

# ***City of Lexington, Oklahoma***

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

***For the Year Ended June 30, 2022***

***SAUNDERS & ASSOCIATES, PLLC***  
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CITY OF LEXINGTON, OKLAHOMA

TABLE OF CONTENTS

June 30, 2022

	<u>Page</u>
Independent Auditor's Report .....	1
Management's Discussion and Analysis .....	4
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Position .....	12
Statement of Activities .....	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	14
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds .....	15
Statement of Net Position – Proprietary Funds .....	16
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds .....	17
Statement of Cash Flows – Proprietary Funds .....	19
Statement of Fiduciary Net Position .....	21
Notes to Financial Statements .....	22
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 .....	43
SUPPLEMENTAL INFORMATION:	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund .....	45
Special Revenue Fund – Restricted Sales Tax .....	47
Schedule of Net Pension Liability and Contributions – Firefighters Pension .....	48
Police Pension .....	49
Combining Governmental Fund Balance Sheet – Other Governmental Funds .....	50
Combining Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances – Other Governmental Funds .....	51
Schedule of Expenditures of Federal and State Awards .....	52
Status of Prior Audit Findings .....	53
Schedule of Findings and Responses .....	54

# *Saunders & Associates, PLLC*

## *Certified Public Accountants*

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### INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Lexington, Oklahoma

#### **Report on Audit of the Financial Statements**

##### **Opinions**

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, 2022, and the related notes to the financial statements, which collectively comprise the City of Lexington, Oklahoma's basic financial statements as listed in the table of contents.

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, 2022, 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.

##### **Basis for Opinions**

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Lexington, Oklahoma and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

##### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Lexington, Oklahoma's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- exercise professional judgment and maintain professional skepticism throughout the audit,
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements,
- obtain an understanding of internal control relevant to the audit 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 City of Lexington, Oklahoma's internal control. Accordingly, no such opinion is expressed,
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements,
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Lexington, Oklahoma's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

## **Required Supplementary Information**


Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension exhibits and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

### **Supplementary 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 nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 statements 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 March 28, 2023 on our consideration of the City of Lexington, Oklahoma's internal control over financial reporting and on our test of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the City of Lexington, Oklahoma's 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

March 28, 2023

## CITY OF LEXINGTON, OKLAHOMA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2022

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, 2022. Please read it in conjunction with the City's financial statements, which begin on page 12.

#### **FINANCIAL HIGHLIGHTS**

- The City's net position increased by \$153 thousand, or 4.9 percent as a result of this year's operations. While net position of our business-type activities increased by \$121 thousand, or 8.5 percent, net position of our governmental activities increased by \$31 thousand, or 1.8 percent.
- During the year, the City had expenses that were \$112 thousand more than the \$1.2 million 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 \$186 thousand.
- In the City's business-type activities, revenues decreased by \$39 thousand (or 1.5 percent) while expenses increased \$237 thousand (or 11.3 percent).
- Total cost of all of the City's programs increased \$289 thousand (8.4%) with no new programs added this year.
- For the general fund, the resources available for appropriation were \$234 thousand more than budgeted; the resources transferred from the proprietary funds were \$226 thousand less than budgeted; and expenditures were \$38 thousand more 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 12 and 13) 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 14. 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 6. 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, 2022

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 7. The fund financial statements begin on page 14 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, 2022

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 21. 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 4.9% from \$3,145,628 to \$3,298,738. (See Table 1) In comparison, last years' net position increased 12.2%.

TABLE 1 – NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>		<u>Total</u>
	<u>06/30/22</u>	<u>06/30/21</u>	<u>06/30/22</u>	<u>06/30/21</u>	<u>06/30/22</u>	<u>06/30/21</u>	<u>% Change</u>
Capital Assets	\$ 639,942	\$ 616,361	\$ 3,924,160	\$ 3,880,120	\$ 4,564,102	\$ 4,496,481	1.5%
Current and Other Assets	<u>1,195,897</u>	<u>1,182,880</u>	<u>916,168</u>	<u>829,463</u>	<u>2,112,065</u>	<u>2,012,343</u>	<u>5.0%</u>
Total Assets	<u>1,835,839</u>	<u>1,799,241</u>	<u>4,840,328</u>	<u>4,709,583</u>	<u>6,676,167</u>	<u>6,508,824</u>	<u>2.6%</u>
Total Deferred Outflows Of Resources	<u>80,382</u>	<u>89,715</u>	<u>0</u>	<u>0</u>	<u>80,382</u>	<u>89,715</u>	<u>-10.4%</u>
Long-Term Liabilities	( 113,782)	96,690	3,027,989	3,021,898	2,914,207	3,118,588	-6.6%
Other Liabilities	<u>81,894</u>	<u>83,693</u>	<u>255,589</u>	<u>226,960</u>	<u>337,483</u>	<u>310,653</u>	<u>8.6%</u>
Total Liabilities	<u>( 31,888)</u>	<u>180,383</u>	<u>3,283,578</u>	<u>3,248,858</u>	<u>3,251,690</u>	<u>3,429,241</u>	<u>-5.2%</u>
Total Deferred Inflows of Resources	<u>( 196,678)</u>	<u>( 11,111)</u>	<u>9,443</u>	<u>34,781</u>	<u>( 187,235)</u>	<u>23,670</u>	<u>-891.0%</u>
Net Position:							
Investment in Capital Assets, Net	588,892	616,361	773,088	732,832	1,361,980	1,349,193	0.9%
Restricted	1,300,117	1,123,811	50,210	69,825	1,350,327	1,193,636	13.1%
Unrestricted	<u>( 137,578)</u>	<u>( 20,488)</u>	<u>724,009</u>	<u>623,287</u>	<u>586,431</u>	<u>602,799</u>	<u>-2.7%</u>
Total Net Position	<u>\$ 1,751,431</u>	<u>\$ 1,719,684</u>	<u>\$ 1,547,307</u>	<u>\$ 1,425,944</u>	<u>\$ 3,298,738</u>	<u>\$ 3,145,628</u>	<u>4.9%</u>



CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2022

UNAUDITED

Net position of the City's governmental activities increased 1.8% (\$1,751,431 compared to \$1, 719,684). 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 571.5% from \$(20,488) to \$(137,578).

The net position of our business-type activities increased by 8.5% (\$1,547,307 compared to \$1,425,944).

Changes in Net Position – The City's total revenues increased by 2.3% (\$86,852). The total cost of all new programs and services increased 8.4% (\$289,514). 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>06/30/22</u>	<u>06/30/21</u>	<u>06/30/22</u>	<u>06/30/21</u>	<u>06/30/22</u>	<u>06/30/21</u>	<u>% Change</u>
Program Revenues:							
Charges for Services	\$ 236,680	\$ 205,258	\$ 2,557,236	\$ 2,414,227	\$ 2,793,916	\$ 2,619,485	6.7%
Operating Grants	6,763	10,480	10,171	0	16,934	10,480	61.6%
Operating Contributions	287,396	155,550	12,464	196,368	299,860	351,918	-14.8%
Capital Grants	0	0	0	0	0	0	0.0%
Capital Contributions	0	0	0	0	0	0	0.0%
General Revenues:							
Franchise Taxes	28,716	22,249	0	0	28,716	22,249	29.1%
Public Service Taxes	707,389	759,445	0	0	707,389	759,445	-6.9%
Interest	756	1,066	1,433	6,385	2,189	7,451	-70.6%
Miscellaneous	29,962	17,759	3,391	6,718	33,353	24,477	36.3%
Total Revenues	<u>1,297,662</u>	<u>1,171,807</u>	<u>2,584,695</u>	<u>2,623,698</u>	<u>3,882,357</u>	<u>3,795,505</u>	<u>2.3%</u>
Program Expenses:							
Administration	385,976	432,733	488,126	487,195	874,102	919,928	-5.0%
Police	589,850	593,047	0	0	589,850	593,047	-0.5%
Fire	142,841	81,780	0	0	142,841	81,780	74.7%
Civil Defense	1,046	863	0	0	1,046	863	21.2%
Ambulance	112,973	121,669	0	0	112,973	121,669	-7.1%
Street and Alley	141,568	122,635	0	0	141,568	122,635	15.4%
Parks and Recreation	3,787	5,212	0	0	3,787	5,212	-27.3%
Economic Development	31,849	0	0	0	31,849	0	-100.0%
Water	0	0	348,615	256,607	348,615	256,607	35.9%
Wastewater	0	0	239,504	217,033	239,504	217,033	10.4%
Refuse Collection	0	0	155,433	160,582	155,433	160,582	-3.2%
Electric	0	0	1,100,714	973,412	1,100,714	973,412	13.1%
Total Expenses	<u>1,409,890</u>	<u>1,357,939</u>	<u>2,332,392</u>	<u>2,094,829</u>	<u>3,742,282</u>	<u>3,452,768</u>	<u>8.4%</u>
Excess Before Contributions							
Etc.	( 112,228)	( 186,132)	252,303	528,869	140,075	342,737	-59.1%
Transfers	130,940	437,714	( 130,940)	( 437,714)	0	0	0.0%
Non Employer Pension							
Contribution	13,035	0	0	0	13,035	200	100.0%
Special Items	0	0	0	200	0	0	-100.0%
Extraordinary Items	0	0	0	0	0	0	0.0%
Changes in Net Position	<u>\$ 31,747</u>	<u>\$ 251,582</u>	<u>\$ 121,363</u>	<u>\$ 91,355</u>	<u>\$ 153,110</u>	<u>\$ 342,937</u>	<u>-55.4%</u>

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2022

UNAUDITED

Governmental Activities

Revenues for the City's governmental activities increased by 10.7% (\$125,855), while total expenses increased by 3.8% (\$51,951). With the transfer in of funds from the business-type activities, the net position for governmental activities increased 1.8%.

