

*City of Lexington, Oklahoma*

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

*For the Year Ended June 30, 2013*

***SAUNDERS & ASSOCIATES, PLLC***

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CITY OF LEXINGTON, OKLAHOMA

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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Lexington, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lexington, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Lexington, Oklahoma's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lexington, Oklahoma as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

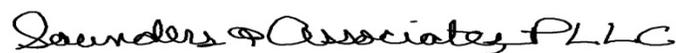
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 37 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2013 on our consideration of the City of Lexington, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lexington, Oklahoma's internal control over financial reporting and compliance.



SAUNDERS & ASSOCIATES, PLLC  
Certified Public Accountants  
Ada, Oklahoma

October 2, 2013

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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, 2013. Please read it in conjunction with the City's financial statements, which begin on page 11.

**FINANCIAL HIGHLIGHTS**

- The City's net position remained virtually unchanged as a result of this year's operations. While net position of our business-type activities decreased by \$113 thousand, or 7.5 percent, net position of our governmental activities increased by \$101 thousand, or 16.3 percent.
- During the year, the City had expenses that were \$616 thousand more than the \$630 thousand generated in tax and other revenues for governmental programs (before special items and transfers from business-type activities). This compares to last year when expenses exceeded revenues by \$596 thousand.
- In the City's business-type activities, revenues increased to \$78 thousand (or 3.5 percent) while expenses decreased by 0.5%.
- Total cost of all of the City's programs was virtually unchanged (increasing by \$29,890 or 1 percent) with no new programs added this year.
- For the general fund, the resources available for appropriation were \$49 thousand more than budgeted; the resources transferred from the proprietary funds were \$88 thousand less than budgeted; and expenditures were kept \$44 thousand less than budgeted.

USING THIS ANNUAL REPORT

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

Reporting the City as a Whole

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

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

UNAUDITED

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

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

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

Reporting the City's Most Significant Funds

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

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

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

UNAUDITED

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

THE CITY AS TRUSTEE

Reporting the City's Fiduciary Responsibilities

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

THE CITY AS A WHOLE

Net Position

The City's combined net position decreased 0.6% from \$2,123,700 to \$2,111,996. (See Table 1) In comparison, last years' net position decreased 3.5%.

TABLE 1 – NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>		<u>Total % Change</u>
	<u>06/30/13</u>	<u>06/30/12</u>	<u>06/30/13</u>	<u>06/30/12</u>	<u>06/30/13</u>	<u>06/30/12</u>	
Capital Assets	\$ 470,363	\$ 425,861	\$ 995,662	\$ 1,102,436	\$ 1,466,025	\$ 1,528,297	-4.1%
Current and Other Assets	<u>374,733</u>	<u>310,421</u>	<u>1,075,128</u>	<u>1,093,930</u>	<u>1,449,861</u>	<u>1,404,351</u>	<u>3.2%</u>
Total Assets	<u>\$ 845,096</u>	<u>\$ 736,282</u>	<u>\$ 2,070,790</u>	<u>\$ 2,196,366</u>	<u>\$ 2,915,886</u>	<u>\$ 2,932,648</u>	<u>-0.6%</u>
Long-Term Liabilities	\$ 77,237	\$ 70,887	\$ 605,774	\$ 623,227	\$ 683,011	\$ 694,114	-1.6%
Other Liabilities	<u>42,793</u>	<u>41,750</u>	<u>78,086</u>	<u>73,084</u>	<u>120,879</u>	<u>114,834</u>	<u>5.3%</u>
Total Liabilities	<u>\$ 120,030</u>	<u>\$ 112,637</u>	<u>\$ 683,860</u>	<u>\$ 696,311</u>	<u>\$ 803,890</u>	<u>\$ 808,948</u>	<u>-0.6%</u>
<b>Net Position:</b>							
Investment in Capital Assets, Net	\$ 470,363	\$ 425,861	\$ 408,813	\$ 492,386	\$ 879,176	\$ 918,247	-4.3%
Restricted	305,463	243,993	51,068	50,751	356,531	294,744	21.0%
Unrestricted	<u>( 50,760)</u>	<u>( 46,209)</u>	<u>927,049</u>	<u>956,918</u>	<u>876,289</u>	<u>910,709</u>	<u>-3.8%</u>
Total Net Position	<u>\$ 725,066</u>	<u>\$ 623,645</u>	<u>\$ 1,386,930</u>	<u>\$ 1,500,055</u>	<u>\$ 2,111,996</u>	<u>\$ 2,123,700</u>	<u>-0.6%</u>

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

UNAUDITED

Net position of the City's governmental activities increased 16.3% (\$725,066 compared to \$623,645). Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased 9.8% from \$(46,209) to \$(50,760).

The net position of our business-type activities decreased by 7.5% (\$1,386,930 compared to \$1,500,055).

Changes in Net Position

The City's total revenues increased by 3.4% (\$95,956). The total cost of all new programs and services increased 1.0% (\$29,890). Table 2 and the narrative that follows consider the operations of governmental and business-type activities separately.

TABLE 2 – CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total Primary Government		Total % Change
	06/30/13	06/30/12	06/30/13	06/30/12	06/30/13	06/30/12	
Program Revenues:							
Charges for Services	\$ 191,536	\$ 149,757	\$ 2,246,501	\$ 2,184,286	\$ 2,438,037	\$ 2,334,043	4.5%
Operating Grants/ Contributions	22,848	4,462	27,675	10,496	50,523	14,958	237.8%
Capital Grants/ Contributions	1,203	0	0	0	1,203	0	100.0%
General Revenues:							
Franchise Taxes	21,259	76,996	0	0	21,259	76,996	-72.4%
Public Service Taxes	391,424	365,262	0	0	391,424	365,262	7.2%
Interest	431	1,863	3,720	4,373	4,151	6,236	-33.4%
Miscellaneous	2,249	14,688	2,619	3,326	4,868	18,014	-73.0%
Total Revenues	<u>630,950</u>	<u>613,028</u>	<u>2,280,515</u>	<u>2,202,481</u>	<u>2,911,465</u>	<u>2,815,509</u>	<u>3.4%</u>
Program Expenses:							
Administration	322,616	320,496	275,932	329,099	598,548	649,595	-7.9%
Police	667,814	640,781	0	0	667,814	640,781	4.2%
Fire	38,181	33,572	0	0	38,181	33,572	13.7%
Civil Defense	0	3,361	0	0	0	3,361	-100.0%
Ambulance	83,898	84,871	0	0	83,898	84,871	-1.1%
Street and Alley	118,363	101,067	0	0	118,363	101,067	17.1%
Parks and Recreation	5,247	2,876	0	0	5,247	2,876	82.4%
Economic Development	11,311	22,794	0	0	11,311	22,794	-50.4%
HOME Grant Program	0	0	0	0	0	0	0.0%
Water	0	0	155,606	179,580	155,606	179,580	-13.4%
Wastewater	0	0	43,261	43,725	43,261	43,725	-1.1%
Refuse Collection	0	0	153,150	155,202	153,150	155,202	-1.3%
Electric	0	0	1,047,790	975,855	1,047,790	975,855	7.4%
Total Expenses	<u>1,247,430</u>	<u>1,209,818</u>	<u>1,675,739</u>	<u>1,683,461</u>	<u>2,923,169</u>	<u>2,893,279</u>	<u>1.0%</u>
Excess Before Contributions Etc.	( 616,480)	( 596,790)	604,776	519,020	( 11,704)	( 77,770)	-85.0%
Transfers	717,901	721,480	( 717,901)	( 721,480)	0	0	0.0%
Special Items	0	0	0	0	0	0	0.0%
Extraordinary Items	0	0	0	0	0	0	0.0%
Changes in Net Position	<u>\$ 101,421</u>	<u>\$ 124,690</u>	<u>\$( 113,125)</u>	<u>\$( 202,460)</u>	<u>\$( 11,704)</u>	<u>\$( 77,770)</u>	<u>-85.0%</u>

