

City of Lexington, Oklahoma

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

For the Year Ended June 30, 2014

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CITY OF LEXINGTON, OKLAHOMA

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June 30, 2014

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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, 2014, and the related notes to the financial statements, which collectively comprise the City of Lexington's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lexington, Oklahoma as of June 30, 2014, 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 36 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2014 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

November 20, 2014

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

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, 2014. 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 increased by \$60 thousand, or 4.4 percent, net position of our governmental activities increased by \$58 thousand, or 8.1 percent.
- During the year, the City had expenses that were \$568 thousand more than the \$797 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 \$154 thousand (or 6.8 percent) while expenses increased by 4.2%.
- Total cost of all of the City's programs increased \$189 thousand (6.5%) with no new programs added this year.
- For the general fund, the resources available for appropriation were \$40 thousand less than budgeted; the resources transferred from the proprietary funds were \$78 thousand less than budgeted; and expenditures were kept \$132 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, 2014

UNAUDITED

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

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

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

Reporting the City's Most Significant Funds

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

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

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

UNAUDITED

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

THE CITY AS TRUSTEE

Reporting the City's Fiduciary Responsibilities

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

THE CITY AS A WHOLE

Net Position

The City's combined net position increased 5.6% from \$2,111,996 to \$2,231,114. (See Table 1) In comparison, last years' net position decreased 0.6%.

TABLE 1 – NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>		<u>Total % Change</u>
	<u>06/30/14</u>	<u>06/30/13</u>	<u>06/30/14</u>	<u>06/30/13</u>	<u>06/30/14</u>	<u>06/30/13</u>	
Capital Assets	\$ 461,169	\$ 470,363	\$ 1,106,538	\$ 995,662	\$ 1,567,707	\$ 1,466,025	6.9%
Current and Other Assets	<u>524,331</u>	<u>374,733</u>	<u>1,134,483</u>	<u>1,075,128</u>	<u>1,658,814</u>	<u>1,449,861</u>	14.4%
Total Assets	<u>985,500</u>	<u>845,096</u>	<u>2,241,021</u>	<u>2,070,790</u>	<u>3,226,521</u>	<u>2,915,886</u>	10.7%
Total Deferred Outflows Of Resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	0.0%
Long-Term Liabilities	74,840	77,237	660,903	605,774	735,743	683,011	7.7%
Other Liabilities	<u>126,961</u>	<u>42,793</u>	<u>132,703</u>	<u>78,086</u>	<u>259,664</u>	<u>120,879</u>	114.8%
Total Liabilities	<u>201,801</u>	<u>120,030</u>	<u>793,606</u>	<u>683,860</u>	<u>995,407</u>	<u>803,890</u>	23.8%
Total Deferred Inflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	0.0%
Net Position:							
Investment in Capital Assets, Net	461,169	470,363	426,538	408,813	887,707	879,176	1.0%
Restricted	405,799	305,463	35,432	51,068	441,231	356,531	23.8%
Unrestricted	(83,269)	(50,760)	985,445	927,049	902,176	876,289	3.0%
Total Net Position	<u>\$ 783,699</u>	<u>\$ 725,066</u>	<u>\$ 1,447,415</u>	<u>\$ 1,386,930</u>	<u>\$ 2,231,114</u>	<u>\$ 2,111,996</u>	5.6%

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

UNAUDITED

Net position of the City's governmental activities increased 8.1% (\$783,699 compared to \$725,066). 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 64.0% from \$(50,760) to \$(83,269).

The net position of our business-type activities increased by 4.4% (\$1,447,415 compared to \$1,386,930).

Changes in Net Position

The City's total revenues increased by 11.0% (\$320,544). The total cost of all new programs and services increased 6.5% (\$188,558). Table 2 and the narrative that follows consider the operations of governmental and business-type activities separately.

TABLE 2 – CHANGES IN NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>		<u>Total</u>
	<u>06/30/14</u>	<u>06/30/13</u>	<u>06/30/14</u>	<u>06/30/13</u>	<u>06/30/14</u>	<u>06/30/13</u>	<u>% Change</u>
Program Revenues:							
Charges for Services	\$ 175,540	\$ 191,536	\$ 2,294,316	\$ 2,246,501	\$ 2,469,856	\$ 2,438,037	1.3%
Operating Grants/Contributions	149,140	22,848	0	27,675	149,140	50,523	195.2%
Capital Grants/Contributions	2,500	1,203	128,450	0	130,950	1,203	10785.3%
General Revenues:							
Franchise Taxes	22,291	21,259	0	0	22,291	21,259	4.9%
Public Service Taxes	444,603	391,424	0	0	444,603	391,424	13.6%
Interest	348	431	2,498	3,720	2,846	4,151	-31.4%
Miscellaneous	2,437	2,249	9,886	2,619	12,323	4,868	153.1%
Total Revenues	<u>796,859</u>	<u>630,950</u>	<u>2,435,150</u>	<u>2,280,515</u>	<u>3,232,009</u>	<u>2,911,465</u>	<u>11.0%</u>
Program Expenses:							
Administration	317,550	322,616	270,617	275,932	588,167	598,548	-1.7%
Police	637,447	667,814	0	0	637,447	667,814	-4.5%
Fire	47,225	38,181	0	0	47,225	38,181	23.7%
Civil Defense	2,012	0	0	0	2,012	0	100.0%
Ambulance	83,895	83,898	0	0	83,895	83,898	0.0%
Street and Alley	174,331	118,363	0	0	174,331	118,363	47.3%
Parks and Recreation	10,390	5,247	0	0	10,390	5,247	98.0%
Economic Development	92,296	11,311	0	0	92,296	11,311	716.0%
HOME Grant Program	0	0	0	0	0	0	0.0%
Water	0	0	214,777	155,606	214,777	155,606	38.0%
Wastewater	0	0	64,422	43,261	64,422	43,261	48.9%
Refuse Collection	0	0	150,039	153,150	150,039	153,150	-0.1%
Electric	0	0	1,046,726	1,047,790	1,046,726	1,047,790	-0.1%
Total Expenses	<u>1,365,146</u>	<u>1,247,430</u>	<u>1,746,581</u>	<u>1,675,739</u>	<u>3,111,727</u>	<u>2,923,169</u>	<u>6.5%</u>
Excess Before Contributions Etc.	(568,287)	(616,480)	688,569	604,776	120,282	(11,704)	-1127.7%
Transfers	628,084	717,901	(628,084)	(717,901)	0	0	0.0%
Special Items	(1,164)	0	0	0	(1,164)	0	-100.0%
Extraordinary Items	0	0	0	0	0	0	0.0%
Changes in Net Position	<u>\$ 58,633</u>	<u>\$ 101,421</u>	<u>\$ 60,485</u>	<u>\$(113,125)</u>	<u>\$ 119,118</u>	<u>\$(11,704)</u>	<u>-1117.8%</u>

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

UNAUDITED

Governmental Activities

Revenues for the City's governmental activities increased by 26.3% (\$165,909), while total expenses increased by 9.4% (\$117,716). With the transfer in of funds from the business-type activities, the net position for governmental activities increased 8.1%.