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

TABLE 3 – GOVERNMENTAL ACTIVITIES

	<u>Total Cost of Services</u>		<u>Total</u>	<u>Net Cost of Services</u>		<u>Total</u>
	<u>06/30/22</u>	<u>06/30/21</u>	<u>%</u>	<u>06/30/22</u>	<u>06/30/21</u>	<u>%</u>
			<u>Change</u>			<u>Change</u>
Administration	\$ 385,976	\$ 432,733	-10.8%	\$ 182,723	\$ 416,287	-56.1%
Police	589,850	593,047	-0.5%	489,638	528,564	-7.4%
Fire	142,841	81,780	74.7%	41,493	( 83,921)	-149.4%
Civil Defense	1,046	863	21.2%	1,046	863	21.2%
Ambulance	112,973	121,669	-7.1%	( 12,803)	( 2,224)	475.7%
Street and Alley	141,568	122,635	15.4%	141,568	122,635	15.4%
Parks and Recreation	3,787	5,212	-27.3%	3,537	4,447	-20.5%
Economic Development	31,849	0	100.0%	31,849	0	100.0%
Total	\$ 1,409,890	\$ 1,357,939	-3.8%	\$ 879,051	\$ 986,651	-10.9%

The cost of all governmental activities this year was \$1,409,890 compared to \$1,357,939 last year (an increase of \$51,951). Some of the costs were paid by those who directly benefited from the program. For 2022, the City received \$4,763 in grant funds for fire department operations, \$96,585 in grant funds for fire department equipment and \$190,811 in ARPA grant funds for infrastructure improvements. For 2021, the City received \$9,651 in grant funds for fire department operations and \$155,550 in grant funds for capital expenditures for the fire department. Ultimately, the taxpayers financed \$709,578 (50.3%) of the cost with the remainder of the costs primarily being covered through a transfer in from the business-type activities.

Business-Type Activities

Revenues of the City's business type activities decreased by 1.5% (\$2,584,695 in 2022 compared to \$2,623,698 in 2021) and expenses increased by 11.3% (\$2,332,392 in 2022 compared to \$2,094,829 in 2021). For 2022, the City received \$12,464 in grant funds for capital improvements at the wastewater treatment plant. For 2021, the City received \$196,368 in grant funds for wastewater improvements. Transfers to governmental funds decreased 70.1% (\$130,940 in 2022 compared to \$437,714 in 2021).

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$1,145,190, which is an increase of \$6,441 (0.6%) over last year's total of \$1,138,749.

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2022

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 donations, grant awards and expenditures, and to transfer appropriations from line item to line item.

With these adjustments, the actual revenues were above budgeted revenues by \$233,830 (27.3%). Additionally, actual expenditures were \$38,832 (2.9%) above budgeted expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At year end, the City had \$12.7 million invested in capital assets, including police and fire equipment, buildings, park facilities, electric utility equipment, and water and sewer lines. (See table below). This amount represents a net increase of \$411,701 (3.3%) over the last year.

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Building and Property	\$ 2,015,754	\$ 2,015,754	\$ 0	\$ 0	\$ 2,015,754	\$ 2,015,754
Construction in Progress	0	0	70,464	70,464	70,464	70,464
Water and Sewer						
Improvements	0	0	7,416,464	7,112,362	7,416,464	7,112,362
Vehicles	844,921	837,421	0	0	844,921	837,421
Equipment	329,308	307,183	2,049,368	2,036,203	2,378,676	2,343,386
Leased Equipment	64,809	0	0	0	64,809	0
Total	<u>\$ 3,254,792</u>	<u>\$ 3,160,358</u>	<u>\$ 9,536,296</u>	<u>\$ 9,219,029</u>	<u>\$ 12,791,088</u>	<u>\$ 12,379,387</u>

This year's major additions included:

Police Vehicle	\$ 7,500
Fire Equipment	22,125
Electric Equipment	13,165
Sewer Line Replacement	<u>290,652</u>
	<u>\$ 333,442</u>

More detailed information about the City's capital assets is presented in Note 1 and Note 6 of the financial statements.

Capital expenditures planned for the 2022/2023 fiscal year include \$48,375 for street (tinhorn) improvements, \$140,000 for economic development, \$10,000 for mower for parks department, \$16,500 for police vehicle, \$13,000 electric system upgrades and \$74,980 for water system improvements.

# CITY OF LEXINGTON, OKLAHOMA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2022

UNAUDITED

Debt – At year-end, the City had \$3.2 million in outstanding bonds and notes compared to \$3.14 million last year. That is an increase of 1.7% as shown in the following table.

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Revenue Bonds (backed by specific fee revenues)	\$ 0	\$ 0	\$ 3,009,507	\$ 3,112,507	\$ 3,009,507	\$ 3,112,507
Lease Obligations	51,050	0	0	0	51,050	0
Government Obligation Contract	9,443	34,781	0	0	9,443	34,781
Note Obligations	0	0	132,122	0	132,122	0
Total	<u>\$ 60,493</u>	<u>\$ 34,781</u>	<u>\$ 3,141,629</u>	<u>\$ 3,112,507</u>	<u>\$ 3,202,122</u>	<u>\$ 3,147,288</u>

More detailed information about the City's long-term debt is presented in Note 7 to the financial statements.

Long-Term Liabilities – At year end, the City had \$(169) thousand in long-term liabilities/(assets) for the City's proportionate share of the Net Pension Obligation/(Asset) compared to \$71 thousand last year. That is a decrease of 337.77%. (See table below.)

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Net Pension Obligation/(Asset):						
Firefighter's	\$ 17,376	\$ 29,606	\$ 0	\$ 0	\$ 17,376	\$ 29,606
Police	(187,359)	41,885	0	0	(187,359)	41,885
Total	<u>\$(169,983)</u>	<u>\$ 71,491</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$(169,983)</u>	<u>\$ 71,491</u>

More detailed information about the City's pension plans for firefighter's and police officer's is presented in Note 1 and Note 5 of the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

As with years past, the City of Lexington continues to face struggles and hardships in the 2021-2022 fiscal year. A vast majority of these struggles are continued costs associated with aging and failing infrastructure. The city will continue to search for grant funding to assist with replacing and updating the most problem areas.

The most recently, the city received news that our grant application for ORWA-ARPA was accepted. The city will be receiving one million dollars (no match) for the replacement of water lines. This is a huge blessing to our city and will go a long way in replacing water line infrastructure.

We have also applied for grant funding that will replace the existing sidewalk along Broadway and create a new sidewalk in the areas where a sidewalk is needed. It is unknown as of yet if we have been approved for this funding.

In July of 2022, council approved a rate increase on utilities and in January of 2023 they approved a rate increase for sanitation. In years past, rate increases were not often seen, however, current council is proactive and understands the need for rate increases.

The city will continue stringent expense controls for all city associates and will continue to require prior approval for purchases made throughout the year.

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2022

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.

Deana Allen  
City Manager

## BASIC FINANCIAL STATEMENTS

## CITY OF LEXINGTON, OKLAHOMA

## STATEMENT OF NET POSITION

June 30, 2022

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current Assets:			
Cash, Including Time Deposits	\$ 1,111,936	\$ 541,618	\$ 1,653,554
Internal Balances	0	0	0
Accounts Receivable			
Utility Fees	0	310,763	310,763
Other	83,961	2,891	86,852
Prepaid Expense	0	0	0
Interest Receivable	0	0	0
Total Current Assets	<u>1,195,897</u>	<u>855,272</u>	<u>2,051,169</u>
Non-Current Assets:			
Restricted Cash, Including Time Deposits	0	60,896	60,896
Property, Plant and Equipment:			
Buildings and Property	2,015,754	0	2,015,754
Construction in Progress	0	70,464	70,464
Water and Sewer Improvements	0	7,416,464	7,416,464
Vehicles	844,921	0	844,921
Equipment	329,308	2,049,368	2,378,676
Less: Accumulated Depreciation	(2,600,221)	(5,612,136)	(8,212,357)
Leased Equipment (Intangible Asset)	64,809	0	64,809
Less: Accumulated Amortization	(14,629)	0	(14,629)
Total Non-Current Assets	<u>639,942</u>	<u>3,985,056</u>	<u>4,624,998</u>
Total Assets	<u>1,835,839</u>	<u>4,840,328</u>	<u>6,676,167</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Activities	80,382	0	80,382
Total Deferred Outflows of Resources	<u>80,382</u>	<u>0</u>	<u>80,382</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	43,089	90,283	133,372
Accrued Payroll	7,618	5,756	13,374
Other Payables	0	30,536	30,536
Current Portion - Compensated Absences	9,151	9,232	18,383
Current Portion - Lease Liability	12,593	0	12,593
Current Portion - Long-Term Debt	9,443	119,782	129,225
Total Current Liabilities	<u>81,894</u>	<u>255,589</u>	<u>337,483</u>
Non-Current Liabilities:			
Compensated Absences	17,744	6,142	23,886
Net Pension Obligation (Asset)	(169,983)	0	(169,983)
Lease Liability	38,457	0	38,457
Long-Term Debt	0	3,021,847	3,021,847
Total Non-Current Liabilities	<u>(113,782)</u>	<u>3,027,989</u>	<u>2,914,207</u>
Total Liabilities	<u>(31,888)</u>	<u>3,283,578</u>	<u>3,251,690</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Liability	(9,443)	9,443	0
Pension Activities	206,121	0	206,121
Total Deferred Inflows of Resources	<u>196,678</u>	<u>9,443</u>	<u>206,121</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	588,892	773,088	1,361,980
Restricted for Debt Service	0	50,210	50,210
Restricted for ARPA-NEU	190,811	0	190,811
Restricted for Streets and Alleys	124,291	0	124,291
Restricted for Streets and Alleys and Economic Development	957,382	0	957,382
Restricted for Police Department	6,749	0	6,749
Restricted for Fire Department	3,599	0	3,599
Restricted for Parks and Recreation	17,285	0	17,285
Unrestricted	(137,578)	724,009	586,431
Total Net Position	<u>\$ 1,751,431</u>	<u>\$ 1,547,307</u>	<u>\$ 3,298,738</u>