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

UNAUDITED

Governmental Activities

Revenues for the City's governmental activities increased by 2.9% (\$17,922), while total expenses increased by 3.1% (\$37,612). With the transfer in of funds from the business-type activities, the net position for governmental activities increased 16.3%.

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>06/30/13</u>	<u>06/30/12</u>		<u>06/30/13</u>	<u>06/30/12</u>	
Administration	\$ 322,616	\$ 320,496	0.7%	\$ 313,250	\$ 312,896	0.1%
Police	667,814	640,781	4.2%	565,880	587,513	-3.7%
Fire	38,181	33,572	13.7%	25,781	26,035	-1.0%
Civil Defense	0	3,361	-100.0%	0	3,361	-100.0%
Ambulance	83,898	84,871	-1.1%	( 1,424)	( 943)	51.0%
Street and Alley	118,363	101,067	17.1%	118,363	101,067	17.1
Parks and Recreation	5,247	2,876	82.4%	( 1,318)	2,876	-145.8%
Economic Development	<u>11,311</u>	<u>22,794</u>	<u>-50.4%</u>	<u>11,311</u>	<u>22,794</u>	<u>-50.4%</u>
Total	<u>\$ 1,247,430</u>	<u>\$ 1,209,818</u>	<u>3.1%</u>	<u>\$ 1,031,843</u>	<u>\$ 1,055,599</u>	<u>-2.3%</u>

The cost of all governmental activities this year was \$1,247,430 compared to \$1,209,818 last year (an increase of \$37,612). Some of the costs were paid by those who directly benefited from the program. For 2012, the City received \$4,462 in grant funds for the fire department. For 2013, the City received \$11,900 in grant funds for the fire department, and \$1,930 for the police department. Ultimately, the taxpayers financed \$412,683 (33.1%) 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 3.5% (\$2,280,515 in 2013 compared to \$2,202,481 in 2012) and expenses decreased by 0.5% (\$1,675,739 in 2013 compared to \$1,683,461 in 2012). Transfers to governmental funds decreased 0.5% (\$717,901 in 2013 compared to \$721,480 in 2012).

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 13) reported a combined fund balance of \$342,116, which is an increase of \$65,275 (23.6%) over last year's total of \$276,841.

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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 above budgeted revenues by \$49,774 (11.9%). Additionally, actual expenditures were \$44,045 (3.6%) below budgeted expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2013, the City had \$7.7 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 \$65,688 (0.8%) over the last year.

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Building and Property	\$ 1,739,777	\$ 1,694,436	\$ 0	\$ 0	\$ 1,739,777	\$ 1,694,436
Construction in Progress	54,825	37,914	0	0	54,825	37,914
Water and Sewer Improvements	0	0	3,513,576	3,513,576	3,513,576	3,513,576
Vehicles	383,322	391,669	0	0	383,322	391,669
Equipment	<u>382,593</u>	<u>377,824</u>	<u>1,721,901</u>	<u>1,714,837</u>	<u>2,104,494</u>	<u>2,092,661</u>
Total	<u>\$ 2,560,517</u>	<u>\$ 2,501,843</u>	<u>\$ 5,235,477</u>	<u>\$ 5,228,413</u>	<u>\$ 7,795,994</u>	<u>\$ 7,730,256</u>

This year's major additions included:

Station #2 – Fire	\$ 16,911
Playground Equipment – Part	4,769
Splash Pad – Park	45,341
Police Car	19,013
Computer System	12,439
Mower	<u>7,350</u>
	<u>\$ 105,823</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 2013/2014 fiscal year include \$17,500 of equipment for the police department; \$2,000 of equipment for the fire department; \$104,200 for street improvements; \$60,000 for economic development; \$27,000 for the electric upgrades/maintenance; and \$270,500 for water and sewer system upgrades/maintenance. Portions of these planned capital expenditures will be financed through grants.

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

UNAUDITED

Debt

At year-end, the City had \$603,273 in outstanding bonds, notes and capital leases compared to \$635,216 last year. That is a decrease of 5.0% as shown in the following table.

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenue Bonds (backed by specific fee revenues)	\$ 0	\$ 0	\$ 582,800	\$ 599,450	\$ 582,800	\$ 599,450
Note Obligations (backed by City)	0	0	0	2,232	0	2,232
Capital Lease Obligations	<u>16,424</u>	<u>25,116</u>	<u>4,049</u>	<u>8,368</u>	<u>20,473</u>	<u>33,534</u>
Total	<u>\$ 16,424</u>	<u>\$ 25,166</u>	<u>\$ 586,849</u>	<u>\$ 610,050</u>	<u>\$ 603,273</u>	<u>\$ 635,216</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 economic factors that were present in 2012-2013 fiscal years, implemented stringent expense controls, i.e.; no salary increases for all city associates, and total prior expenditure approvals.

In a effort not to negatively impact city patrons, we have applied for grants to complete capital project improvements. We have received notification of approval on a CBDG grant which will provide capital resources to refurbish our 6<sup>th</sup> street tower, and connect with Cleveland County Rural Water to provide better quality and quantity of water for city patrons.

Additionally, we have received notification from SWPA announcing rate increases on electric power purchases, and the City Council has approved increased electric rates effective July 16, 2013.

Furthermore, the City Council has approved an ordinance to bring before the citizens of Lexington a vote amending sales tax from 3.5% to 4.0%. The election is scheduled for November 12, 2013.

The City's elected and appointed officials considered many factors when setting the fiscal year 2013-2014 budget. For 2012-2013, the General Fund budget for expenditures was \$1.2 million which is a decrease from 2011-2012 budget. Revenues for 2013-2014 are budgeted at \$1.20 million.

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

UNAUDITED

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.