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>06/30/14</u>	<u>06/30/13</u>		<u>06/30/14</u>	<u>06/30/13</u>	
Administration	\$ 317,550	\$ 322,616	-1.6%	\$ 298,570	\$ 313,250	-4.7%
Police	637,447	667,814	-4.5%	551,744	565,880	-2.5%
Fire	47,225	38,181	23.7%	39,512	25,781	53.3%
Civil Defense	2,012	0	100.0%	2,012	0	100.0%
Ambulance	83,895	83,898	0.0%	(1,361)	(1,424)	-4.4%
Street and Alley	174,331	118,363	47.3%	94,508	118,363	-20.2%
Parks and Recreation	10,390	5,247	98.0%	(39,315)	(1,318)	2882.9%
Economic Development	<u>92,296</u>	<u>11,311</u>	<u>716.0%</u>	<u>92,296</u>	<u>11,311</u>	<u>716.0%</u>
Total	<u>\$ 1,365,146</u>	<u>\$ 1,247,430</u>	<u>9.4%</u>	<u>\$ 1,037,966</u>	<u>\$ 1,031,843</u>	<u>0.6%</u>

The cost of all governmental activities this year was \$1,365,146 compared to \$1,247,430 last year (an increase of \$117,716). Some of the costs were paid by those who directly benefited from the program. For 2014, the City received \$6,413 in grant funds for the fire department, \$11,000 community development grant funds for community investment project, and \$79,823 in emergency funds from the State of Oklahoma during the bridge repair. 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 \$466,894 (34.2%) 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 6.3% (\$2,435,150 in 2014 compared to \$2,280,515 in 2013) and expenses increased by 4.2% (\$1,746,581 in 2014 compared to \$1,675,739 in 2013). In 2014 the City received \$128,450 in community development grant funds for rehabilitation of the water tower. Transfers to governmental funds decreased 12.5% (\$628,084 in 2014 compared to \$717,901 in 2013).

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 \$411,600, which is an increase of \$69,484 (20.3%) over last year's total of \$342,116.

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

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, set up budgets for restricted donations and to transfer appropriations from line item to line item.

With these adjustments, the actual revenues were below budgeted revenues by \$40,139 (6.9%). Additionally, actual expenditures were \$131,730 (10.3%) below budgeted expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2014, the City had \$8.0 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 \$246,557 (3.2%) over the last year.

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Building and Property	\$ 1,752,336	\$ 1,739,777	\$ 0	\$ 0	\$ 1,752,336	\$ 1,739,777
Construction in Progress	58,464	54,825	0	0	58,464	54,825
Water and Sewer Improvements	0	0	3,756,828	3,513,576	3,756,828	3,513,576
Vehicles	373,479	383,322	0	0	373,479	383,322
Equipment	<u>379,543</u>	<u>382,593</u>	<u>1,721,901</u>	<u>1,721,901</u>	<u>2,101,444</u>	<u>2,104,494</u>
Total	<u>\$ 2,563,822</u>	<u>\$ 2,560,517</u>	<u>\$ 5,478,729</u>	<u>\$ 5,235,477</u>	<u>\$ 8,042,551</u>	<u>\$ 7,795,994</u>

This year's major additions included:

Station #2 – Fire	\$ 3,639
Bathrooms – Park	12,559
Police Vehicles	20,350
Water Tower Rehabilitation	<u>238,474</u>
	<u>\$ 275,022</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 2014/2015 fiscal year include \$2,000 of equipment for the police department; \$10,000 of equipment for the fire department; \$94,000 for street improvements; \$75,000 for economic development; \$8,000 for the electric storage building; \$35,000 for water and sewer system upgrades/maintenance and \$20,000 for administration equipment upgrades. Portions of these planned capital expenditures will be financed through grants.

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

UNAUDITED

Debt

At year-end, the City had \$687,220 in outstanding bonds and notes compared to \$603,273 last year. That is a increase of 12.2% as shown in the following table.

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenue Bonds (backed by specific fee revenues)	\$ 0	\$ 0	\$ 680,000	\$ 582,800	\$ 680,000	\$ 582,800
Capital Lease Obligations	<u>7,220</u>	<u>16,424</u>	<u>0</u>	<u>4,049</u>	<u>7,220</u>	<u>20,473</u>
Total	\$ <u>7,220</u>	\$ <u>16,424</u>	\$ <u>680,000</u>	\$ <u>610,050</u>	\$ <u>603,273</u>	\$ <u>603,273</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 2013-2014 fiscal years have elected to continue the implementation of stringent expense controls for all city associates requiring total prior expenditure approvals.

The City of Lexington received notification from WCA informing of a 2% rate increase on trash disposal to be implemented July 1, 2014. The increase was passed on to the patrons of Lexington, and was approved by the City Council of Lexington.

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

Furthermore, the City Council has approved an increase in our sewer user fees to \$12.75 base charge, and \$2.25 for each 1,000 gallons of metered water per residence thereafter.

The City's elected and appointed officials considered many factors when setting the fiscal year 2014-2015 budget. For 2013-2014, the General Fund budget for expenditures was \$1.20 million,. The total revenues for 2014-2015 are budgeted at \$4,217,050 million, and the general fund is budgeted at \$1.298 million

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

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, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash, Including Time Deposits	\$ 461,073	\$ 778,285	\$ 1,239,358
Internal Balances	0	0	0
Accounts Receivable			
Utility Fees	0	309,421	309,421
Other	56,038	1,212	57,250
Interest Receivable	0	0	0
Total Current Assets	<u>517,111</u>	<u>1,088,918</u>	<u>1,606,029</u>
Non-Current Assets:			
Restricted Cash, Including Time Deposits	0	45,565	45,565
Deferred Expense (Note 8)	7,220	0	7,220
Property, Plant and Equipment:			
Buildings and Property	1,752,336	0	1,752,336
Construction in Progress	58,464	0	58,464
Water and Sewer Improvements	0	3,756,828	3,756,828
Vehicles	373,479	0	373,479
Equipment	379,543	1,721,901	2,101,444
Less: Accumulated Depreciation	(2,102,653)	(4,372,191)	(6,474,844)
Total Non-Current Assets	<u>468,389</u>	<u>1,152,103</u>	<u>1,620,492</u>
Total Assets	<u>985,500</u>	<u>2,241,021</u>	<u>3,226,521</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	96,705	30,437	127,142
Accrued Payroll	8,806	3,942	12,748
Other Payables	0	16,070	16,070
Current Portion - Compensated Absences	14,230	7,254	21,484
Current Portion - Long-Term Debt	7,220	75,000	82,220
Total Current Liabilities	<u>126,961</u>	<u>132,703</u>	<u>259,664</u>
Non-Current Liabilities:			
Compensated Absences	74,840	55,903	130,743
Long-Term Debt	0	605,000	605,000
Total Non-Current Liabilities	<u>74,840</u>	<u>660,903</u>	<u>735,743</u>
Total Liabilities	<u>201,801</u>	<u>793,606</u>	<u>995,407</u>
DEFERRED INFLOWS OF RESOURCES			
Total Deferred Inflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>
NET POSITION			
Net Investment in Capital Assets	461,169	426,538	887,707
Restricted for Debt Service	0	35,432	35,432
Restricted for Streets and Alleys	56,946	0	56,946
Restricted for Streets and Alleys and Economic Development	304,335	0	304,335
Restricted for Police Department	3,864	0	3,864
Restricted for Parks and Recreation	40,654	0	40,654
Unrestricted	(83,269)	985,445	902,176
Total Net Position	<u>\$ 783,699</u>	<u>\$ 1,447,415</u>	<u>\$ 2,231,114</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, 2014