\* See accompanying notes

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2022

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
					Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
<b>PRIMARY GOVERNMENT:</b>							
Governmental Activities:							
Administration	\$ 385,976	\$ 12,192	\$ 250	\$ 190,811	\$ (182,723)		\$ (182,723)
Police	589,850	98,712	1,500	0	(489,638)		(489,638)
Fire	142,841	0	4,763	96,585	(41,493)		(41,493)
Civil Defense	1,046	0	0	0	(1,046)		(1,046)
Ambulance	112,973	125,776	0	0	12,803		12,803
Street and Alley	141,568	0	0	0	(141,568)		(141,568)
Parks and Recreation	3,787	0	250	0	(3,537)		(3,537)
Economic Development	31,849	0	0	0	(31,849)		(31,849)
Total Governmental Activities	<u>1,409,890</u>	<u>236,680</u>	<u>6,763</u>	<u>287,396</u>	<u>(879,051)</u>		<u>(879,051)</u>
Business-Type Activities:							
Administration	488,126	0	250	0		\$ (487,876)	(487,876)
Water	348,615	507,511	0	0		158,896	158,896
Wastewater	239,504	273,182	7,421	12,464		53,563	53,563
Refuse Collection	155,433	222,203	0	0		66,770	66,770
Electric	1,100,714	1,554,340	2,500	0		456,126	456,126
Total Business-Type Activities	<u>2,332,392</u>	<u>2,557,236</u>	<u>10,171</u>	<u>12,464</u>		<u>247,479</u>	<u>247,479</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 3,742,282</u>	<u>\$ 2,793,916</u>	<u>\$ 16,934</u>	<u>\$ 299,860</u>	<u>(879,051)</u>	<u>247,479</u>	<u>(631,572)</u>
General Revenues:							
Taxes:							
Franchise Taxes					28,716	0	28,716
Public Service Taxes					707,389	0	707,389
Grants and Contributions not restricted to specific programs					0	0	0
Unrestricted Investment Earnings					756	1,433	2,189
Miscellaneous					29,962	3,391	33,353
Non-Employer Pension Contribution					13,035	0	13,035
Special Item					0	0	0
Transfers					130,940	(130,940)	0
Total General Revenues, Special Items and Transfers					<u>910,798</u>	<u>(126,116)</u>	<u>784,682</u>
Change in Net Position					31,747	121,363	153,110
Net Position, June 30, 2021					1,719,684	1,425,944	3,145,628
NET POSITION, JUNE 30, 2022					<u>\$ 1,751,431</u>	<u>\$ 1,547,307</u>	<u>\$ 3,298,738</u>

\* See accompanying notes



CITY OF LEXINGTON, OKLAHOMA

BALANCE SHEET -  
GOVERNMENTAL FUNDS

June 30, 2022

	General Fund	Special Revenue Restricted Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash, Including Time Deposits	\$ 46,307	\$ 941,626	\$ 124,003	\$ 1,111,936
Due From Other Funds	2,640	0	0	2,640
Accounts Receivable:				
Utility Fees	0	0	0	0
Other	65,277	15,756	288	81,321
Total Assets	<u>114,224</u>	<u>957,382</u>	<u>124,291</u>	<u>1,195,897</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Total Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 114,224</u>	<u>\$ 957,382</u>	<u>\$ 124,291</u>	<u>\$ 1,195,897</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 43,089	\$ 0	\$ 0	\$ 43,089
Accrued Payroll	7,618	0	0	7,618
Due to Other Funds	0	0	0	0
Total Liabilities	<u>50,707</u>	<u>0</u>	<u>0</u>	<u>50,707</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Total Deferred Inflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>FUND BALANCE</b>				
NonSpendable	0	0	0	0
Restricted for:				
ARPA-NEU	190,811	0	0	190,811
Streets and Alleys	0	0	124,291	124,291
Streets and Alleys & Economic Development	0	957,382	0	957,382
Police Department	6,749	0	0	6,749
Fire Department	3,599	0	0	3,599
Parks & Recreation	17,285	0	0	17,285
Committed for:				
Streets and Alleys	0	0	0	0
Police Department	0	0	0	0
Assigned	25,080	0	0	25,080
Unassigned	(180,007)	0	0	(180,007)
Total Fund Balance	<u>63,517</u>	<u>957,382</u>	<u>124,291</u>	<u>1,145,190</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<u>\$ 114,224</u>	<u>\$ 957,382</u>	<u>\$ 124,291</u>	<u>\$ 1,195,897</u>

Fund equity - total governmental funds	\$ 1,145,190
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.	639,942
Compensated absences are not reported in the fund financial statements (See Note 1).	(26,895)
Long-Term Debt Obligations of governmental activities are not financial uses and therefore are not reported in the funds.	(60,493)
Deferred Liability - Government Obligation Contract (See Note 7).	9,443
Deferred outflows of resources - pension activities apply to future periods and therefore are not reported in the funds.	80,382
Deferred inflows of resources - pension activities apply to future periods and therefore are not reported in the funds.	(206,121)
Net pension obligation(asset) in governmental activities is not due and payable in current period and therefore is not reported in the funds.	169,983
Net position of governmental activities	<u>\$ 1,751,431</u>

\* See accompanying notes

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2022

	General Fund	Special Revenue Restricted Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 529,297	\$ 189,876	\$ 16,932	\$ 736,105
Licenses and Permits	11,567	0	0	11,567
Intergovernmental	293,409	0	0	293,409
Charges for Services	99,337	0	0	99,337
Ambulance Assessments	125,776	0	0	125,776
Donations	750	0	0	750
Interest	756	0	0	756
Miscellaneous	29,962	0	0	29,962
Total Revenues	<u>1,090,854</u>	<u>189,876</u>	<u>16,932</u>	<u>1,297,662</u>
<b>EXPENDITURES</b>				
Current:				
Administration	374,329	0	0	374,329
Police	659,404	0	0	659,404
Fire	163,340	0	0	163,340
Civil Defense	1,046	0	0	1,046
Ambulance	112,973	0	0	112,973
Street and Alley	95,242	0	45,000	140,242
Parks and Recreation	3,787	0	0	3,787
Economic Development	0	31,849	0	31,849
Total Expenditures	<u>1,410,121</u>	<u>31,849</u>	<u>45,000</u>	<u>1,486,970</u>
Excess of Revenues Over (Under) Expenditures	(319,267)	158,027	(28,068)	(189,308)
Other Financing Sources (Uses):				
Lease Proceeds	64,809	0	0	64,809
Operating Transfers In (Out)	<u>275,998</u>	<u>(145,058)</u>	<u>0</u>	<u>130,940</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	21,540	12,969	(28,068)	6,441
Fund Balance, June 30, 2021	<u>41,977</u>	<u>944,413</u>	<u>152,359</u>	<u>1,138,749</u>
<b>FUND BALANCE, JUNE 30, 2022</b>	<u>\$ 63,517</u>	<u>\$ 957,382</u>	<u>\$ 124,291</u>	<u>\$ 1,145,190</u>
Net change in fund balances - total governmental funds				\$ 6,441
Amounts reported for governmental activities in the statement of activities are different because:				
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$94,434) exceeded depreciation and amortization (\$70,853) and lease proceeds (\$64,809) in the current period.				(41,228)
Governmental funds report debt and lease payments as expenditures. However, in the statement of activities only the interest portion is reflected as an expense. This is the amount by which the principal portion reduced debt and lease obligations.				13,759
Compensated absences are not reported in the fund financial statements (See Note 1).				3,085
Pension obligation is not reported in the funds. This amount represents the current year change.				<u>49,690</u>
Change in net position of governmental activities				<u>\$ 31,747</u>

\* See accompanying notes

## CITY OF LEXINGTON, OKLAHOMA

## STATEMENT OF NET POSITION

## PROPRIETARY FUNDS

June 30, 2022

	Enterprise Funds		
	Light Fund	LPWA Fund	Total
<b>ASSETS</b>			
Current Assets:			
Cash, Including Time Deposits	\$ 316,047	\$ 225,571	\$ 541,618
Due From Other Funds	0	2,891	2,891
Accounts Receivable	195,918	114,845	310,763
Prepaid Expense	0	0	0
Interest Receivable	0	0	0
Total Current Assets	<u>511,965</u>	<u>343,307</u>	<u>855,272</u>
Non-Current Assets:			
Restricted Cash, Including Time Deposits	10,686	50,210	60,896
Property, Plant and Equipment:			
Water and Sewer Improvements	0	7,416,464	7,416,464
Construction in Progress	70,464	0	70,464
Equipment	1,879,751	169,617	2,049,368
Less: Accumulated Depreciation	<u>(1,524,553)</u>	<u>(4,087,583)</u>	<u>(5,612,136)</u>
Total Non-Current Assets	<u>436,348</u>	<u>3,548,708</u>	<u>3,985,056</u>
Total Assets	<u>948,313</u>	<u>3,892,015</u>	<u>4,840,328</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Total Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	81,044	9,239	90,283
Accrued Payroll	3,102	2,654	5,756
Other Payables	11,334	19,202	30,536
Due to Other Funds	0	0	0
Current Portion - Long-Term Debt	0	119,782	119,782
Total Current Liabilities	<u>95,480</u>	<u>150,877</u>	<u>246,357</u>
Non-Current Liabilities:			
Long-Term Debt	0	3,021,847	3,021,847
Total Non-Current Liabilities	<u>0</u>	<u>3,021,847</u>	<u>3,021,847</u>
Total Liabilities	<u>95,480</u>	<u>3,172,724</u>	<u>3,268,204</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Liability	9,443	0	9,443
Total Deferred Inflows of Resources	<u>9,443</u>	<u>0</u>	<u>9,443</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	416,219	356,869	773,088
Restricted for Debt Service	0	50,210	50,210
Unrestricted	427,171	312,212	739,383
Total Net Position	<u>\$ 843,390</u>	<u>\$ 719,291</u>	<u>\$ 1,562,681</u>
Net Position - total proprietary funds			\$ 1,562,681
Compensated absences are not reported in the fund financial statements (See Note 1).			(15,374)
Net Position of Business Type Activities			<u>\$ 1,547,307</u>