Charles McCown  
City Manager

## BASIC FINANCIAL STATEMENTS

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF NET POSITION

June 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Current Assets:			
Cash, Including Time Deposits	\$ 316,961	\$ 728,199	\$ 1,045,160
Internal Balances	(4,049)	4,049	0
Accounts Receivable			
Utility Fees	0	280,945	280,945
Other	45,397	784	46,181
Interest Receivable	0	0	0
Total Current Assets	<u>358,309</u>	<u>1,013,977</u>	<u>1,372,286</u>
Non-Current Assets:			
Restricted Cash, Including Time Deposits	0	61,151	61,151
Deferred Expense (Note 8)	16,424	0	16,424
Property, Plant and Equipment:			
Buildings and Property	1,739,777	0	1,739,777
Construction in Progress	54,825	0	54,825
Water and Sewer Improvements	0	3,513,576	3,513,576
Vehicles	383,322	0	383,322
Equipment	382,593	1,721,901	2,104,494
Less: Accumulated Depreciation	(2,090,154)	(4,239,815)	(6,329,969)
Total Non-Current Assets	<u>486,787</u>	<u>1,056,813</u>	<u>1,543,600</u>
Total Assets	<u>845,096</u>	<u>2,070,790</u>	<u>2,915,886</u>
<u>LIABILITIES</u>			
Current Liabilities:			
Accounts Payable	20,242	29,837	50,079
Other Payables	0	10,457	10,457
Current Portion - Compensated Absences	13,347	6,753	20,100
Current Portion - Long-Term Debt	9,204	31,039	40,243
Total Current Liabilities	<u>42,793</u>	<u>78,086</u>	<u>120,879</u>
Non-Current Liabilities:			
Compensated Absences	70,017	49,964	119,981
Long-Term Debt	7,220	555,810	563,030
Total Non-Current Liabilities	<u>77,237</u>	<u>605,774</u>	<u>683,011</u>
Total Liabilities	<u>120,030</u>	<u>683,860</u>	<u>803,890</u>
<u>NET POSITION</u>			
Net Investment in Capital Assets	470,363	408,813	879,176
Restricted for Debt Service	0	51,068	51,068
Restricted for Streets and Alleys	54,092	0	54,092
Restricted for Streets and Alleys and Economic Development	247,528	0	247,528
Restricted for Police Department	1,402	0	1,402
Restricted for Parks and Recreation	2,441	0	2,441
Unrestricted	(50,760)	927,049	876,289
TOTAL NET POSITION	<u>\$ 725,066</u>	<u>\$ 1,386,930</u>	<u>\$ 2,111,996</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, 2013

	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<b>PRIMARY GOVERNMENT:</b>							
Governmental Activities:							
Administration	\$ 322,616	\$ 9,366	\$ 0	\$ 0	\$ (313,250)		\$ (313,250)
Police	667,814	96,348	5,586	0	(565,880)		(565,880)
Fire	38,181	500	11,900	0	(25,781)		(25,781)
Civil Defense	0	0	0	0	0		0
Ambulance	83,898	85,322	0	0	1,424		1,424
Street and Alley	118,363	0	0	0	(118,363)		(118,363)
Parks and Recreation	5,247	0	5,362	1,203	1,318		1,318
Economic Development	11,311	0	0	0	(11,311)		(11,311)
Total Governmental Activities	<u>1,247,430</u>	<u>191,536</u>	<u>22,848</u>	<u>1,203</u>	<u>(1,031,843)</u>		<u>(1,031,843)</u>
Business-Type Activities:							
Administration	275,932	0	0	0	0	\$ (275,932)	(275,932)
Water	155,606	366,351	0	0	0	210,745	210,745
Wastewater	43,261	180,603	0	0	0	137,342	137,342
Refuse Collection	153,150	178,773	0	0	0	25,623	25,623
Electric	1,047,790	1,520,774	27,675	0	0	500,659	500,659
Total Business-Type Activities	<u>1,675,739</u>	<u>2,246,501</u>	<u>27,675</u>	<u>0</u>	<u>0</u>	<u>598,437</u>	<u>598,437</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 2,923,169</b>	<b>\$ 2,438,037</b>	<b>\$ 50,523</b>	<b>\$ 1,203</b>	<b>(1,031,843)</b>	<b>598,437</b>	<b>(433,406)</b>
General Revenues:							
Taxes:							
Franchise Taxes					21,259	0	21,259
Public Service Taxes					391,424	0	391,424
Grants and Contributions not restricted to specific programs					0	0	0
Unrestricted Investment Earnings					431	3,720	4,151
Miscellaneous					2,249	2,619	4,868
Special Item					0	0	0
Transfers					717,901	(717,901)	0
Total General Revenues, Special Items and Transfers					<u>1,133,264</u>	<u>(711,562)</u>	<u>421,702</u>
Change in Net Position					101,421	(113,125)	(11,704)
Net Position, June 30, 2012					623,645	1,500,055	2,123,700
<b>NET POSITION, JUNE 30, 2013</b>					<b>\$ 725,066</b>	<b>\$ 1,386,930</b>	<b>\$ 2,111,996</b>

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

CITY OF LEXINGTON, OKLAHOMA

BALANCE SHEET -  
GOVERNMENTAL FUNDS

June 30, 2013

	<u>General Fund</u>	<u>Special Revenue Restricted Sales Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash, Including Time Deposits	\$ 26,371	\$ 238,147	\$ 52,443	\$ 316,961
Due From Other Funds	135	0	0	135
Accounts Receivable:				
Utility Fees	0	0	0	0
Other	<u>32,101</u>	<u>11,384</u>	<u>1,777</u>	<u>45,262</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 58,607</u></b>	<b><u>\$ 249,531</u></b>	<b><u>\$ 54,220</u></b>	<b><u>\$ 362,358</u></b>
 <u>LIABILITIES</u>				
Accounts Payable	\$ 18,111	\$ 2,003	\$ 128	\$ 20,242
Due to Other Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities	<u>18,111</u>	<u>2,003</u>	<u>128</u>	<u>20,242</u>
 <u>FUND EQUITY</u>				
Fund Balances:				
NonSpendable	0	0	0	0
Restricted for:				
Streets and Alleys	0	0	54,092	54,092
Streets and Alleys & Economic Development	0	247,528	0	247,528
Police Department	1,402	0	0	1,402
Parks & Recreation	2,441	0	0	2,441
Committed for:				
Streets and Alleys	0	0	0	0
Assigned	0	0	0	0
Unassigned	<u>36,653</u>	<u>0</u>	<u>0</u>	<u>36,653</u>
Total Fund Equity	<u>40,496</u>	<u>247,528</u>	<u>54,092</u>	<u>342,116</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$ 58,607</u></b>	<b><u>\$ 249,531</u></b>	<b><u>\$ 54,220</u></b>	<b><u>\$ 362,358</u></b>
 Fund equity - total governmental funds				\$ 342,116
 Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.				470,363
Long Term Debt Obligations of governmental activities are not financial uses and therefore are not reported in the funds.				(16,424)
Deferred Expense (See Note 8)				16,424
Liability for capital lease (Phone Equipment) recorded in Enterprise Fund. (See Note 9)				(4,049)
Compensated absences are not reported in the fund financial statements (See Note 1).				<u>(83,364)</u>
 Net position of governmental activities				<b><u>\$ 725,066</u></b>