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business Type Activities
PRIMARY GOVERNMENT:						
Governmental Activities:						
Administration	\$ 317,550	\$ 7,980	\$ 11,000	\$ 0	\$ (298,570)	\$ (298,570)
Police	637,447	81,004	2,199	2,500	(551,744)	(551,744)
Fire	47,225	1,300	6,413	0	(39,512)	(39,512)
Civil Defense	2,012	0	0	0	(2,012)	(2,012)
Ambulance	83,895	85,256	0	0	1,361	1,361
Street and Alley	174,331	0	79,823	0	(94,508)	(94,508)
Parks and Recreation	10,390	0	49,705	0	39,315	39,315
Economic Development	92,296	0	0	0	(92,296)	(92,296)
Total Governmental Activities	<u>1,365,146</u>	<u>175,540</u>	<u>149,140</u>	<u>2,500</u>	<u>(1,037,966)</u>	<u>(1,037,966)</u>
Business-Type Activities:						
Administration	270,617	0	0	0	(270,617)	(270,617)
Water	214,777	347,134	0	128,450	260,807	260,807
Wastewater	64,422	182,550	0	0	118,128	118,128
Refuse Collection	150,039	173,054	0	0	23,015	23,015
Electric	1,046,726	1,591,578	0	0	544,852	544,852
Total Business-Type Activities	<u>1,746,581</u>	<u>2,294,316</u>	<u>0</u>	<u>128,450</u>	<u>676,185</u>	<u>676,185</u>
TOTAL PRIMARY GOVERNMENT	\$ 3,111,727	\$ 2,469,856	\$ 149,140	\$ 130,950	(1,037,966)	(361,781)
General Revenues:						
Taxes:						
Franchise Taxes					22,291	22,291
Public Service Taxes					444,603	444,603
Grants and Contributions not restricted to specific programs					0	0
Unrestricted Investment Earnings					348	2,846
Miscellaneous					2,437	12,323
Special Item					(1,164)	(1,164)
Transfers					628,084	0
Total General Revenues, Special Items and Transfers					<u>1,096,599</u>	<u>480,899</u>
Change in Net Position					58,633	119,118
Net Position, June 30, 2013					725,066	2,111,996
NET POSITION, JUNE 30, 2014					\$ 783,699	\$ 2,231,114

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

CITY OF LEXINGTON, OKLAHOMA

BALANCE SHEET -
GOVERNMENTAL FUNDS

June 30, 2014

	General Fund	Special Revenue Restricted Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash, Including Time Deposits	\$ 33,616	\$ 358,445	\$ 69,012	\$ 461,073
Due From Other Funds	135	0	0	135
Accounts Receivable:				
Utility Fees	0	0	0	0
Other	40,729	13,372	1,802	55,903
Total Assets	<u>74,480</u>	<u>371,817</u>	<u>70,814</u>	<u>517,111</u>
DEFERRED OUTFLOWS OF RESOURCES				
Total Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 74,480</u>	<u>\$ 371,817</u>	<u>\$ 70,814</u>	<u>\$ 517,111</u>
LIABILITIES				
Accounts Payable	\$ 15,355	\$ 67,482	\$ 13,868	\$ 96,705
Accrued Payroll	8,806	0	0	8,806
Due to Other Funds	0	0	0	0
Total Liabilities	<u>24,161</u>	<u>67,482</u>	<u>13,868</u>	<u>105,511</u>
DEFERRED INFLOWS OF RESOURCES				
Total Deferred Inflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCE				
NonSpendable	0	0	0	0
Restricted for:				
Streets and Alleys	0	0	56,946	56,946
Streets and Alleys & Economic Development	0	304,335	0	304,335
Police Department	3,864	0	0	3,864
Parks & Recreation	40,654	0	0	40,654
Committed for:				
Streets and Alleys	0	0	0	0
Assigned	4,018	0	0	4,018
Unassigned	1,783	0	0	1,783
Total Fund Balance	<u>50,319</u>	<u>304,335</u>	<u>56,946</u>	<u>411,600</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$ 74,480</u>	<u>\$ 371,817</u>	<u>\$ 70,814</u>	<u>\$ 517,111</u>
Fund equity - total governmental funds				\$ 411,600
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.				461,169
Long Term Debt Obligations of governmental activities are not financial uses and therefore are not reported in the funds.				(7,220)
Deferred Expense (See Note 8)				7,220
Compensated absences are not reported in the fund financial statements (See Note 1).				<u>(89,070)</u>
Net position of governmental activities				<u>\$ 783,699</u>

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

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2014

	General Fund	Special Revenue Restricted Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 292,040	\$ 153,972	\$ 20,882	\$ 466,894
Licenses and Permits	6,227	0	0	6,227
Intergovernmental	17,413	79,823	0	97,236
Charges for Services	84,057	0	0	84,057
Ambulance Assessments	85,256	0	0	85,256
Donations	51,904	0	0	51,904
Interest	348	0	0	348
Miscellaneous	2,437	0	0	2,437
Total Revenues	<u>539,682</u>	<u>233,795</u>	<u>20,882</u>	<u>794,359</u>
EXPENDITURES				
Current:				
Administration	281,941	0	0	281,941
Police	652,499	0	0	652,499
Fire	50,864	0	0	50,864
Civil Defense	2,012	0	0	2,012
Ambulance	83,895	0	0	83,895
Street and Alley	70,842	84,692	18,028	173,562
Parks and Recreation	15,890	0	0	15,890
Economic Development	0	92,296	0	92,296
Total Expenditures	<u>1,157,943</u>	<u>176,988</u>	<u>18,028</u>	<u>1,352,959</u>
Excess of Revenues Over (Under) Expenditures	(618,261)	56,807	2,854	(558,600)
Other Financing Sources (Uses):				
Operating Transfers In (Out)	<u>628,084</u>	<u>0</u>	<u>0</u>	<u>628,084</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	9,823	56,807	2,854	69,484
Fund Balance, June 30, 2013	<u>40,496</u>	<u>247,528</u>	<u>54,092</u>	<u>342,116</u>
FUND BALANCE, JUNE 30, 2014	<u>\$ 50,319</u>	<u>\$ 304,335</u>	<u>\$ 56,946</u>	<u>\$ 411,600</u>
Net change in fund balances - total governmental funds				\$ 69,484
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 depreciation (\$44,578) exceeded capital outlays (\$34,048) in the current period.				(10,530)
Reduction of liability for phone lease recorded in Enterprise Fund (See Note 8 & 9).				4,049
Donation of police vehicle is not reported in the fund financial statements.				2,500
Loss on Disposition of Assets is not recorded in the fund financial statements.				(1,164)
Compensated absences are not reported in the fund financial statements (See Note 1).				<u>(5,706)</u>
Change in net position of governmental activities				<u>\$ 58,633</u>