\* See accompanying notes

## CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION

## PROPRIETARY FUNDS

For the Year Ended June 30, 2022

	Enterprise Funds		
	Light Fund	LPWA Fund	Total
<u>Operating Revenues:</u>			
Electric Charges	\$ 1,554,340	\$ 0	\$ 1,554,340
Water Charges	0	507,511	507,511
Garbage Charges	0	222,203	222,203
Sewer Charges	0	273,182	273,182
Total Operating Revenues	<u>1,554,340</u>	<u>1,002,896</u>	<u>2,557,236</u>
<u>Operating Expenses:</u>			
Administration:			
Personnel Services	113,216	9,627	122,843
Materials and Supplies	(93)	59	(34)
Other Services and Charges	89,472	19,208	108,680
Depreciation	<u>71,557</u>	<u>201,670</u>	<u>273,227</u>
Total Administration	<u>274,152</u>	<u>230,564</u>	<u>504,716</u>
<u>Water:</u>			
Personnel Services	0	191,595	191,595
Materials and Supplies	0	112,298	112,298
Other Services and Charges	<u>0</u>	<u>43,549</u>	<u>43,549</u>
Total Water	<u>0</u>	<u>347,442</u>	<u>347,442</u>
<u>Wastewater:</u>			
Personnel Services	0	52,537	52,537
Materials and Supplies	0	10,681	10,681
Other Services and Charges	<u>0</u>	<u>94,554</u>	<u>94,554</u>
Total Wastewater	<u>0</u>	<u>157,772</u>	<u>157,772</u>
<u>Refuse Collection:</u>			
Other Services and Charges	<u>0</u>	<u>155,433</u>	<u>155,433</u>
Total Refuse Collection	<u>0</u>	<u>155,433</u>	<u>155,433</u>

\* See accompanying notes

## CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION

## PROPRIETARY FUNDS

For the Year Ended June 30, 2022

	Enterprise Funds		
	Light Fund	LPWA Fund	Total
<u>Electric:</u>			
Personnel Services	239,541	0	239,541
Materials and Supplies	20,579	0	20,579
Other Services and Charges	43,435	0	43,435
Power Purchases	786,781	0	786,781
Total Electric	1,090,336	0	1,090,336
Total Operating Expenses	1,364,488	891,211	2,255,699
Net Operating Income	189,852	111,685	301,537
<u>Non-Operating Revenue (Expense):</u>			
Interest Revenue	1,135	298	1,433
Interest Expense	(844)	(83,469)	(84,313)
Other	1,137	2,254	3,391
Debt Issuance Costs	0	0	0
Gain (Loss) on Sale of Asset	0	0	0
Bad Debt Expense	0	0	0
Intergovernmental	2,500	20,135	22,635
Total Non-Operating Revenues (Expense)	3,928	(60,782)	(56,854)
Net Income Before Other Financing Sources and (Uses)	193,780	50,903	244,683
<u>Other Financing Sources (Uses):</u>			
Capital Contributions	0	0	0
Debt Issue Costs	0	0	0
Trustee Fees	0	(500)	(500)
Operating Transfers In (Out)	(227,665)	96,725	(130,940)
Total Other Financing Sources (Uses)	(227,665)	96,225	(131,440)
Change in Net Position	(33,885)	147,128	113,243
Net Position, June 30, 2021	877,275	572,163	1,449,438
NET POSITION, JUNE 30, 2022	\$ 843,390	\$ 719,291	\$ 1,562,681
Change in Net Position - total proprietary funds			\$ 113,243
Compensated absences are not reported in the fund financial statements (See Note 1).			8,120
Change in Net Position of business-type activities			\$ 121,363

\* See accompanying notes

## CITY OF LEXINGTON, OKLAHOMA

## STATEMENT OF CASH FLOWS

## PROPRIETARY FUNDS

For the Year Ended June 30, 2022

	Enterprise Funds		
	Light Fund	LPWA Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers	\$ 1,553,226	\$ 987,419	\$ 2,540,645
Payments to suppliers	(889,753)	(474,834)	(1,364,587)
Payments to employees	(351,855)	(252,312)	(604,167)
Net Cash Provided (Used) by Operating Activities	311,618	260,273	571,891
<u>Cash Flows From Non-Capital Financing Activities:</u>			
Other receipts (payments)	3,637	9,425	13,062
Operating Transfers (To) From Other Funds	(227,665)	96,725	(130,940)
Net Cash Provided (Used) by Non-Capital Financing Activities	(224,028)	106,150	(117,878)
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Proceeds from capital debt	0	143,153	143,153
Proceeds from disposition of capital assets	0	0	0
Purchases of capital assets	(13,165)	(304,102)	(317,267)
Principal paid on capital debt	(25,338)	(114,031)	(139,369)
Interest paid on capital debt	(844)	(83,469)	(84,313)
Other receipts (payments)	0	12,464	12,464
Net Cash Provided (Used) by Capital and Related Financing Activities	(39,347)	(345,985)	(385,332)
<u>Cash Flows Provided by Investing Activities:</u>			
Interest and dividends	1,135	298	1,433
Net Cash Provided (Used) by Investing Activities	1,135	298	1,433
Net Increase (Decrease) in Cash and Cash Equivalents	49,378	20,736	70,114
Cash and Cash Equivalents, June 30, 2021	277,355	255,045	532,400
CASH AND CASH EQUIVALENTS, JUNE 30, 2022	\$ 326,733	\$ 275,781	\$ 602,514

\* See accompanying notes

## CITY OF LEXINGTON, OKLAHOMA

## STATEMENT OF CASH FLOWS

## PROPRIETARY FUNDS

For the Year Ended June 30, 2022

	Enterprise Funds		
	Light Fund	LPWA Fund	Total
<u>Cash Consists of:</u>			
Cash on Hand	\$ 800	\$ 0	\$ 800
Demand Deposits	(119,948)	98,803	(21,145)
Certificates of Deposit	435,195	126,768	561,963
Restricted Deposits	10,686	50,210	60,896
 TOTAL CASH, END OF YEAR	 \$ 326,733	 \$ 275,781	 \$ 602,514
<u>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</u>			
Operating income (loss)	\$ 189,852	\$ 111,685	\$ 301,537
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	71,557	201,670	273,227
Change in assets and liabilities:			
Receivables, net	(1,114)	(15,477)	(16,591)
Prepaid expense	0	0	
Accounts and other payables	51,323	(37,605)	13,718
 Net Cash Provided by Operating Activities	 \$ 311,618	 \$ 260,273	 \$ 571,891

\* See accompanying notes

CITY OF LEXINGTON, OKLAHOMA  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
June 30, 2022

	<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	\$ 134,928	\$ 0	\$ 2,620	\$ 137,548
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>\$ 134,928</u>	<u>\$ 0</u>	<u>\$ 2,620</u>	<u>\$ 137,548</u>
 <u>LIABILITIES</u>				
Accounts Payable	\$ 12	\$ 0	\$ 2,236	\$ 2,248
Due To Other Funds	5,147	0	384	5,531
Meter Deposit Liability	<u>129,769</u>	<u>0</u>	<u>0</u>	<u>129,769</u>
TOTAL LIABILITIES	<u>\$ 134,928</u>	<u>\$ 0</u>	<u>\$ 2,620</u>	<u>\$ 137,548</u>

\* See accompanying notes



CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

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, 2022

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.

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.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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, 2022 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Grants</u>	<u>Other</u>	<u>Total Receivables</u>
<b>Governmental Activities:</b>					
General	\$ 0	\$ 54,747	\$ 0	\$ 3,615	\$ 58,362
Ambulance	13,699	0	0	0	13,699
Fire	<u>11,900</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>11,900</u>
Total Governmental Activities	<u>\$ 25,599</u>	<u>\$ 54,747</u>	<u>\$ 0</u>	<u>\$ 3,615</u>	<u>\$ 83,961</u>
<b>Business-Type Activities:</b>					
Administration	\$ 0	\$ 0	\$ 0	\$ 2,891	\$ 2,891
Electric	195,918	0	0	0	195,918
Water	58,226	0	0	0	58,226
Sewer	32,846	0	0	0	32,846
Garbage	<u>23,773</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>23,773</u>
Total Business-Type Activities	<u>\$ 310,763</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,891</u>	<u>\$ 313,654</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.

Payables – Payables at June 30, 2022 were as follows:

	<u>(Interest) Other</u>	<u>Vendors</u>	<u>(Sales Tax) Other</u>	<u>Total Payables</u>
<b>Governmental Activities:</b>				
General	\$ 0	\$ 43,089	\$ 0	\$ 43,089
Restricted Sales Tax	0	0	0	0
Other Governmental	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Governmental Activities	<u>\$ 0</u>	<u>\$ 43,089</u>	<u>\$ 0</u>	<u>\$ 43,089</u>
<b>Business-Type Activities:</b>				
Administration	\$ 0	\$ 0	\$ 0	\$ 0
Electric	0	81,044	11,334	92,378
Water/Sewer/Garbage	<u>19,202</u>	<u>9,239</u>	<u>0</u>	<u>28,441</u>
Total Business-Type Activities	<u>\$ 19,202</u>	<u>\$ 90,283</u>	<u>\$ 11,334</u>	<u>\$ 120,819</u>

CITY OF LEXINGTON, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

Capital Assets – Capital assets are recorded at cost (or estimated historical cost). The City maintains a capitalization threshold of \$2,500. 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

Change in Accounting Principle – For the fiscal year ended June 30, 2022 the City implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. GASB Statement No. 87 enhances the relevance and consistency of information of the government's leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. All lease activity was incorporated in the current year's activity for fiscal year ending June 30, 2022.