\* 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, 2013

	General Fund	Special Revenue Restricted Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 249,728	\$ 143,441	\$ 19,514	\$ 412,683
Licenses and Permits	7,978	0	0	7,978
Intergovernmental	13,830	0	0	13,830
Charges for Services	98,236	0	0	98,236
Ambulance Assessments	85,322	0	0	85,322
Donations	10,221	0	0	10,221
Interest	410	21	0	431
Miscellaneous	2,249	0	0	2,249
<b>Total Revenues</b>	<u>467,974</u>	<u>143,462</u>	<u>19,514</u>	<u>630,950</u>
<b>EXPENDITURES</b>				
Current:				
Administration	273,362	0	0	273,362
Police	680,933	0	0	680,933
Fire	55,092	0	0	55,092
Civil Defense	0	0	0	0
Ambulance	83,898	0	0	83,898
Street and Alley	74,926	39,153	9,544	123,623
Parks and Recreation	10,016	0	0	10,016
Economic Development	0	56,652	0	56,652
<b>Total Expenditures</b>	<u>1,178,227</u>	<u>95,805</u>	<u>9,544</u>	<u>1,283,576</u>
Excess of Revenues Over (Under) Expenditures	(710,253)	47,657	9,970	(652,626)
Other Financing Sources (Uses):				
Operating Transfers In (Out)	<u>717,901</u>	<u>0</u>	<u>0</u>	<u>717,901</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	7,648	47,657	9,970	65,275
Fund Balance, June 30, 2012	<u>32,848</u>	<u>199,871</u>	<u>44,122</u>	<u>276,841</u>
<b>FUND BALANCE, JUNE 30, 2013</b>	<u>\$ 40,496</u>	<u>\$ 247,528</u>	<u>\$ 54,092</u>	<u>\$ 342,116</u>
Net change in fund balances - total governmental funds				\$ 65,275
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 (\$93,384) exceeded depreciation (\$48,882) in the current period.				44,502
Reduction of liability for phone lease recorded in Enterprise Fund (See Note 8 & 9).				4,319
Reduction of liability for police vehicle (2006 Crown Victoria) recorded in Enterprise Fund (See Note 8 & 9).				613
Reduction of liability for police vehicle (2008 Crown Victoria) recorded in Enterprise Fund (See Note 8 & 9).				1,619
Compensated absences are not reported in the fund financial statements (See Note 1).				<u>(14,907)</u>
Change in net position of governmental activities				<u>\$ 101,421</u>

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

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

June 30, 2013

	<u>Enterprise Funds</u>		
	<u>Light Fund</u>	<u>LPWA Fund</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Current Assets:			
Cash, Including Time Deposits	\$ 519,997	\$ 208,202	\$ 728,199
Due From Other Funds	0	4,833	4,833
Accounts Receivable	192,168	88,777	280,945
Interest Receivable	0	0	0
Total Current Assets	<u>712,165</u>	<u>301,812</u>	<u>1,013,977</u>
Non-Current Assets:			
Restricted Cash, Including Time Deposits	10,083	51,068	61,151
Property, Plant and Equipment:			
Water and Sewer Improvements	0	3,513,576	3,513,576
Equipment	1,523,330	198,571	1,721,901
Less: Accumulated Depreciation	(1,220,293)	(3,019,522)	(4,239,815)
Total Non-Current Assets	<u>313,120</u>	<u>743,693</u>	<u>1,056,813</u>
Total Assets	<u>1,025,285</u>	<u>1,045,505</u>	<u>2,070,790</u>
<b><u>LIABILITIES</u></b>			
Current Liabilities:			
Accounts Payable	5,375	24,462	29,837
Other Payables	10,457	0	10,457
Due to Other Funds	0	0	0
Current Portion - Long-Term Debt	0	31,039	31,039
Total Current Liabilities	<u>15,832</u>	<u>55,501</u>	<u>71,333</u>
Non-Current Liabilities:			
Long-Term Debt	0	555,810	555,810
Total Non-Current Liabilities	<u>0</u>	<u>555,810</u>	<u>555,810</u>
Total Liabilities	<u>15,832</u>	<u>611,311</u>	<u>627,143</u>
<b><u>NET POSITION</u></b>			
Net Investment in Capital Assets	303,037	105,776	408,813
Restricted for Debt Service	0	51,068	51,068
Unrestricted	706,416	277,350	983,766
TOTAL NET POSITION	<u>\$ 1,009,453</u>	<u>\$ 434,194</u>	<u>\$ 1,443,647</u>
Net Position - total proprietary funds			\$ 1,443,647
Compensated absences are not reported in the fund financial statements (See Note 1).			<u>(56,717)</u>
Net Position of Business Type Activities			<u>\$ 1,386,930</u>

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

## CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION

## PROPRIETARY FUNDS

For the Year Ended June 30, 2013

	Enterprise Funds		Total
	Light Fund	LPWA Fund	
<u>Operating Revenues:</u>			
Electric Charges	\$ 1,520,774	\$ 0	\$ 1,520,774
Water Charges	0	366,351	366,351
Garbage Charges	0	180,603	180,603
Sewer Charges	0	178,773	178,773
	<u>1,520,774</u>	<u>725,727</u>	<u>2,246,501</u>
<u>Operating Expenses:</u>			
Administration:			
Personnel Services	73,293	10,265	83,558
Materials and Supplies	1,125	718	1,843
Other Services and Charges	63,910	5,465	69,375
Depreciation	28,902	91,991	120,893
	<u>167,230</u>	<u>108,439</u>	<u>275,669</u>
<u>Water:</u>			
Personnel Services	0	102,318	102,318
Materials and Supplies	0	21,253	21,253
Other Services and Charges	0	21,930	21,930
	<u>0</u>	<u>145,501</u>	<u>145,501</u>
<u>Wastewater:</u>			
Personnel Services	0	17,934	17,934
Materials and Supplies	0	3,202	3,202
Other Services and Charges	0	22,125	22,125
	<u>0</u>	<u>43,261</u>	<u>43,261</u>
<u>Refuse Collection:</u>			
Other Services and Charges	0	153,150	153,150
	<u>0</u>	<u>153,150</u>	<u>153,150</u>