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

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

June 30, 2014

	<u>Enterprise Funds</u>		<u>Total</u>
	<u>Light Fund</u>	<u>LPWA Fund</u>	
ASSETS			
Current Assets:			
Cash, Including Time Deposits	\$ 540,362	\$ 237,923	\$ 778,285
Due From Other Funds	0	1,212	1,212
Accounts Receivable	219,130	90,291	309,421
Interest Receivable	0	0	0
Total Current Assets	<u>759,492</u>	<u>329,426</u>	<u>1,088,918</u>
Non-Current Assets:			
Restricted Cash, Including Time Deposits	10,133	35,432	45,565
Property, Plant and Equipment:			
Water and Sewer Improvements	0	3,756,828	3,756,828
Equipment	1,523,330	198,571	1,721,901
Less: Accumulated Depreciation	<u>(1,251,502)</u>	<u>(3,120,689)</u>	<u>(4,372,191)</u>
Total Non-Current Assets	<u>281,961</u>	<u>870,142</u>	<u>1,152,103</u>
Total Assets	<u>1,041,453</u>	<u>1,199,568</u>	<u>2,241,021</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	3,473	26,964	30,437
Accrued Payroll	2,622	1,320	3,942
Other Payables	11,990	4,080	16,070
Due to Other Funds	0	0	0
Current Portion - Long-Term Debt	0	75,000	75,000
Total Current Liabilities	<u>18,085</u>	<u>107,364</u>	<u>125,449</u>
Non-Current Liabilities:			
Long-Term Debt	0	605,000	605,000
Total Non-Current Liabilities	<u>0</u>	<u>605,000</u>	<u>605,000</u>
Total Liabilities	<u>18,085</u>	<u>712,364</u>	<u>730,449</u>
DEFERRED INFLOWS OF RESOURCES			
Total Deferred Inflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>
NET POSITION			
Net Investment in Capital Assets	271,828	154,710	426,538
Restricted for Debt Service	0	35,432	35,432
Unrestricted	751,540	297,062	1,048,602
Total Net Position	<u>\$ 1,023,368</u>	<u>\$ 487,204</u>	<u>\$ 1,510,572</u>

Net Position - total proprietary funds	\$ 1,510,572
Compensated absences are not reported in the fund financial statements (See Note 1).	<u>(63,157)</u>
Net Position of Business Type Activities	<u>\$ 1,447,415</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, 2014

	Enterprise Funds		Total
	Light Fund	LPWA Fund	
<u>Operating Revenues:</u>			
Electric Charges	\$ 1,591,578	\$ 0	\$ 1,591,578
Water Charges	0	347,134	347,134
Garbage Charges	0	182,550	182,550
Sewer Charges	0	173,054	173,054
Total Operating Revenues	<u>1,591,578</u>	<u>702,738</u>	<u>2,294,316</u>
<u>Operating Expenses:</u>			
Administration:			
Personnel Services	77,790	12,891	90,681
Materials and Supplies	1,846	577	2,423
Other Services and Charges	37,257	8,235	45,492
Depreciation	31,209	101,167	132,376
Total Administration	<u>148,102</u>	<u>122,870</u>	<u>270,972</u>
<u>Water:</u>			
Personnel Services	0	105,099	105,099
Materials and Supplies	0	18,121	18,121
Other Services and Charges	0	50,510	50,510
Total Water	<u>0</u>	<u>173,730</u>	<u>173,730</u>
<u>Wastewater:</u>			
Personnel Services	0	18,520	18,520
Materials and Supplies	0	4,286	4,286
Other Services and Charges	0	41,616	41,616
Total Wastewater	<u>0</u>	<u>64,422</u>	<u>64,422</u>
<u>Refuse Collection:</u>			
Other Services and Charges	0	150,039	150,039
Total Refuse Collection	<u>0</u>	<u>150,039</u>	<u>150,039</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, 2014

	Enterprise Funds		Total
	Light Fund	LPWA Fund	
<u>Electric:</u>			
Personnel Services	170,096	0	170,096
Materials and Supplies	14,598	0	14,598
Other Services and Charges	18,628	0	18,628
Power Purchases	839,169	0	839,169
Total Electric	1,042,491	0	1,042,491
Total Operating Expenses	1,190,593	511,061	1,701,654
Net Operating Income	400,985	191,677	592,662
<u>Non-Operating Revenue (Expense):</u>			
Interest Revenue	1,628	870	2,498
Interest Expense	0	(13,237)	(13,237)
Other	9,886	0	9,886
Gain (Loss) on Sale of Asset	0	0	0
Intergovernmental	0	128,450	128,450
Total Non-Operating Revenues (Expense)	11,514	116,083	127,597
Net Income Before Other Financing Sources and (Uses)	412,499	307,760	720,259
<u>Other Financing Sources (Uses):</u>			
Capital Contributions	0	0	0
Debt Issue Costs	0	(24,250)	(24,250)
Trustee Fees	0	(1,000)	(1,000)
Operating Transfers In (Out)	(398,584)	(229,500)	(628,084)
Total Other Financing Sources (Uses)	(398,584)	(254,750)	(653,334)
Change in Net Position	13,915	53,010	66,925
Net Position, June 30, 2013	1,009,453	434,194	1,443,647
NET POSITION, JUNE 30, 2014	<u>\$ 1,023,368</u>	<u>\$ 487,204</u>	<u>\$ 1,510,572</u>
Change in Net Position - total proprietary funds			\$ 66,925
Compensated absences are not reported in the fund financial statements (See Note 1).			(6,440)
Change in Net Position of business-type activities			<u>\$ 60,485</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, 2014