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

Deferred Outflows of Resources – The City reports decreases in net position/fund balance that relate to future periods as deferred outflows of resources in a separate section of its government-wide statement of net position, governmental funds balance sheets and proprietary funds statement of net position. Deferred outflows of resources reported in this year's financial statements consists of:

- Pension Activities – See related Note 5 – Pension Plans – Volunteer Firefighters and Police Officers for the components of deferred inflows related to pension activities.
- Deferred Liability – Government Obligation Contract – See related Note 7.

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. Deferred inflows of resources reported in this year's financial statements consist of:

- Pension Activities – See related Note 5 – Pension Plans – Volunteer Firefighters and Police Officers for the components of deferred inflows related to pension activities.
- Deferred Liability – Government Obligation Contract – See related Note 7.

CITY OF LEXINGTON, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2022

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 then assigned resources then unassigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

The general fund has assigned \$25,000 of the June 30, 2022 fund balance to meet budgeted expenditures for fiscal year 2022/2023.

Excess Expenditures Over Appropriations – For the year ended June 30, 2022 expenditures exceeded appropriations in the general fund by \$38,832. These over-expenditures were funded by greater than anticipated revenues in that fund.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

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, 2022, the City's deposits were limited to insured checking and savings accounts and collateralized certificates of deposit. At June 30, 2022, the amount of total bank deposits at certain financial institutions exceeded the amount of insurance coverage and acceptable collateral pledged to secure 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.

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.	\$ 307,101
Collateralized with securities held by the pledging financial institution's trust department.	1,468,729
Uncollateralized.	<u>109,459</u>
TOTAL	<u>\$ 1,885,289</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 1997. 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, 2022

NOTE 4: RESTRICTED ASSETS

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

NOTE 5: PENSION PLANS

Defined Contribution Plan – The City contributes to the City of Lexington 401(k) Plan (Plan), a defined contribution pension plan, for its full-time employees, excluding police officers pensions covered under a separate defined benefit plan (see Police Pension section of Note 5 Pension Plans). The Plan is administered by July Business Services. Benefit terms, including contribution requirements, for the Plan are established and may be amended by the City Council. The City and employees are required to contribute 10% of employee's total earnings each month to individual employee accounts for each participating employee. For the year ended June 30, 2022, employee contributions totaled \$55,775, and the City recognized pension expense of \$55,775.

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

The City had no liability to the Plan at June 30, 2022.

Volunteer Firefighters – Plan description. The City contributes to the Oklahoma Firefighters Pension and Retirement Plan ("Plan") which is a cost sharing multiple employer defined benefit pension plan covering members who have actively participated in firefighting activities. The plan is administered by the Oklahoma Firefighters Pension and Retirement System. The Plan provides defined retirement benefits based on members' final average compensation, age, and term of service; benefits upon disability; and survivor's benefits upon death of eligible members. The Plan benefits are established and amended by Oklahoma statute. The Plan issues a publicly available financial report which includes financial statements and required supplementary information. That report may be obtained by writing to the Oklahoma Firefighters Pension and Retirement System, 6601 Broadway Extension, Suite 100, Oklahoma City, Oklahoma 73116.

Contributions. The contribution requirements of the Plan are at an established rate determined by Oklahoma statute and are not based on actuarial calculations. The City is required by Oklahoma statute to contribute annually \$60 per volunteer firefighter. The City's contributions to the Plan for the year ended June 30, 2022 were \$780 which represents 100% of required contributions for the current fiscal year. Additionally, the State of Oklahoma, a non-employer contributing entity, contributes a portion of the insurance premium tax collected through its taxing authority. For the fiscal year ended June 30, 2022 the City's proportionate share of non-employer contributions to the Plan were \$1,924.



CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

NOTE 5: PENSION PLANS, CONTINUED

*Net Pension Liability.* At June 30, 2022 the City reported a liability of \$17,376 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2022 the City's proportion was 0.002639%. The employer allocation percentage represents the portion of the City's actual cash contributions divided by the total of all employer contributions for the year.

*Actuarial Assumptions.* The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	2.75%
Salary increases:	2.75% to 10.50% average, not applicable to volunteer firefighters
Investment rate of	7.5% net of pension plan investment expense

*Mortality Rates:*

Active Members	Pub-2010 Public Safety Table with generational mortality improvement using MP-2018
Retired Members	Pub-2010 Public Safety Below Median Table with generational mortality improvement using Scale MP-2018
Disabled Members	Pub-2010 Public Safety Disabled Table set forward 2 years

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period July 1, 2013 to June 30, 2018.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The inflation factor added back was 2.26% for 2021. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return (Includes Inflation Factor)</u>
Fixed income	3.53%
Domestic equity	5.73%
International equity	8.50%
Real estate	7.97%
Other assets	4.73%

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

NOTE 5: PENSION PLANS, CONTINUED

*Discount Rate.* The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at the contractually required rates, determined by Oklahoma statutes. Projected cash flows also assume the State of Oklahoma will continue contributing an allocation of the insurance premium, as established by Oklahoma statute. Prior to July 1, 2020, the pension plan was allocated 36% of the statewide insurance premium tax. The State of Oklahoma has passed legislation that changes the allocation percentage as follows:

- 25.2% effective September 1, 2020
- 36.0% effective July 1, 2021
- 37.8% effective July 1, 2022
- 36.0% effective July 1, 2027

The pension plan will also receive \$40,625 each year from July 1, 2020 through June 30, 2027. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	<u>Discount Rate</u>	City's Proportionate Share of Net Pension <u>Liability</u>
1% decrease	6.5%	\$27,159
Current discount rate	7.5%	\$17,376
1% increase	8.5%	\$ 9,192

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

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

NOTE 5: PENSION PLANS, CONTINUED

*Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* For the fiscal year ended June 30, 2022 the City recognized pension expense of \$1,626. At June 30, 2022 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual plan experience	\$ 6,302	\$ 305
Net difference between projected and actual earnings on plan investments	1,709	15,523
Changes in assumptions	0	385
Changes in proportion and differences between City's contributions and proportionate share of contributions	0	0
City's contributions subsequent to the measurement date	<u>780</u>	<u>0</u>
Total	<u>\$ 8,791</u>	<u>\$ 16,213</u>

The \$780 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net position liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Fiscal year ending June 30,	
2023	\$( 1,711)
2024	( 1,711)
2025	( 1,711)
2026	( 3,069)
2027	0
Thereafter	0

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

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

NOTE 5: PENSION PLANS, CONTINUED

*Contributions.* The contribution requirements of the Plan are at an established rate determined by Oklahoma statute and are not based on actuarial calculations. The City is required by Oklahoma statute to contribute 13% of the total earnings, excluding overtime, of each participant employed by the City. Each participant (police officer) contributes 8% of their total earnings, excluding overtime. The City's contributions to the Plan for the year ended June 30, 2022 were \$20,211 and participant's (police officer's) contributed \$12,648 which represents 100% of required contributions for the current fiscal year. Additionally, the State of Oklahoma, a non-employer contributing entity, contributes a portion of the insurance premium tax collected through its taxing authority. For the fiscal year ended June 30, 2022 the City's proportionate share of non-employer contributions to the Plan were \$11,111.

*Net Pension Liability.* At June 30, 2022 the City reported a liability (asset) of \$(187,359) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2021, and the total pension liability (asset) used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability (asset) was based on projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2022 the City's proportion was 0.000391%. The employer allocation percentage represents the portion of the City's actual cash contributions divided by the total of all employer contributions for the year.

*Actuarial Assumptions.* The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	2.75%
Salary increases:	3.5% to 12% average, including inflation
Investment rate of	7.5% net of pension plan investment expense
Cost of Living Adjustments:	Police officers eligible to receive increased benefits according to repealed Section 50-120 of Title 11 of the Oklahoma Statutes pursuant to a court order received an adjustment of 1/3 to 1/2 of the increase or decrease of any adjustment to the base salary of a regular police officer, based on an increase in base salary of 3.5% (wage inflation).
Mortality rates:	
Active employees (pre-retirement):	RP-2000 Combined Blue Collar Healthy Table with age set back 4 years with fully generational improvement using Scale AA.
Active employees (post-retirement) and non-disabled pensioners:	RP-2000 Combined Blue Collar Healthy Table with fully generational improvement using Scale AA.
Disabled pensioners:	RP-2000 Combined Blue Collar Healthy Table with age set forward 4 years

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period July 2012 to June 2017.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

NOTE 5: PENSION PLANS, CONTINUED

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The pension plan will fully exit its commodities allocation in fiscal year 2021 and has accordingly set that long-term return expectation at 0.00%. The inflation factor added back was 2.0% for 2021. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return (Includes Inflation Factor)</u>
Fixed Income	3.22%
Domestic equity	4.55%
International equity	8.50%
Real estate	7.97%
Private equity	9.36%

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

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

	<u>Discount Rate</u>	<u>City's proportionate share of net pension liability (asset)</u>
1% decrease	6.5%	\$( 70,265)
Current discount rate	7.5%	\$( 187,359)
1% increase	8.5%	\$( 286,370)