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

## CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION

## PROPRIETARY FUNDS

For the Year Ended June 30, 2013

	Enterprise Funds		Total
	Light Fund	LPWA Fund	
<u>Electric:</u>			
Personnel Services	165,663	0	165,663
Materials and Supplies	23,718	0	23,718
Other Services and Charges	11,655	0	11,655
Power Purchases	845,028	0	845,028
Total Electric	<u>1,046,064</u>	<u>0</u>	<u>1,046,064</u>
Total Operating Expenses	<u>1,213,294</u>	<u>450,351</u>	<u>1,663,645</u>
Net Operating Income	<u>307,480</u>	<u>275,376</u>	<u>582,856</u>
<u>Non-Operating Revenue (Expense):</u>			
Interest Revenue	2,429	1,291	3,720
Interest Expense	0	(8,119)	(8,119)
Other	2,616	3	2,619
Gain (Loss) on Sale of Asset	0	0	0
Intergovernmental	27,675	0	27,675
Total Non-Operating Revenues (Expense)	<u>32,720</u>	<u>(6,825)</u>	<u>25,895</u>
Net Income Before Other Financing Sources and (Uses)	<u>340,200</u>	<u>268,551</u>	<u>608,751</u>
<u>Other Financing Sources (Uses):</u>			
Capital Contributions	0	0	0
Prior Year Encumbrance Voided	0	0	0
Operating Transfers In (Out)	(374,334)	(343,567)	(717,901)
Total Other Financing Sources (Uses)	<u>(374,334)</u>	<u>(343,567)</u>	<u>(717,901)</u>
Change in Net Position	(34,134)	(75,016)	(109,150)
Net Position, June 30, 2012	<u>1,043,587</u>	<u>509,210</u>	<u>1,552,797</u>
NET POSITION, JUNE 30, 2013	<u>\$ 1,009,453</u>	<u>\$ 434,194</u>	<u>\$ 1,443,647</u>
Change in Net Position - total proprietary funds			\$ (109,150)
Compensated absences are not reported in the fund financial statements (See Note 1).			(3,975)
Change in Net Position of business-type activities			<u>\$ (113,125)</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, 2013

	Enterprise Funds		
	Light Fund	LPWA Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers	\$ 1,524,147	\$ 729,383	\$ 2,253,530
Payments to suppliers	(943,335)	(223,169)	(1,166,504)
Payments to employees	(238,956)	(130,517)	(369,473)
Other receipts (payments)	30,291	3	30,294
Net Cash Provided (Used) by Operating Activities	<u>372,147</u>	<u>375,700</u>	<u>747,847</u>
<u>Cash Flows From Non-Capital Financing Activities:</u>			
Operating Transfers (To) From Other Funds	<u>(374,334)</u>	<u>(337,800)</u>	<u>(712,134)</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(374,334)</u>	<u>(337,800)</u>	<u>(712,134)</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Proceeds from capital debt	0	0	0
Purchases of capital assets	(14,119)	0	(14,119)
Principal paid on capital debt	0	(23,201)	(23,201)
Interest paid on capital debt	0	(8,119)	(8,119)
Other receipts (payments)	0	0	0
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(14,119)</u>	<u>(31,320)</u>	<u>(45,439)</u>
<u>Cash Flows Provided by Investing Activities:</u>			
Interest and dividends	<u>2,429</u>	<u>1,291</u>	<u>3,720</u>
Net Cash Provided (Used) by Investing Activities	<u>2,429</u>	<u>1,291</u>	<u>3,720</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(13,877)	7,871	(6,006)
Cash and Cash Equivalents, June 30, 2012	<u>543,957</u>	<u>251,399</u>	<u>795,356</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2013	<u>\$ 530,080</u>	<u>\$ 259,270</u>	<u>\$ 789,350</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, 2013

	Enterprise Funds		
	Light Fund	LPWA Fund	Total
<u>Cash Consists of:</u>			
Cash on Hand	\$ 600	\$ 0	\$ 600
Demand Deposits	111,542	88,560	200,102
Certificates of Deposit	407,855	119,642	527,497
Restricted Deposits	10,083	51,068	61,151
TOTAL CASH, END OF YEAR	\$ <u>530,080</u>	\$ <u>259,270</u>	\$ <u>789,350</u>
<u>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</u>			
Operating income (loss)	\$ 337,771	\$ 275,379	\$ 613,150
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	28,902	91,991	120,893
Change in assets and liabilities:			
Receivables, net	3,373	3,656	7,029
Accounts and other payables	2,101	4,674	6,775
Net Cash Provided by Operating Activities	\$ <u>372,147</u>	\$ <u>375,700</u>	\$ <u>747,847</u>

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

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

June 30, 2013

	Agency Funds			
	Meter Deposit	Payroll	Municipal Court	Total
<u>ASSETS</u>				
Cash, Including Time Deposits	\$ 107,092	\$ 171	\$ 3,157	\$ 110,420
Accounts Receivable	0	0	0	0
Due From Other Funds	0	0	0	0
<b>TOTAL ASSETS</b>	<b>\$ 107,092</b>	<b>\$ 171</b>	<b>\$ 3,157</b>	<b>\$ 110,420</b>
 <u>LIABILITIES</u>				
Accounts Payable	\$ 0	\$ 171	\$ 3,022	\$ 3,193
Due To Other Funds	784	0	135	919
Meter Deposit Liability	106,308	0	0	106,308
<b>TOTAL LIABILITIES</b>	<b>\$ 107,092</b>	<b>\$ 171</b>	<b>\$ 3,157</b>	<b>\$ 110,420</b>

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

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basic Financial Statements - Fund Financial Statements - The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activity categories. Non-major funds by category are summarized into a single column. *GASB Statement No. 34* sets forth minimum criteria (percentage of the assets, 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.

The following fund types are used by the City:

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

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

**Special Revenue Funds** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Presently, the City utilizes two special revenue funds:

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

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

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

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

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

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

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.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial Statement Amounts:

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

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

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

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

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

Receivables – Receivables at June 30, 2013 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Grants</u>	<u>Other</u>	<u>Total Receivables</u>
<b>Governmental Activities:</b>					
General	\$ 0	\$ 30,601	\$ 0	\$ 135	\$ 30,736
Ambulance	10,336	0	0	0	10,336
Fire	<u>4,325</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,325</u>
Total Governmental Activities	<u>\$ 14,661</u>	<u>\$ 30,601</u>	<u>\$ 0</u>	<u>\$ 135</u>	<u>\$ 45,397</u>
<b>Business-Type Activities:</b>					
Administration	\$ 0	\$ 0	\$ 0	\$ 957	\$ 957
Electric	192,168	0	0	0	192,168
Water	43,815	0	0	0	43,815
Sewer	23,356	0	0	0	23,356
Garbage	<u>21,433</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>21,433</u>
Total Business-Type Activities	<u>\$ 280,772</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 957</u>	<u>\$ 281,729</u>

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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, 2013 were as follows:

	(Misc.) <u>Other</u>	<u>Vendors</u>	(Sales Tax) <u>Other</u>	<u>Total Payables</u>
<b>Governmental Activities:</b>				
General	\$ 0	\$ 18,111	\$ 0	\$ 18,111
Restricted Sales Tax	0	2,003	0	2,003
Other Governmental	<u>0</u>	<u>128</u>	<u>0</u>	<u>128</u>
Total Governmental Activities	<u>\$ 0</u>	<u>\$ 20,242</u>	<u>\$ 0</u>	<u>\$ 20,242</u>
<b>Business-Type Activities:</b>				
Administration	\$ 0	\$ 0	\$ 0	\$ 0
Electric	0	5,375	10,457	15,832
Water/Sewer/Garbage	<u>0</u>	<u>24,462</u>	<u>0</u>	<u>24,462</u>
Total Business-Type Activities	<u>\$ 0</u>	<u>\$ 29,837</u>	<u>\$ 10,457</u>	<u>\$ 40,294</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. The City reports all major general infrastructure assets constructed or acquired in fiscal years ending after June 30, 2000, or that received major renovations, restorations, or improvements during that period. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives.

