEXINGTON, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2011

None reported.

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