	Enterprise Funds		
	Light Fund	LPWA Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers	\$ 1,564,616	\$ 701,224	\$ 2,265,840
Payments to suppliers	(245,264)	(135,190)	(380,454)
Payments to employees	(911,867)	(266,802)	(1,178,669)
Other receipts (payments)	9,886	0	9,886
Net Cash Provided (Used) by Operating Activities	<u>417,371</u>	<u>299,232</u>	<u>716,603</u>
<u>Cash Flows From Non-Capital Financing Activities:</u>			
Operating Transfers (To) From Other Funds	<u>(398,584)</u>	<u>(225,879)</u>	<u>(624,463)</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(398,584)</u>	<u>(225,879)</u>	<u>(624,463)</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Proceeds from capital debt	0	810,020	810,020
Purchases of capital assets	0	(243,252)	(243,252)
Principal paid on capital debt	0	(716,869)	(716,869)
Interest paid on capital debt	0	(13,237)	(13,237)
Other receipts (payments)	0	103,200	103,200
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>0</u>	<u>(60,138)</u>	<u>(60,138)</u>
<u>Cash Flows Provided by Investing Activities:</u>			
Interest and dividends	<u>1,628</u>	<u>870</u>	<u>2,498</u>
Net Cash Provided (Used) by Investing Activities	<u>1,628</u>	<u>870</u>	<u>2,498</u>
Net Increase (Decrease) in Cash and Cash Equivalents	20,415	14,085	34,500
Cash and Cash Equivalents, June 30, 2013	<u>530,080</u>	<u>259,270</u>	<u>789,350</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2014	<u>\$ 550,495</u>	<u>\$ 273,355</u>	<u>\$ 823,850</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, 2014

	Enterprise Funds		
	Light Fund	LPWA Fund	Total
<u>Cash Consists of:</u>			
Cash on Hand	\$ 600	\$ 0	\$ 600
Demand Deposits	130,416	117,903	248,319
Certificates of Deposit	409,346	120,020	529,366
Restricted Deposits	10,133	35,432	45,565
TOTAL CASH, END OF YEAR	\$ 550,495	\$ 273,355	\$ 823,850
<u>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</u>			
Operating income (loss)	\$ 410,871	\$ 191,677	\$ 602,548
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	31,209	101,167	132,376
Change in assets and liabilities:			
Receivables, net	(26,962)	(1,514)	(28,476)
Accounts and other payables	2,253	7,902	10,155
Net Cash Provided by Operating Activities	\$ 417,371	\$ 299,232	\$ 716,603

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

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

June 30, 2014

	<u>Agency Funds</u>			
	<u>Meter Deposit</u>	<u>Payroll</u>	<u>Municipal Court</u>	<u>Total</u>
<u>ASSETS</u>				
Cash, Including Time Deposits	\$ 108,275	\$ 171	\$ 744	\$ 109,190
Accounts Receivable	0	0	0	0
Due From Other Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
 TOTAL ASSETS	 <u>\$ 108,275</u>	 <u>\$ 171</u>	 <u>\$ 744</u>	 <u>\$ 109,190</u>
 <u>LIABILITIES</u>				
Accounts Payable	\$ 0	\$ 171	\$ 609	\$ 780
Due To Other Funds	1,212	0	135	1,347
Meter Deposit Liability	<u>107,063</u>	<u>0</u>	<u>0</u>	<u>107,063</u>
 TOTAL LIABILITIES	 <u>\$ 108,275</u>	 <u>\$ 171</u>	 <u>\$ 744</u>	 <u>\$ 109,190</u>

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

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

The following fund types are used by the City:

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

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

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

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

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

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

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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, 2014

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, 2014 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Grants</u>	<u>Other</u>	<u>Total Receivables</u>
Governmental Activities:					
General	\$ 0	\$ 40,120	\$ 0	\$ 135	\$ 40,255
Ambulance	10,658	0	0	0	10,658
Fire	<u>4,125</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,125</u>
Total Governmental Activities	<u>\$ 15,783</u>	<u>\$ 40,120</u>	<u>\$ 0</u>	<u>\$ 135</u>	<u>\$ 56,038</u>
Business-Type Activities:					
Administration	\$ 0	\$ 0	\$ 0	\$ 1,385	\$ 1,385
Electric	219,130	0	0	0	219,130
Water	44,357	0	0	0	44,357
Sewer	23,717	0	0	0	23,717
Garbage	<u>22,044</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>22,044</u>
Total Business-Type Activities	<u>\$ 309,248</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,385</u>	<u>\$ 310,633</u>

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

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Payables – Payables at June 30, 2014 were as follows:

	(Interest) <u>Other</u>	<u>Vendors</u>	(Sales Tax) <u>Other</u>	<u>Total Payables</u>
Governmental Activities:				
General	\$ 0	\$ 15,355	\$ 0	\$ 15,355
Restricted Sales Tax	0	67,482	0	67,482
Other Governmental	0	13,868	0	13,868
Total Governmental Activities	<u>\$ 0</u>	<u>\$ 96,705</u>	<u>\$ 0</u>	<u>\$ 96,705</u>
Business-Type Activities:				
Administration	\$ 0	\$ 0	\$ 0	\$ 0
Electric	0	3,473	11,990	15,463
Water/Sewer/Garbage	4,080	26,964	0	31,044
Total Business-Type Activities	<u>\$ 4,080</u>	<u>\$ 30,437</u>	<u>\$ 11,990</u>	<u>\$ 46,507</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).

Deferred Outflows of Resources – The City reports decreases in net position/fund balance that relate to future periods as deferred outflows of resources in a separate section of its government-wide statement of net position, governmental funds balance sheets and proprietary funds statement of net position. No deferred outflows of resources affect the financial statements in the current year.

Deferred Inflows of Resources – The City reports increases in net position/fund balance that apply to future periods as deferred inflows of resources in a separate section of its government-wide statement of net position, governmental funds balance sheets and proprietary funds statement of net position. No deferred inflows of resources affect the financial statements in the current year.

CITY OF LEXINGTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

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

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

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

The general fund has assigned fund balance of \$4,018 at June 30, 2014, which represents the portion of current year fund balance appropriated to meet budgeted expenditures for fiscal year 2014/2015.

CITY OF LEXINGTON, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 2: DEPOSITS, INVESTMENTS AND COLLATERAL

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

During the year ended June 30, 2014, the City's deposits were limited to insured checking and savings accounts and collateralized certificates of deposit. At June 30, 2014, the amount of total bank deposits at certain financial institutions exceeded the amount of insurance coverage and acceptable collateral pledged to secure the deposits.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2014, \$137,386 of the City's bank balance of \$1,362,756 was exposed to custodial credit risk.

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

Unreconciled

<u>Category</u>	<u>Balance Per Bank</u>
Insured or collateralized with securities held by the organization or by its agent in the organization's name.	\$ 306,000
Collateralized with securities held by the pledging financial institution's trust department.	919,370
Uncollateralized.	<u>137,386</u>
TOTAL	<u>\$ 1,362,756</u>

NOTE 3: SALES TAX RESTRICTIONS

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

CITY OF LEXINGTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 4: RESTRICTED ASSETS

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

NOTE 5: PENSION PLANS

Defined Contribution Plan – The City 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 2014 was \$749,878. Both the City and the covered employees made the required contributions, amounting to \$64,992 from each source, or \$129,984 in total.