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

Compensated Absences – Under City personnel policies, City employees are granted vacation leave in varying amounts. Annual sick leave is earned at 10 hours per month for full-time employees with maximum accrual to 120 days with one-half of accrued sick leave payable at retirement. 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).

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

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

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

The general fund has not assigned any of the June 30, 2013 fund balance to meet budgeted expenditures for fiscal year 2013/2014.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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.

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, 2013

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, 2013, the City's deposits were limited to insured checking and savings accounts and collateralized certificates of deposit. At June 30, 2013, 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, 2013, 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 2013. 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, 2013

**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 2013 was \$757,925. Both the City and the covered employees made the required contributions, amounting to \$66,574 from each source, or \$133,148 in total.

**NOTE 7: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2013</u>
<b><u>Governmental Activities:</u></b>				
<b><u>Capital Assets Not Being Depreciated</u></b>				
Construction in Progress	\$ 37,914	\$ 16,911	\$ 0	\$ 54,825
Total Capital Assets Not Being Depreciated	<u>37,914</u>	<u>16,911</u>	<u>0</u>	<u>54,825</u>
<b><u>Other Capital Assets</u></b>				
Buildings and Property	1,694,436	45,341	0	1,739,777
Vehicles	391,669	26,363	( 34,710)	383,322
Equipment (1)	<u>377,824</u>	<u>4,769</u>	<u>0</u>	<u>382,593</u>
Total Other Capital Assets	<u>2,463,929</u>	<u>76,473</u>	<u>( 34,710)</u>	<u>2,505,692</u>
<b><u>Accumulated Depreciation</u></b>				
Buildings and Property	( 1,389,728)	( 10,445)	0	( 1,400,173)
Vehicles	( 340,388)	( 21,461)	34,710	( 327,139)
Equipment	<u>( 345,866)</u>	<u>( 16,976)</u>	<u>0</u>	<u>( 362,842)</u>
Total Accumulated Depreciation	<u>( 2,075,982)</u>	<u>( 48,882)</u>	<u>34,710</u>	<u>( 2,090,154)</u>
Other Capital Assets, Net	<u>387,947</u>	<u>27,591</u>	<u>0</u>	<u>415,538</u>
<b><u>Net Governmental Activities</u></b>				
Capital Assets, Net	<u>\$ 425,861</u>	<u>\$ 44,502</u>	<u>\$ 0</u>	<u>\$ 470,363</u>
<b><u>Business Type Activities:</u></b>				
<b><u>Capital Assets</u></b>				
Water and Sewer Improvements	\$ 3,513,576	\$ 0	\$ 0	\$ 3,513,576
Equipment	<u>1,714,837</u>	<u>14,119</u>	<u>( 7,055)</u>	<u>1,721,901</u>
Total Capital Assets	<u>5,228,413</u>	<u>14,119</u>	<u>( 7,055)</u>	<u>5,235,477</u>

CITY OF LEXINGTON, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 7: CAPITAL ASSETS, CONTINUED

	Balance <u>June 30, 2012</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2013</u>
<u>Accumulated Depreciation</u>				
Water and Sewer Improvements	( 2,737,523)	( 89,617)	0	( 2,827,140)
Equipment	<u>( 1,388,454)</u>	<u>( 31,276)</u>	<u>7,055</u>	<u>( 1,412,675)</u>
Total Accumulated Depreciation	<u>( 4,125,977)</u>	<u>( 120,893)</u>	<u>7,055</u>	<u>( 4,239,815)</u>
<u>Net Business Type Activities</u>				
Capital Assets, Net	<u>\$ 1,102,436</u>	<u>\$( 106,774)</u>	<u>\$ 0</u>	<u>\$ 995,662</u>

Depreciation expense was charged to governmental activities as follows:

General Government:

    Administration \$ 48,882

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

Amortization of leased equipment is included with the depreciation expense.

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 Position and is a reconciling item on the governmental fund financial statements. The balance at June 30, 2013 is \$16,424.

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, 2013 is \$582,800.

CITY OF LEXINGTON, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

**NOTE 8: LONG-TERM LIABILITIES, CONTINUED**

**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, 2013 is \$4,049.

**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 2012-13 include:

	<u>Principal Balance 06/30/12</u>	<u>Additions</u>	<u>Retirements</u>	<u>Principal Balance 06/30/13</u>	<u>Amounts Due Within One Year</u>
<b><u>Governmental Activities:</u></b>					
Compensated Absences	\$ 68,457	\$ 41,741	\$ 26,834	\$ 83,364	\$ 13,347
Lease/Purchase - CL Boyd Co.	<u>25,166</u>	<u>0</u>	<u>8,742</u>	<u>16,424</u>	<u>9,204</u>
Total Governmental Activities	<u>96,623</u>	<u>41,741</u>	<u>35,576</u>	<u>99,788</u>	<u>22,551</u>
<b><u>Business-Type Activities:</u></b>					
<b><u>Capital Lease Payable –</u></b>					
Great American Leasing	<u>8,368</u>	<u>0</u>	<u>4,319</u>	<u>4,049</u>	<u>4,049</u>
<b><u>Bonds/Notes Payable –</u></b>					
Note Payable – Oklahoma Water Resource Board – 2000 Series	599,450	0	16,650	582,800	26,990
Note Payable – McClain County National Bank	1,619	0	1,619	0	0
Note Payable – McClain County National Bank	<u>613</u>	<u>0</u>	<u>613</u>	<u>0</u>	<u>0</u>
Total Bonds/Notes Payable	601,682	0	18,882	585,800	26,990
Compensated Activities	<u>52,742</u>	<u>19,896</u>	<u>15,921</u>	<u>56,717</u>	<u>6,753</u>
Total Business-Type Activities	<u>662,792</u>	<u>19,896</u>	<u>39,122</u>	<u>643,566</u>	<u>37,792</u>
<b>TOTAL</b>	<b><u>\$ 756,415</u></b>	<b><u>\$ 61,637</u></b>	<b><u>\$ 74,698</u></b>	<b><u>\$ 743,354</u></b>	<b><u>\$ 60,343</u></b>

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

CITY OF LEXINGTON, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

**NOTE 8: LONG-TERM LIABILITIES, CONTINUED**

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>
2013-14	\$ 9,203	\$ 631
2014-15	7,221	155
2015-16	0	0
2016-17	0	0
2017-18	0	0
2018-19 through 2022-23	0	0
2023-24 through 2027-28	0	0
2028-29 through 2031-32	0	0
2032-33	0	0
<b>TOTAL</b>	<b><u>\$ 16,424</u></b>	<b><u>\$ 786</u></b>

Business-Type Activities:

	<u>Capital Lease</u>		<u>OWRB Note *</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013-14	\$ 4,049	\$ 245	\$ 26,990	\$ 7,930
2014-15	0	0	27,368	7,552
2015-16	0	0	27,750	7,170
2016-17	0	0	28,140	6,780
2017-18	0	0	28,532	6,388
2018-19 through 2022-23	0	0	148,764	25,836
2023-24 through 2027-28	0	0	159,464	15,136
2028-29 through 2031-32	0	0	135,792	3,888
<b>TOTAL</b>	<b><u>\$ 4,049</u></b>	<b><u>\$ 245</u></b>	<b><u>\$ 582,800</u></b>	<b><u>\$ 80,680</u></b>

\* The OWRB notes require a minimum balance to be maintained in the specified accounts as debt service reserves. As of June 30, 2013 required reserve balances have been met.