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

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

**NOTE 5: PENSION PLANS, CONTINUED**

*Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* For the fiscal year ended June 30, 2022 the City recognized pension expense of \$38,281. At June 30, 2022 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual plan experience	\$ 2,690	\$( 7,395)
Net difference between projected and actual earnings on plan investments	45,841	( 182,513)
Changes in assumptions	2,849	0
Changes in proportion and differences between City's contributions and proportionate share of contributions	0	0
City's contributions subsequent to the measurement date	<u>20,211</u>	<u>0</u>
<b>Total</b>	<b>\$ <u>71,591</u></b>	<b><u>\$( 189,908)</u></b>

The \$20,211 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net position liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Fiscal year ending June 30,	
2023	\$ 57,822
2024	57,822
2025	57,822
2026	57,822
2027	9,999
Thereafter	0

**NOTE 6: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2022 was as follows:

	<u>Balance June 30, 2021</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2022</u>
<b>Governmental Activities:</b>				
<b><u>Capital Assets Not Being Depreciated</u></b>				
Construction in Progress	\$ 0	\$ 0	\$ 0	\$ 0
Total Capital Assets Not Being Depreciated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b><u>Other Capital Assets</u></b>				
Buildings and Property	2,015,754	0	0	2,015,754
Vehicles	837,421	7,500	0	844,921
Equipment	307,183	22,125	0	329,308
Leased Equipment (Intangible Asset)	<u>0</u>	<u>64,809</u>	<u>0</u>	<u>64,809</u>
Total Other Capital Assets	<u>3,160,358</u>	<u>94,434</u>	<u>0</u>	<u>3,254,792</u>

CITY OF LEXINGTON, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2022

**NOTE 6: CAPITAL ASSETS, CONTINUED**

	Balance June 30, 2021	Increases	Decreases	Balance June 30, 2022
<b>Governmental Activities, continued:</b>				
<u>Accumulated Depreciation/Amortization</u>				
Buildings and Property	( 1,521,164)	( 18,881)	0	( 1,540,045)
Vehicles	( 791,481)	( 13,960)	0	( 805,441)
Equipment	( 231,352)	( 23,383)	0	( 254,735)
Leased Equipment	0	( 14,629)	0	( 14,629)
Total Accumulated Depreciation/Amortization	<u>( 2,543,997)</u>	<u>( 70,853)</u>	<u>0</u>	<u>( 2,614,850)</u>
Other Capital Assets, Net	<u>616,361</u>	<u>23,581</u>	<u>0</u>	<u>639,942</u>
<u>Net Governmental Activities</u>				
Capital Assets, Net	\$ <u>616,361</u>	\$ <u>23,581</u>	\$ <u>0</u>	\$ <u>639,942</u>
<b>Business Type Activities:</b>				
<u>Capital Assets Not Being Depreciated</u>				
Construction in Progress	\$ <u>70,464</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>70,464</u>
Total Capital Assets Not Being Depreciated	<u>70,464</u>	<u>0</u>	<u>0</u>	<u>70,464</u>
<u>Other Capital Assets</u>				
Water and Sewer Improvements	7,112,362	304,102	0	7,416,464
Equipment	<u>2,036,203</u>	<u>13,165</u>	<u>0</u>	<u>2,049,368</u>
Total Other Capital Assets	<u>9,148,565</u>	<u>317,267</u>	<u>0</u>	<u>9,465,832</u>
<u>Accumulated Depreciation</u>				
Water and Sewer Improvements	( 3,716,297)	( 201,670)	0	( 3,917,967)
Equipment	<u>( 1,622,612)</u>	<u>( 71,557)</u>	<u>0</u>	<u>( 1,694,169)</u>
Total Accumulated Depreciation	<u>( 5,338,909)</u>	<u>( 273,227)</u>	<u>0</u>	<u>( 5,612,136)</u>
Other Capital Assets, Net	<u>3,809,650</u>	<u>44,040</u>	<u>0</u>	<u>3,853,696</u>
<u>Net Business Type Activities</u>				
Capital Assets, Net	\$ <u>3,880,120</u>	\$ <u>44,040</u>	\$ <u>0</u>	\$ <u>3,924,160</u>

Depreciation/amortization expense was charged to governmental activities as follows:

<u>General Government:</u>	
Administration	\$ <u>70,853</u>

**NOTE 7: LONG-TERM LIABILITIES**

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

Governmental Activities:

**Government Obligation Contract:**

Payable to Kansas State Bank beginning November 1, 2016 for water and electric meter AMI system. The contract requires monthly payments of \$2,380 through November 1, 2022 with interest at 12.465%. The contract contains an appropriations clause. The contract is secured by the equipment. The asset is included in capital assets and payments made by the Business Type Activity (Light Fund). The balance at June 30, 2022 is \$9,443. The balance at fiscal yearend is reflected as a deferred inflow – deferred liability in the Business Type Activity (Light Fund) with an offset in the Governmental Activities (General Fund).

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

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

**Business Type Activities:**

**Notes Payable:**

**LPWA:**

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

On October 1, 2015 the Lexington Public Works Authority (LPWA) entered into Series 2015 Clean Water State Revolving Fund (CWSRF) promissory note with the Oklahoma Water Resources Board (OWRB) for improvements to the City's wastewater system project and sewer line replacement project for up to \$3,091,500. The note is collateralized by pledge and assignment of revenues and receipts derived from water, sewer and garbage disposal services. The note bears an interest rate of 2.64% per annum. Semi-annual interest payments commenced on March 15, 2016. Semi-annual principal and interest payments commenced upon project completion in April 2021 and continue through March 15, 2046.

On January 26, 2022 the Lexington Public Works Authority (LPWA) entered into a promissory note in the amount of \$143,153 with McClain Bank for a sewer line replacement project. The note bears an interest rate of 2.95, requires 60 monthly payments of \$2,574 and matures January 15, 2027. The note is collateralized by certain equipment owned by the City.

**Leases:**

**Governmental Activities:**

In April 2021, the City entered into an operating lease for a postage meter. The lease calls for 20 quarterly payments of \$339, at an interest rate of 3.25% and terminates in March 2026. The City will not acquire the equipment at the end of the lease.

In March 2021, the City entered into a lease for a phone system. The lease calls for 60 monthly payments of \$573, at an interest rate of 3.25% and terminates in May 2026. The City will not acquire the equipment at the end of the lease.

On July 8, 2021, the City entered into a lease for two copiers. The lease calls for 60 monthly payments of \$501 at an interest rate of 3.25%. The City will not acquire the equipment at the end of the lease.

**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, 2022

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

Changes in long-term liabilities for the fiscal year 2021-22 include:

	Principal Balance 06/30/21	Additions	Retirements	Principal Balance 06/30/22	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Government Obligation Contract	\$ 34,781	\$ 0	\$ 25,338	\$ 9,443	\$ 9,443
Leases	0	67,533	16,483	51,050	12,593
Compensated Absences	29,980	12,304	15,389	26,895	9,151
Total Governmental Activities	<u>64,761</u>	<u>79,837</u>	<u>57,210</u>	<u>87,388</u>	<u>31,187</u>
<b>Business-Type Activities:</b>					
<b>Bonds/Notes Payable –</b>					
Note Payable – McClain Bank	0	143,153	11,031	132,122	27,264
Note Payable – Series 2014					
Revenue Note	93,000	0	93,000	0	0
Note Payable – Series 2015					
Revenue Note	<u>3,019,507</u>	<u>0</u>	<u>10,000</u>	<u>3,009,507</u>	<u>92,518</u>
Total Bonds/Notes Payable	<u>3,112,507</u>	<u>143,153</u>	<u>114,031</u>	<u>3,141,629</u>	<u>119,782</u>
Compensated Activities	<u>23,494</u>	<u>4,367</u>	<u>12,487</u>	<u>15,374</u>	<u>9,232</u>
Total Business-Type Activities	<u>3,136,001</u>	<u>147,520</u>	<u>126,518</u>	<u>3,157,003</u>	<u>129,014</u>
<b>TOTAL</b>	<u>\$ 3,200,762</u>	<u>\$ 227,357</u>	<u>\$ 183,728</u>	<u>\$ 3,244,391</u>	<u>\$ 160,201</u>

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

The total interest incurred for the year ended June 30, 2022 was \$87,117 which was all charged to expense.

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

Governmental Activities:

	Leases		Government Obligation Contract	
	Principal	Interest	Principal	Interest
2022-23	\$ 12,593	\$ 1,660	\$ 9,443	\$ 78
2023-24	13,002	1,250	0	0
2024-25	13,426	828	0	0
2025-26	12,029	390	0	0
2026-27	0	0	0	0
	<u>\$ 51,050</u>	<u>\$ 4,128</u>	<u>\$ 9,443</u>	<u>\$ 78</u>

CITY OF LEXINGTON, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2022

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

**Business-Type Activities:**

	<u>McClain Bank</u>		<u>Series 2015 Revenue Note</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2022-23	\$ 27,264	\$ 3,629	\$ 92,518	\$ 64,803
2023-23	28,103	2,790	94,939	62,953
2024-25	28,968	1,925	97,423	60,710
2025-26	29,859	1,034	99,973	58,582
2026-27	17,928	93	102,588	56,400
2027-28 – 2031-32	0	0	554,647	247,465
2032-33 – 2036-37	0	0	631,116	183,477
2037-38 – 2041-42	0	0	718,132	110,833
2042-43 – 2045-46	0	0	618,171	29,679
<b>TOTAL</b>	<u>\$ 132,122</u>	<u>\$ 9,471</u>	<u>\$ 3,009,507</u>	<u>\$ 874,902</u>

**NOTE 8: INTERFUND TRANSACTIONS**

Inter-fund receivable/payable balances at June 30, 2022 were:

	<u>DUE FROM</u>			<u>Agency Funds</u>				
	<u>Governmental Funds</u>			<u>Proprietary Funds</u>				
	<u>General</u>	<u>Restricted Sales Tax</u>	<u>Street &amp; Alley</u>	<u>Light</u>	<u>LPWA</u>	<u>Meter Deposit</u>	<u>Payroll</u>	<u>Municipal Court</u>
<b>Governmental Funds:</b>								
D General	\$ ---	\$ 0	\$ 0	\$ 0	\$ 0	\$ ( 2,256)	\$ 0	\$ ( 384)
U Restricted Sales Tax	0	---	0	0	0	0	0	0
E Street & Alley	0	0	---	0	0	0	0	0
<b>Proprietary Funds:</b>								
Light	0	0	0	---	0	0	0	0
T LPWA	0	0	0	0	---	( 2,891)	0	0
<b>Agency Funds:</b>								
Meter Deposit	2,256	0	0	0	2,891	---	0	0
Payroll	0	0	0	0	0	0	---	0
Municipal Court	384	0	0	0	0	0	0	---
<b>Total</b>	<u>\$ 2,640</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,891</u>	<u>\$ ( 5,147)</u>	<u>\$ 0</u>	<u>\$ ( 384)</u>

**Operating Transfers** – Interfund operating transfers between funds for the fiscal year ended June 30, 2022 were as follows:

	<u>TRANSFER FROM</u>			<u>Agency Funds</u>				
	<u>Governmental Funds</u>			<u>Proprietary Funds</u>				
	<u>General</u>	<u>Restricted Sales Tax</u>	<u>Street &amp; Alley</u>	<u>Light</u>	<u>LPWA</u>	<u>Meter Deposit</u>	<u>Payroll</u>	<u>Municipal Court</u>
<b>Governmental Funds:</b>								
T General	\$ ( 2,750)	\$ 0	\$ 0	\$ ( 232,214)	\$ ( 43,750)	\$ 0	\$ 0	\$ 0
R Restricted Sales Tax	0	( 145,058)	0	0	145,058	0	0	0
A Street & Alley	0	0	---	0	0	0	0	0
<b>Proprietary Funds:</b>								
S Light	234,998	0	0	---	( 4,583)	0	0	0
F LPWA	43,750	0	0	4,583	---	0	0	0
<b>Agency Funds:</b>								
R Meter Deposit	0	0	0	0	0	---	0	0
Payroll	0	0	0	0	0	0	---	0
T Municipal Court	0	0	0	0	0	0	0	---
<b>Total</b>	<u>\$ 275,998</u>	<u>\$ ( 145,058)</u>	<u>\$ 0</u>	<u>\$ ( 227,665)</u>	<u>\$ ( 96,725)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

**NOTE 9: LITIGATION**

At June 30, 2022, the City of Lexington was not involved in any pending or threatened litigation which would have a material impact on these financial statements.

**NOTE 10: RISK MANAGEMENT**

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

<b>Type of Loss</b>	<b>Method Managed</b>
a. Torts, errors and omissions	Purchased policy with the Oklahoma Municipal Assurance Group (1)
b. Injuries to employees (Workers' Compensation)	Purchased policy with the Oklahoma Municipal Assurance Group (2)
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 (3)

- (1) Municipal Liability Protection – The Oklahoma Municipal Assurance Group (OMAG) Municipal Liability Protection Plan (MLPP) provides general liability, auto and equipment coverage. The City pays into its own loss fund from which claims are paid. OMAG provides coverage in excess of the City's retention level (Loss Fund) which limits the City's liability to its retention level. The City has a right to return of any loss funds set aside for claims, which have not been paid out as benefits, or are not held in reserve for a pending claim. The City's funds on deposit with OMAG as of June 30, 2022 were as follows:

<u>Year</u>	<u>Loss Fund Available</u>
2019	\$ 4,410
2020	3,096
2021	0
2022	0
Total	<u>\$ 7,506</u>

- (2) Worker's Compensation Plan – The Oklahoma Municipal Assurance Group (OMAG) Worker's Compensation Plan (Plan) provides worker's compensation coverage through CompSource Oklahoma. The City pays into its own loss fund from which claims are paid. CompSource Oklahoma provides coverage in excess of the City's retention level (Loss Fund) which limits the City's liability to its retention level. The City has a right to return of any loss funds set aside for claims, which have not been paid out as benefits, or are not held in reserve for a pending claim. The City's funds on deposit with OMAG as of June 30, 2022 were as follows:

<u>Year</u>	<u>Loss Fund Available</u>
2021	\$ 18,812
2022	16,191
Total	<u>\$ 35,003</u>

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

NOTE 10: RISK MANAGEMENT, CONTINUED

- (3) Municipal Property Protection – The Oklahoma Municipal Assurance Group (OMAG) Municipal Property Protection Plan (MPPP) provides property coverage. The City pays into its own loss fund from which claims are paid. OMAG provides coverage in excess of the City's retention level (Loss Fund) which limits the City's liability to its retention level. The City has a right to return of any loss funds set aside for claims, which have not been paid out as benefits, or are not held in reserve for a pending claim. The City's funds on deposit with OMAG as of June 30, 2022 were as follows:

<u>Year</u>	<u>Loss Fund Available</u>
2021	\$ 1,663
2022	<u>1,698</u>
Total	<u>\$ 3,361</u>

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

NOTE 11: COMMITMENTS

Encumbrances – Encumbrance accounting is utilized as an extension of budget appropriations for governmental funds. Open encumbrances at fiscal yearend are included in restricted, committed or assigned fund balance, as appropriate. Significant encumbrances at June 30, 2022 are as follows:

	<u>Encumbrances Included in</u>		
	<u>Restricted Fund Balance</u>	<u>Committed Fund Balance</u>	<u>Assigned Fund Balance</u>
General Fund	\$ 0	\$ 0	\$ 80
Restricted Sales Tax	\$ 0	\$ 0	\$ 0
Special Revenue Fund			
Aggregate Nonmajor Funds	\$ 0	\$ 0	\$ 0

Water Purchase Contract – On March 5, 2013 the Lexington Public Works Authority (LPWA), a component unit of the City entered into a water purchase contract with Rural Water, Sewer, Gas and Solid Waste Management District No.1, Cleveland County, Oklahoma (RWD). The RWD agrees to furnish the LPWA with potable treated water not to exceed 112,000,000 gallons per year at the following rates:

\$3.50 per 1,000 gallons up to Yearly Minimum Water Usage

\$3.70 per 1,000 gallons purchased thereafter

The LPWA agrees to purchase a minimum of 23,881,047 gallons of potable water per year once the construction of the new water system is complete and service is activated which began in April 2019. The LPWA will make monthly payments to cover the cost of the yearly minimum water usage of \$83,584. The term of the contract shall extend for forty-five years and shall be automatically extended for successive like terms until terminated by mutual consent.

CITY OF LEXINGTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

NOTE 12: SUBSEQUENT EVENTS

Date of Management Evaluation – Management of the City has evaluated subsequent events through March 28, 2023, which is the date the financial statements were available to be issued.

# *Saunders & Associates, PLLC*

## *Certified Public Accountants*

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630 East 17<sup>th</sup> Street \* P. O. Box 1406 \* Ada, Oklahoma 74820 \* (580) 332-8548 \* FAX: (580) 332-2272

### 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, 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, 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, 2022, and the related notes to the financial statements, which collectively comprise the City of Lexington, Oklahoma's basic financial statements and have issued our report thereon dated March 28, 2023. 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, 2022 as listed in the table of contents.

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

In planning and performing our audit of the financial statements, we considered the City of Lexington, Oklahoma's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City of Lexington, Oklahoma's internal control.

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 that have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 City of Lexington, Oklahoma's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2022-001, 2022-002 and 2022-003 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies considered to be significant deficiencies.

## **Compliance and Other Matters**

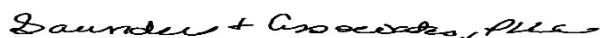
As part of obtaining reasonable assurance about whether the City of Lexington, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 responses as items 2022-003, 2022-004 and 2022-005.

## **City of Lexington, Oklahoma's Response to Findings**

The organization's response to the findings identified in our audit is 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 and compliance, and the results of our testing, and not to provide an opinion on the effectiveness of the City of Lexington, Oklahoma's internal control or on 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 internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



SAUNDERS & ASSOCIATES, PLLC  
Certified Public Accountants  
Ada, Oklahoma

March 28, 2023

## 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, 2022

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences Over (Under)	Actual Amounts GAAP Basis	Budgetary Basis Variance With Final Budget Positive (Negative)
	Original	Final				
<b>REVENUES</b>						
Taxes	\$ 539,600	\$ 539,600	\$ 529,297	\$ 0	\$ 529,297	\$ (10,303)
Licenses and Permits	14,800	14,800	11,567	0	11,567	(3,233)
Intergovernmental	5,000	5,000	293,409	0	293,409	288,409
Charges for Services	95,200	95,200	99,337	0	99,337	4,137
Ambulance Assessment	128,000	128,000	125,776	0	125,776	(2,224)
Donations	0	164	750	0	750	586
Interest	2,000	2,000	756	0	756	(1,244)
Miscellaneous	20,200	72,260	29,962	0	29,962	(42,298)
Total Revenues	804,800	857,024	1,090,854	0	1,090,854	233,830
<b>EXPENDITURES</b>						
Departmental:						
Administration	348,525	348,525	373,529 (1)	800	374,329	(25,004)
Police	637,236	637,236	658,768 (1)	636	659,404	(21,532)
Fire	81,700	133,760	141,280 (1)	22,060	163,340	(7,520)
Civil Defense	2,500	2,500	1,046	0	1,046	1,454
Ambulance	125,000	125,000	112,973	0	112,973	12,027
Street and Alley	90,390	90,390	95,242	0	95,242	(4,852)
Parks and Recreation	10,298	10,462	3,867 (2)	(80)	3,787	6,595
Total Expenditures	1,295,649	1,347,873	1,386,705	23,416	1,410,121	(38,832)
Excess of Revenues Over (Under) Expenditures	(490,849)	(490,849)	(295,851)	(23,416)	(319,267)	194,998
Other Financing Sources (Uses):						
Lease Proceeds	0	0	64,809	0	64,809	64,809
Operating Transfers In	505,000	505,000	278,748	0	278,748	(226,252)
Operating Transfers Out	(3,000)	(3,000)	(2,750)	0	(2,750)	250
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	11,151	11,151	44,956	(23,416)	21,540	33,805
Fund Balance, June 30, 2021	41,977	41,977	41,977	0	41,977	0
FUND BALANCE, JUNE 30, 2022	\$ 53,128	\$ 53,128	\$ 86,933	\$ (23,416)	\$ 63,517	\$ 33,805

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, 2022

Explanation of differences:

- (1) Prior year encumbrances for goods or services are reported in the year ordered for budgetary purposes, but in the year received for financial reporting purposes.