NOTE 6: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance June 30, 2013	Additions	Disposals	Balance June 30, 2014
Governmental Activities:				
<u>Capital Assets Not Being Depreciated</u>				
Construction in Progress	\$ 54,825	\$ 3,639	\$ 0	\$ 58,464
Total Capital Assets Not Being Depreciated	<u>54,825</u>	<u>3,639</u>	<u>0</u>	<u>58,464</u>
<u>Other Capital Assets</u>				
Buildings and Property	1,739,777	12,559	0	1,752,336
Vehicles	383,322	20,350	(30,193)	373,479
Equipment (1)	382,593	0	(3,050)	379,543
Total Other Capital Assets	<u>2,505,692</u>	<u>32,909</u>	<u>(33,243)</u>	<u>2,505,358</u>
<u>Accumulated Depreciation</u>				
Buildings and Property	(1,400,173)	(11,893)	0	(1,412,066)
Vehicles	(327,139)	(22,530)	29,029	(320,640)
Equipment	(362,842)	(10,155)	3,050	(369,947)
Total Accumulated Depreciation	<u>(2,090,154)</u>	<u>(44,578)</u>	<u>32,079</u>	<u>(2,102,653)</u>
Other Capital Assets, Net	<u>415,538</u>	<u>(11,669)</u>	<u>(1,164)</u>	<u>402,705</u>
<u>Net Governmental Activities</u>				
Capital Assets, Net	<u>\$ 470,363</u>	<u>\$ (8,030)</u>	<u>\$ (1,164)</u>	<u>\$ 461,169</u>

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 6: CAPITAL ASSETS, CONTINUED

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2014</u>
Business Type Activities:				
<u>Capital Assets</u>				
Water and Sewer Improvements	\$ 3,513,576	\$ 243,252	\$ 0	\$ 3,756,828
Equipment	<u>1,721,901</u>	<u>0</u>	<u>0</u>	<u>1,721,901</u>
Total Capital Assets	<u>5,235,477</u>	<u>243,252</u>	<u>0</u>	<u>5,478,729</u>
<u>Accumulated Depreciation</u>				
Water and Sewer Improvements	(2,827,140)	(99,088)	0	(2,926,228)
Equipment	<u>(1,412,675)</u>	<u>(33,288)</u>	<u>0</u>	<u>(1,445,963)</u>
Total Accumulated Depreciation	<u>(4,239,815)</u>	<u>(132,376)</u>	<u>0</u>	<u>(4,372,191)</u>
<u>Net Business Type Activities</u>				
Capital Assets, Net	<u>\$ 995,662</u>	<u>\$ 110,876</u>	<u>\$ 0</u>	<u>\$ 1,106,538</u>

Depreciation expense was charged to governmental activities as follows:

General Government:

Administration \$ 44,578

NOTE 7: LONG-TERM LIABILITIES

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

LONG-TERM DEBT:

Governmental Activities:

Lease/Purchase Payable:

Lease/purchase payable to Clarence L. Boyd Company beginning April 28, 2008 for a John Deere Backhoe. The lease requires monthly payments of \$819 through April 28, 2015 with interest at 5.15%. The lease contains an appropriations clause. Under the terms of the lease, the equipment remains the property of the lessor until the final payment is made. The 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, 2014 is \$7,220.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 7: LONG-TERM LIABILITIES, CONTINUED

Business Type Activities:

Notes Payable:

LPWA:

Note 1. 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. All outstanding principal and interest were paid in April 2014.

Note 2: Note payable to a bank dated December 5, 2013 in the amount of \$130,020. This note has an interest rate of 3.75% and maturity date of December 15, 2023. All principle and interest were paid in April 2014.

Note 3: On April 3, 2014 the Lexington Public Works Authority (LPWA) issued Utility System Revenue Note, Series 2014 in the amount of \$680,000. The note bears an interest rate of 2.40% per annum and a maturity date of March 1, 2022. Monthly payments equal \$10,427. Proceeds from this note were used to pay off the LPWA's Series 2002 Note to the Oklahoma Water Resources Board (Note 1) and the outstanding note at 1st American Bank (Note 2). The note is collateralized by pledge and assignment of revenues and receipts derived from water, sewer and garbage disposal services.

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, which matured March 8, 2014. Lease carried a 12.95% interest rate and was for a telephone system. Principal balance at June 30, 2014 is \$0.

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.

CITY OF LEXINGTON, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 7: LONG-TERM LIABILITIES, CONTINUED

Changes in long-term liabilities for the fiscal year 2013-14 include:

	<u>Principal Balance 06/30/13</u>	<u>Additions</u>	<u>Retirements</u>	<u>Principal Balance 06/30/14</u>	<u>Amounts Due Within One Year</u>
<u>Governmental Activities:</u>					
Compensated Absences	\$ 83,364	\$ 40,277	\$ 34,571	\$ 89,070	\$ 14,230
Lease/Purchase - CL Boyd Co.	<u>16,424</u>	<u>0</u>	<u>9,204</u>	<u>7,220</u>	<u>7,220</u>
Total Governmental Activities	<u>99,788</u>	<u>40,277</u>	<u>43,775</u>	<u>96,290</u>	<u>21,450</u>
<u>Business-Type Activities:</u>					
<u>Capital Lease Payable –</u>					
Great American Leasing	<u>4,049</u>	<u>0</u>	<u>4,049</u>	<u>0</u>	<u>0</u>
<u>Bonds/Notes Payable –</u>					
Note Payable – Oklahoma Water Resource Board – 2000 Series	582,800	0	582,800	0	0
Note Payable – 1 st American Bank	0	130,020	130,020	0	0
Note Payable – Series 2014 Revenue Note	<u>0</u>	<u>680,000</u>	<u>0</u>	<u>680,000</u>	<u>75,000</u>
Total Bonds/Notes Payable	582,800	810,020	712,820	680,000	75,000
Compensated Activities	<u>56,717</u>	<u>22,804</u>	<u>16,364</u>	<u>63,157</u>	<u>7,254</u>
Total Business-Type Activities	<u>643,566</u>	<u>832,824</u>	<u>733,233</u>	<u>743,157</u>	<u>82,254</u>
TOTAL	\$ <u>743,354</u>	\$ <u>873,101</u>	\$ <u>777,008</u>	\$ <u>839,447</u>	\$ <u>103,704</u>

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

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

Governmental Activities:

	<u>Lease/ Purchase</u>	
	<u>Principal</u>	<u>Interest</u>
2014-15	\$ 7,220	\$ 156
2015-16	0	0
2016-17	0	0
2017-18	0	0
2018-19	0	0
2019-20 through 2024-25	<u>0</u>	<u>0</u>
TOTAL	\$ <u>7,220</u>	\$ <u>156</u>