**NOTE 9: INTERFUND TRANSACTIONS**

Inter-fund receivable/payable balances at June 30, 2013 were:

	<u>DUE FROM</u>								
	<u>Governmental Funds</u>			<u>Proprietary Funds</u>		<u>Agency Funds</u>			
	<u>General</u>	<u>Restricted Sales Tax</u>	<u>Street &amp; Alley</u>	<u>Light</u>	<u>LPWA</u>	<u>Meter Deposit</u>	<u>Payroll</u>	<u>Municipal Court</u>	
<b>Governmental Funds:</b>									
<b>D</b> General	\$ ---	\$ 0	\$ 0	\$ 0	\$ 4,049	\$ 0	\$ 0	\$( 135)	
<b>U</b> Restricted Sales Tax	0	---	0	0	0	0	0	0	
<b>E</b> Street & Alley	0	0	---	0	0	0	0	0	
<b>Proprietary Funds:</b>									
<b>L</b> Light	0	0	0	---	0	0	0	0	
<b>T</b> LPWA	0	0	0	0	---	( 784)	0	0	
<b>Agency Funds:</b>									
<b>O</b> Meter Deposit	0	0	0	0	784	---	0	0	
Payroll	0	0	0	0	0	0	---	0	
Municipal Court	135	0	0	0	0	0	0	---	
<b>Total</b>	<b><u>\$ 135</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 4,833</u></b>	<b><u>\$( 784)</u></b>	<b><u>\$ 0</u></b>	<b><u>\$( 135)</u></b>	<b><u>\$4,049</u></b>

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

**NOTE 9: INTERFUND TRANSACTIONS, CONTINUED**

The difference of \$4,049 is due to the following:

The LPWA Fund reflects a “due from” the General Fund in the amount of \$4,049. 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, \$4,049 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, 2013 were as follows:

	TRANSFER FROM								
	Governmental Funds			Proprietary Funds		Agency Funds			
	General	Restricted Sales Tax	Street & Alley	Light	LPWA	Meter Deposit	Payroll	Municipal Court	
<b>Governmental Funds:</b>									
<b>T</b> General	\$ ---	\$ 0	\$ 0	\$( 379,334)	\$( 338,567)	\$ 0	\$ 0	\$( 135)	
<b>R</b> Restricted Sales Tax	0	---	0	0	0	0	0	0	
<b>A</b> Street & Alley	0	0	---	0	0	0	0	0	
<b>Proprietary Funds:</b>									
<b>S</b> Light	379,334	0	0	---	( 5,000)	0	0	0	
<b>F</b> LPWA	338,567	0	0	5,000	---	0	0		
<b>Agency Funds:</b>									
<b>R</b> Meter Deposit	0	0	0	0	0	---	0	0	
Payroll	0	0	0	0	0	0	---	0	
<b>T</b> Municipal Court	0	0	0	0	0	0	0	---	
<b>O</b> Total	<u>\$ 717,901</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$( 374,334)</u>	<u>\$( 343,567)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

**NOTE 10: LITIGATION**

At June 30, 2013, the City of Lexington was not involved in any pending or threatened litigation which would have a material impact on these financial statements.

**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:

<b>Type of Loss</b>	<b>Method Managed</b>
a. Torts, errors and omissions	Purchased policy with the Oklahoma Municipal Assurance Group
b. Injuries to employees (Workers' Compensation)	Purchased policy with the Oklahoma Municipal Assurance Group
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.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 12: LEASES

On May 10, 2013, the City entered into an operating lease for a copier for City Hall. The lease calls for 60 monthly payments of \$207. Lease expense for the fiscal year ending June 30, 2013 was \$2,077.

On May 10, 2013, the City entered into an operating lease for a copier for the police department. The lease calls for 60 monthly payments of \$92. Lease expense for the fiscal year ending June 30, 2013 was \$1,356.

On January 20, 2012, the City entered into an operating lease for a mailing system. The lease calls for 51 monthly payments of \$628. Lease expense for the fiscal year ending June 30, 2013 was \$9,083.

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

<u>June 30,</u>	
2014	\$ 14,874
2015	10,581
2016	9,865
2017	3,586
2018	<u>2,988</u>
TOTAL	<u>\$ 41,894</u>

NOTE 13: SUBSEQUENT EVENTS

Date of Management Evaluation – Management of the City has evaluated subsequent events through October 2, 2013, which is the date the financial statements were available to be issued.

# 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

To the City Council  
City of Lexington, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lexington, Oklahoma as of and for the year ended June 30, 2013, which collectively comprise the City of Lexington, Oklahoma's basic financial statements and have issued our report thereon dated October 2, 2013. We also have audited the financial statements of each of the City of Lexington, Oklahoma's non-major governmental, funds presented as supplementary information in the accompanying combining fund financial statements of and for the year ended June 30, 2013, 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, Oklahoma'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, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lexington, Oklahoma's internal control over financial reporting.

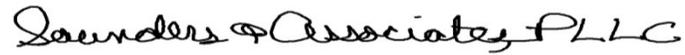
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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, Oklahoma'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*.

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

A handwritten signature in black ink that reads "Saunders & Associates, PLLC". The signature is written in a cursive, flowing style.

SAUNDERS & ASSOCIATES, PLLC  
Certified Public Accountants  
Ada, Oklahoma

October 2, 2013

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, 2013

	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				
<b>REVENUES</b>						
Taxes	\$ 236,500	\$ 236,500	\$ 249,728	\$ 0	\$ 249,728	\$ 13,228
Licenses and Permits	8,600	8,600	7,978	0	7,978	(622)
Intergovernmental	0	11,400	13,830	0	13,830	2,430
Charges for Services	69,700	69,700	98,236	0	98,236	28,536
Ambulance Assessment	90,000	90,000	85,322	0	85,322	(4,678)
Donations	0	0	10,221	0	10,221	10,221
Interest	500	500	410	0	410	(90)
Miscellaneous	1,500	1,500	2,249	0	2,249	749
Total Revenues	<u>406,800</u>	<u>418,200</u>	<u>467,974</u>	<u>0</u>	<u>467,974</u>	<u>49,774</u>
<b>EXPENDITURES</b>						
Departmental:						
Administration	273,940	272,940	263,528 (1)	9,834	273,362	9,412
Police	684,345	687,545	680,933	0	680,933	6,612
Fire	62,900	74,300	55,092	0	55,092	19,208
Civil Defense	3,880	1,680	0	0	0	1,680
Ambulance	87,000	87,000	83,898	0	83,898	3,102
Street and Alley	72,380	76,930	74,926	0	74,926	2,004
Parks and Recreation	16,000	11,450	9,423 (2)	593	10,016	2,027
Total Expenditures	<u>1,200,445</u>	<u>1,211,845</u>	<u>1,167,800</u>	<u>10,427</u>	<u>1,178,227</u>	<u>44,045</u>
Excess of Revenues Over (Under) Expenditures	(793,645)	(793,645)	(699,826)	(10,427)	(710,253)	93,819
Other Financing Sources (Uses):						
Operating Transfers In	800,000	800,000	711,660 (1)	9,834	721,494	(88,340)
Operating Transfers Out	(3,000)	(3,000)	(3,000) (2)	(593)	(3,593)	0
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	3,355	3,355	8,834	(1,186)	7,648	5,479
Fund Balance, June 30, 2012	<u>32,848</u>	<u>32,848</u>	<u>32,848</u>	<u>0</u>	<u>32,848</u>	<u>0</u>
<b>FUND BALANCE, JUNE 30, 2013</b>	<u>\$ 36,203</u>	<u>\$ 36,203</u>	<u>\$ 41,682</u>	<u>\$ (1,186)</u>	<u>\$ 40,496</u>	<u>\$ 5,479</u>

Explanation of differences:

- (1) Transfer from Light Fund and Capital Outlay expense for General Long Term Debt Payments (\$9,834)
- (2) Transfer to LPWA Fund and Capital Outlay expense for Parks & Recreation (\$593)

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, 2013

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	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Budget to</u>	<u>Actual</u>	<u>Budgetary</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>GAAP</u>	<u>Amounts</u>	<u>Variance</u>
			<u>Budgetary</u>	<u>Differences</u>	<u>GAAP</u>	<u>With</u>
			<u>Basis</u>	<u>Over (Under)</u>	<u>Basis</u>	<u>Final</u>
						<u>Budget</u>
						<u>Positive</u>
						<u>(Negative)</u>
<u>REVENUES</u>						
Taxes	\$ 130,000	\$ 140,000	\$ 143,441	\$ 0	\$ 143,441	\$ 3,441
Interest	200	200	21	0	21	(179)
Total Revenues	<u>130,200</u>	<u>140,200</u>	<u>143,462</u>	<u>0</u>	<u>143,462</u>	<u>3,262</u>
<u>EXPENDITURES</u>						
Departmental:						
Street and Alley	50,000	50,000	39,153	0	39,153	10,847
Economic Development	50,000	60,000	56,652	0	56,652	3,348
Total Expenditures	<u>100,000</u>	<u>110,000</u>	<u>95,805</u>	<u>0</u>	<u>95,805</u>	<u>14,195</u>
Excess of Revenues Over (Under) Expenditures	30,200	30,200	47,657	0	47,657	17,457
Other Financing Sources (Uses):						
Operating Transfers In	0	0	0	0	0	0
Operating Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	30,200	30,200	47,657	0	47,657	17,457
Fund Balance, June 30, 2012	<u>199,871</u>	<u>199,871</u>	<u>199,871</u>	<u>0</u>	<u>199,871</u>	<u>0</u>
FUND BALANCE, JUNE 30, 2013	<u>\$ 230,071</u>	<u>\$ 230,071</u>	<u>\$ 247,528</u>	<u>\$ 0</u>	<u>\$ 247,528</u>	<u>\$ 17,457</u>

CITY OF LEXINGTON, OKLAHOMA

COMBINING GOVERNMENTAL FUND BALANCE SHEET

OTHER GOVERNMENTAL FUNDS

June 30, 2013

	<u>Special Revenue Street and Alley Fund</u>	<u>Total</u>
<u>ASSETS</u>		
Cash, Including Time Deposits	\$ 52,443	\$ 52,443
Accounts Receivable	1,777	1,777
	<u>54,220</u>	<u>54,220</u>
TOTAL ASSETS	\$ <u>54,220</u>	\$ <u>54,220</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Liabilities:		
Accounts Payable	\$ 128	\$ 128
Notes Payable	0	0
Due to Other Funds	0	0
	<u>128</u>	<u>128</u>
Total Liabilities	<u>128</u>	<u>128</u>
Fund Balances:		
NonSpendable	0	0
Restricted for:		
Streets and Alleys	54,092	54,092
Committed for:		
Streets and Alleys	0	0
Assigned	0	0
Unassigned	0	0
	<u>54,092</u>	<u>54,092</u>
Total Fund Equity	<u>54,092</u>	<u>54,092</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>54,220</u>	\$ <u>54,220</u>

CITY OF LEXINGTON, OKLAHOMA

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

OTHER GOVERNMENTAL FUNDS

For the Year Ended June 30, 2013

	<u>Special Revenue Street and Alley Fund</u>	<u>Total</u>
<u>REVENUES</u>		
Taxes	\$ 19,514	\$ 19,514
Intergovernmental	0	0
Interest	0	0
Total Revenues	<u>19,514</u>	<u>19,514</u>
 <u>EXPENDITURES</u>		
Current:		
Economic Development	0	0
Street and Alley	<u>9,544</u>	<u>9,544</u>
Total Expenditures	<u>9,544</u>	<u>9,544</u>
Revenues Over (Under) Expenditures	9,970	9,970
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	9,970	9,970
Fund Balance, June 30, 2012	<u>44,122</u>	<u>44,122</u>
FUND BALANCE, JUNE 30, 2013	<u>\$ 54,092</u>	<u>\$ 54,092</u>

CITY OF LEXINGTON, OKLAHOMA

STATUS OF PRIOR AUDIT FINDINGS

June 30, 2013

None reported.

CITY OF LEXINGTON, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2013

None reported.

*Saunders & Associates, PLLC*  
*Certified Public Accountants*

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December 26, 2013

Office of the State Auditor and Inspector  
State of Oklahoma

We have compiled the accompanying 2012/2013 annual survey of City and Town finances (SA&I Form 2643), of the City of Lexington, Oklahoma included in the accompanying prescribed form in accordance with Statements of Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The financial statements have been prepared on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Oklahoma, which is a basis of accounting other than generally accepted accounting principles.

Our compilation was limited to presenting, in the form prescribed by the Oklahoma State Auditor and Inspector, information that is the representation of management. We have not audited or reviewed the financial statements referred to above and, accordingly do not express an opinion or any other form of assurance on them.

These financial statements are presented in accordance with the requirements of the Oklahoma State Auditor and Inspector, which differ from generally accepted accounting principles. Management has elected to omit all of the disclosures ordinarily included in financial statements. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the City of Lexington, Oklahoma's assets, liabilities, revenues and expenses. Accordingly, these financial statements are not designed for those who are not informed about such matters.

*Saunders & Associates, PLLC*

SAUNDERS & ASSOCIATES, PLLC  
Certified Public Accountants