CITY OF LEXINGTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 7: LONG-TERM LIABILITIES, CONTINUED

Business-Type Activities:

	<u>Series 2014 Revenue Note</u>	
	<u>Principal</u>	<u>Interest</u>
2014-15	\$ 75,000	\$ 15,900
2015-16	80,000	14,040
2016-17	82,000	12,108
2017-18	84,000	10,128
2018-19	86,000	8,100
2019-20 through 2024-25	<u>273,000</u>	<u>11,580</u>
TOTAL	<u>\$ 680,000</u>	<u>\$ 71,856</u>

NOTE 8: INTERFUND TRANSACTIONS

Inter-fund receivable/payable balances at June 30, 2014 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 & Alley</u>	<u>Light</u>	<u>LPWA</u>	<u>Meter Deposit</u>	<u>Payroll</u>	<u>Municipal Court</u>	
Governmental Funds:									
D General	\$ ---	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	
U Restricted Sales Tax	0	---	0	0	0	0	0	(135)	
E Street & Alley	0	0	---	0	0	0	0	0	
Proprietary Funds:									
Light	0	0	0	---	0	0	0	0	
T LPWA	0	0	0	0	---	(1,212)	0	0	
Agency Funds:									
Meter Deposit	0	0	0	0	1,212	---	0	0	
Payroll	0	0	0	0	0	0	---	0	
Municipal Court	<u>135</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>---</u>	
Total	<u>\$ 135</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,212</u>	<u>\$ (1,212)</u>	<u>\$ 0</u>	<u>\$ (135)</u>	<u>\$ 0</u>

Operating Transfers – Interfund operating transfers between funds for the fiscal year ended June 30, 2014 were as follows:

	<u>TRANSFER FROM</u>								
	<u>Governmental Funds</u>			<u>Proprietary Funds</u>		<u>Agency Funds</u>			
	<u>General</u>	<u>Restricted Sales Tax</u>	<u>Street & Alley</u>	<u>Light</u>	<u>LPWA</u>	<u>Meter Deposit</u>	<u>Payroll</u>	<u>Municipal Court</u>	
Governmental Funds:									
T General	\$ ---	\$ 0	\$ 0	\$(403,584)	\$(224,500)	\$ 0	\$ 0	\$(135)	
R Restricted Sales Tax	0	---	0	0	0	0	0	0	
A Street & Alley	0	0	---	0	0	0	0	0	
Proprietary Funds:									
S Light	403,584	0	0	---	(5,000)	0	0	0	
F LPWA	224,500	0	0	5,000	---	0	0	0	
Agency Funds:									
R Meter Deposit	0	0	0	0	0	---	0	0	
Payroll	0	0	0	0	0	0	---	0	
T Municipal Court	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>---</u>	
O Total	<u>\$ 628,084</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (398,584)</u>	<u>\$ (229,500)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 9: LITIGATION

At June 30, 2014, the City of Lexington was not involved in any pending or threatened litigation which would have a material impact on these financial statements.

NOTE 10: RISK MANAGEMENT

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

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

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

NOTE 11: 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, 2014 was \$2,483.

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, 2014 was \$1,103.

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, 2014 was \$7,496.

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

<u>June 30,</u>	
2015	\$ 10,581
2016	9,865
2017	3,586
2018	2,988
2019	<u>0</u>
TOTAL	<u>\$ 27,020</u>

NOTE 13: SUBSEQUENT EVENTS

Date of Management Evaluation – Management of the City has evaluated subsequent events through November 20, 2014, which is the date the financial statements were available to be issued.

Saunders & Associates, PLLC

Certified Public Accountants

630 East 17th Street * P. O. Box 1406 * Ada, Oklahoma 74820 * (580) 332-8548 * FAX: (580) 332-2272
Website: www.saunderscpas.com

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

To the City Council
City of Lexington, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lexington, Oklahoma as of and for the year ended June 30, 2014, which collectively comprise the City of Lexington, Oklahoma's basic financial statements and have issued our report thereon dated November 20, 2014. 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, 2014, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist and were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness.

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. We consider the deficiency 2014-001 described in the accompanying schedule of findings and questioned costs to be a material weakness.

Compliance and Other Matters

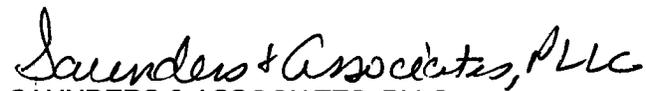
As part of obtaining reasonable assurance about whether the City of Lexington, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2014-002.

The City of Lexington, Oklahoma's Response to Findings

The City of Lexington, Oklahoma's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City of Lexington, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance with applicable provisions of laws, regulations, contracts, and grant agreements and the results of our testing, and to provide an opinion on the City of Lexington, 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.


SAUNDERS & ASSOCIATES, PLLC
Certified Public Accountants
Ada, Oklahoma

November 20, 2014

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, 2014

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences Over (Under)	Actual Amounts GAAP Basis	Budgetary Basis Variance With Final Budget Positive (Negative)
	Original	Final				
REVENUES						
Taxes	\$ 236,500	\$ 305,800	\$ 292,040	\$ 0	\$ 292,040	\$ (13,760)
Licenses and Permits	8,600	8,500	6,227	0	6,227	(2,273)
Intergovernmental	11,400	26,500	17,413	0	17,413	(9,087)
Charges for Services	69,700	96,000	84,057	0	84,057	(11,943)
Ambulance Assessment	90,000	88,300	85,256	0	85,256	(3,044)
Donations	0	51,521	51,904	0	51,904	383
Interest	500	500	348	0	348	(152)
Miscellaneous	1,500	2,700	2,437	0	2,437	(263)
Total Revenues	418,200	579,821	539,682	0	539,682	(40,139)
EXPENDITURES						
Departmental:						
Administration	272,940	325,600	272,107 (1)	9,834	281,941	53,493
Police	687,545	668,456	652,499	0	652,499	15,957
Fire	74,300	62,250	50,864	0	50,864	11,386
Civil Defense	1,680	3,600	2,012	0	2,012	1,588
Ambulance	87,000	87,000	83,895	0	83,895	3,105
Street and Alley	76,930	74,900	70,842	0	70,842	4,058
Parks and Recreation	11,450	58,033	15,890	0	15,890	42,143
Total Expenditures	1,211,845	1,279,839	1,148,109	9,834	1,157,943	131,730
Excess of Revenues Over (Under) Expenditures	(793,645)	(700,018)	(608,427)	(9,834)	(618,261)	91,591
Other Financing Sources (Uses):						
Operating Transfers In	800,000	699,000	621,250 (1)	9,834	631,084	(77,750)
Operating Transfers Out	(3,000)	(3,000)	(3,000)	0	(3,000)	0
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	3,355	(4,018)	9,823	0	9,823	13,841
Fund Balance, June 30, 2012	41,682	41,682	32,848	0	32,848	(8,834)
FUND BALANCE, JUNE 30, 2013	\$ 45,037	\$ 37,664	\$ 42,671	\$ 0	\$ 42,671	\$ 5,007

Explanation of differences:

- (1) Transfer from Light Fund and Capital Outlay expense for General Long Term Debt Payments (\$9,834)

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, 2014

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences Over (Under)	Actual Amounts GAAP Basis	Budgetary Basis Variance With Final Budget Positive (Negative)
	Original	Final				
REVENUES						
Taxes	\$ 140,000	\$ 145,000	\$ 153,972	\$ 0	\$ 153,972	\$ 8,972
Intergovernmental	0	100,000	79,823	0	79,823	(20,177)
Interest	200	200	0	0	0	(200)
Total Revenues	<u>140,200</u>	<u>245,200</u>	<u>233,795</u>	<u>0</u>	<u>233,795</u>	<u>(11,405)</u>
EXPENDITURES						
Departmental:						
Street and Alley	50,000	85,200	84,692	0	84,692	508
Economic Development	60,000	160,000	92,296	0	92,296	67,704
Total Expenditures	<u>110,000</u>	<u>245,200</u>	<u>176,988</u>	<u>0</u>	<u>176,988</u>	<u>68,212</u>
Excess of Revenues Over (Under) Expenditures	30,200	0	56,807	0	56,807	56,807
Other Financing Sources (Uses):						
Operating Transfers In	0	0	0	0	0	0
Operating Transfers Out	0	0	0	0	0	0
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	30,200	0	56,807	0	56,807	56,807
Fund Balance, June 30, 2013	<u>247,528</u>	<u>247,528</u>	<u>247,528</u>	<u>0</u>	<u>247,528</u>	<u>0</u>
FUND BALANCE, JUNE 30, 2014	<u>\$ 277,728</u>	<u>\$ 247,528</u>	<u>\$ 304,335</u>	<u>\$ 0</u>	<u>\$ 304,335</u>	<u>\$ 56,807</u>

CITY OF LEXINGTON, OKLAHOMA

COMBINING GOVERNMENTAL FUND BALANCE SHEET

OTHER GOVERNMENTAL FUNDS

June 30, 2014

	<u>Special Revenue</u>	
	<u>Street and Alley Fund</u>	<u>Total</u>
<u>ASSETS</u>		
Cash, Including Time Deposits	\$ 69,012	\$ 69,012
Accounts Receivable	1,802	1,802
Total Assets	<u>70,814</u>	<u>70,814</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Total Deferred Outflows of Resources	<u>0</u>	<u>0</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ <u>70,814</u>	\$ <u>70,814</u>
 <u>LIABILITIES</u>		
Accounts Payable	\$ 13,868	\$ 13,868
Notes Payable	0	0
Due to Other Funds	0	0
Total Liabilities	<u>13,868</u>	<u>13,868</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>		
Total Deferred Inflows of Resources	<u>0</u>	<u>0</u>
 <u>FUND BALANCES</u>		
NonSpendable	0	0
Restricted for:		
Streets and Alleys	56,946	56,946
Committed for:		
Streets and Alleys	0	0
Assigned	0	0
Unassigned	0	0
Total Fund Balance	<u>56,946</u>	<u>56,946</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ <u>70,814</u>	\$ <u>70,814</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, 2014

	<u>Special Revenue</u>	
	Street and Alley Fund	Total
<u>REVENUES</u>		
Taxes	\$ 20,882	\$ 20,882
Intergovernmental	0	0
Interest	0	0
	<hr/>	<hr/>
Total Revenues	20,882	20,882
	<hr/>	<hr/>
<u>EXPENDITURES</u>		
Current:		
Economic Development	0	0
Street and Alley	18,028	18,028
	<hr/>	<hr/>
Total Expenditures	18,028	18,028
	<hr/>	<hr/>
Revenues Over (Under) Expenditures	2,854	2,854
Other Financing Sources (Uses):		
Operating Transfers In (Out)	0	0
	<hr/>	<hr/>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	2,854	2,854
Fund Balance, June 30, 2013	54,092	54,092
	<hr/>	<hr/>
FUND BALANCE, JUNE 30, 2014	\$ 56,946	\$ 56,946
	<hr/>	<hr/>

CITY OF LEXINGTON, OKLAHOMA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended June 30, 2014

<u>Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
<u>FEDERAL:</u>			
U.S. Department of Housing and Urban Development			
Pass Through Oklahoma Department of Commerce:			
Community Development Block Grant	14.228	15685 CDBG-CIP 13	\$ 11,000
Community Development Block Grant	14.228	15619 CDBG 13	<u>128,450</u>
TOTAL FEDERAL ASSISTANCE			<u>139,450</u>
 <u>STATE:</u>			
Oklahoma Department of Agriculture -			
Oklahoma Forestry Services:			
Rural Fire Operational Grant		N/A	4,474
Rural Fire 80/20 Reimbursement Grant		N/A	1,939
Oklahoma Department of Emergency Management:			
State Emergency Funds		OEM-1401-OK	<u>79,823</u>
TOTAL STATE ASSISTANCE			<u>86,236</u>
TOTAL FEDERAL AND STATE ASSISTANCE			<u>\$ 225,686</u>

CITY OF LEXINGTON, OKLAHOMA
STATUS OF PRIOR AUDIT FINDINGS

June 30, 2014

None reported.

CITY OF LEXINGTON, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2014

2014-001 CHECKS ISSUED WITHOUT AUTHORIZED SIGNATURES

Criteria: The City's policies require three signatures on disbursements to signify proper authorization for the disbursement.

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

Cause/Effect: Issuance of checks without proper authorization circumvents the City's internal controls.

Recommendation: Saunders & Associates, PLLC recommends the City ensure adherence to policies and procedures for authorization of disbursements.

Response: The City has added another signature on staff so three are on duty at all times.

2014-002 DEPOSITS EXCEEDED FDIC COVERGE AND COLLATERALIZATION

Criteria: State statues (O.S. 62-517.4) require public entities funds be deposited in institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC) and proper collateral be secured for deposits in excess of the amount insured by FDIC.

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

Cause/Effect: The City is exposed to custodial credit risk and is in violation of state statutes.

Recommendation: Saunders & Associates, PLLC recommends the City contact their bank and make arrangements to ensure the City's deposits are adequately collateralized at all times.

Response: Bank was contacted and has been corrected.

Saunders & Associates, PLLC

Certified Public Accountants

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Website: www.saunderscpas.com

December 12, 2014

Office of the State Auditor and Inspector
State of Oklahoma

We have compiled the accompanying 2013/2014 annual survey of City and Town finances (SA&I Form 2643), of the City/Town 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/Town 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