Administration	\$	800
Police		636
Fire		<u>22,060</u>
	\$	<u><u>23,496</u></u>

- (2) Encumbrances are outstanding commitments for goods or services and do not constitute expenditures, expenses, or liabilities because goods have not been received or services have not been provided.

Parks	\$	<u>80</u>
	\$	<u><u>80</u></u>

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, 2022

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences Over (Under)	Actual Amounts GAAP Basis	Budgetary Basis Variance With Final Budget Positive (Negative)
	Original	Final				
<u>REVENUES</u>						
Taxes	\$ 200,000	\$ 200,000	\$ 189,876	\$ 0	\$ 189,876	\$ (10,124)
Intergovernmental	0	0	0	0	0	0
Interest	0	0	0	0	0	0
Total Revenues	<u>200,000</u>	<u>200,000</u>	<u>189,876</u>	<u>0</u>	<u>189,876</u>	<u>(10,124)</u>
<u>EXPENDITURES</u>						
Departmental:						
Street and Alley	50,000	50,000	0 (1)	145,058	145,058	50,000
Economic Development	<u>150,000</u>	<u>150,000</u>	<u>31,850</u>	<u>0</u>	<u>31,850</u>	<u>118,150</u>
Total Expenditures	<u>200,000</u>	<u>200,000</u>	<u>31,850</u>	<u>145,058</u>	<u>176,908</u>	<u>168,150</u>
Excess of Revenues Over (Under) Expenditures	0	0	158,026	(145,058)	12,968	158,026
Other Financing Sources (Uses):						
Operating Transfers In	0	0	0	0	0	0
Operating Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	0	0	158,026	(145,058)	12,968	158,026
Fund Balance, June 30, 2021	<u>944,413</u>	<u>944,413</u>	<u>944,413</u>	<u>0</u>	<u>944,413</u>	<u>0</u>
FUND BALANCE, JUNE 30, 2022	<u>\$ 944,413</u>	<u>\$ 944,413</u>	<u>\$ 1,102,439</u>	<u>\$ (145,058)</u>	<u>\$ 957,381</u>	<u>\$ 158,026</u>

Explanation of differences:

- (1) Prior year encumbrances for goods or services are reported in the year ordered for budgetary purposes, but in the year received for financial reporting purposes.

Street and Alley	\$ 145,058
Economic Development	0
	<u>\$ 145,058</u>

CITY OF LEXINGTON, OKLAHOMA

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

For the Year Ended June 30, 2022

Fiscal Year Ending June, 30,	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Town's Proportionate Share of Collective Net Pension Liability (Asset)	\$ 17,376	\$ 29,606	\$ 29,288	\$ 29,196	\$ 39,824	\$ 35,565	\$ 26,638	\$ 51,177		
Town's Proportion of Collective Net Pension Liability (Asset)	% 0.002639	% 0.002403	% 0.002772	% 0.002594	% 0.003166	% 0.002911	% 0.002510	% 0.004977		
Plan's Fiduciary Net Position % of Total Pension Liability (Asset)	% 84.24	% 69.98	% 72.85	% 70.73	% 66.61	% 64.87	% 68.27	% 68.12		
Required Employer Contributions	\$ 1,200	\$ 1,080	\$ 1,200	\$ 1,080	\$ 1,260	\$ 1,140	\$ 960	\$ 1,860	**	
Contributions in Relation to Required Contributions	\$ 1,200	\$ 1,080	\$ 1,200	\$ 1,080	\$ 1,260	\$ 1,140	\$ 960	\$ 1,860	**	
Contribution Deficiency (Excess)	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>		

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

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

Notes to Required Supplementary Information

Note 1 - Employer Contributions: Contributions represent the City's actual contribution received by the Plan between July 1, 2020 and June 30, 2021. Contribution requirements are at an established rate determined by Oklahoma statute and are not based on actuarial calculations. The City is required by State statute to contribute annually \$60 per volunteer firefighter.

CITY OF LEXINGTON, OKLAHOMA

SCHEDULE OF NET PENSION LIABILITY AND CONTRIBUTIONS - POLICE PENSION

For the Year Ended June 30, 2022

Fiscal Year Ending June, 30,	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Town's Proportionate Share of Collective Net Pension Liability (Asset)	\$ (187,359)	\$ 41,885	\$ (2,297)	\$ (18,976)	\$ 3,871	\$ 45,539	\$ 112	\$ 0		
Town's Proportion of Collective Net Pension Liability (Asset)	% 0.003910%	% 0.000365%	% 0.000360%	% 0.000398%	% 0.000503%	% 0.000297%	% 0.000027%	% 0.0000%		
Employer's Proportionate Share of Collective Net Pension Liability (Asset) as a percentage of the covered -employee payroll	% -147.16%	% 32.90%	% -1.96%	% -15.62%	% 2.58%	% 51.93%	% 1.44%	% 0.00%		
Plan's Fiduciary Net Position % of Total Pension Liability (Asset)	% 117.07%	% 95.80%	% 100.24%	% 101.89%	% 99.68%	% 93.50%	% 99.82%	% 0.00%		
Required Employer Contributions	\$ 18,106	\$ 16,551	\$ 15,214	\$ 15,797	\$ 19,510	\$ 11,400	\$ 1,010	\$ 0		
Contributions in Relation to Required Contributions	\$ 18,106	\$ 16,551	\$ 15,214	\$ 15,797	\$ 19,510	\$ 11,400	\$ 1,010	\$ 0		
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0		
Covered Employee Payroll	\$ 127,319	\$ 127,319	\$ 117,028	\$ 121,513	\$ 150,078	\$ 87,692	\$ 7,769	\$ 0		
Contributions as a percentage of covered-employee payroll	% 14%	% 13%	% 13%	% 13%	% 13%	% 13%	% 13%	% 0%		

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

Notes to Required Supplementary Information

Note 1 - Employer Contributions: Contributions represent the City's actual contribution received by the Plan between July 1, 2020 and June 30, 2021. Contribution requirements are at an established rate determined by Oklahoma statute and are not based on actuarial calculations. The City is required by State statute to contribute 13% of police officer's total earning, excluding overtime. The City did not have police officer's as active members in the Plan until March 4, 2015.

CITY OF LEXINGTON, OKLAHOMA  
COMBINING GOVERNMENTAL FUND BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
June 30, 2022

	<u>Special Revenue Street and Alley Fund</u>	<u>Total</u>
<u>ASSETS</u>		
Cash, Including Time Deposits	\$ 124,003	\$ 124,003
Accounts Receivable	288	288
Total Assets	<u>124,291</u>	<u>124,291</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>\$ 124,291</u>	<u>\$ 124,291</u>
<u>LIABILITIES</u>		
Accounts Payable	\$ 0	\$ 0
Notes Payable	0	0
Due to Other Funds	0	0
Total Liabilities	<u>0</u>	<u>0</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Total Deferred Inflows of Resources	<u>0</u>	<u>0</u>
<u>FUND BALANCES</u>		
NonSpendable	0	0
Restricted for:		
Streets and Alleys	124,291	124,291
Committed for:		
Streets and Alleys	0	0
Assigned	0	0
Unassigned	0	0
Total Fund Balance	<u>124,291</u>	<u>124,291</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$ 124,291</u>	<u>\$ 124,291</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, 2022

	<u>Special Revenue Street and Alley Fund</u>	<u>Total</u>
<u>REVENUES</u>		
Taxes	\$ 16,932	\$ 16,932
Intergovernmental	0	0
Interest	0	0
Total Revenues	<u>16,932</u>	<u>16,932</u>
 <u>EXPENDITURES</u>		
Current:		
Economic Development	0	0
Street and Alley	<u>45,000</u>	<u>45,000</u>
Total Expenditures	<u>45,000</u>	<u>45,000</u>
Revenues Over (Under) Expenditures	(28,068)	(28,068)
Other Financing Sources (Uses):		
Operating Transfers In (Out)	<u>0</u>	<u>0</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(28,068)	(28,068)
Fund Balance, June 30, 2021	<u>152,359</u>	<u>152,359</u>
FUND BALANCE, JUNE 30, 2022	<u>\$ 124,291</u>	<u>\$ 124,291</u>

CITY OF LEXINGTON, OKLAHOMA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended June 30, 2022

<u>Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
<u>FEDERAL:</u>			
U.S. Department of Treasury Pass Through State of Oklahoma Coronavirus Local Fiscal Recover Funds - Non-Entitlement Units of Local Government	21.027	N/A	\$ <u>0</u>
TOTAL FEDERAL ASSISTANCE			<u>0</u>
<u>STATE:</u>			
Oklahoma Department of Environmental Quality: Wastewater Treatment Plant - One-Time Cleanup		N/A	7,421
Association of Central Oklahoma Governments: Rural Economic Action Plan		N/A	12,464
Cleveland County Justice Authority: Public Safety Sales Tax Grant		N/A	96,585
Oklahoma Department of Agriculture - Oklahoma Forestry Services: Rural Fire Operational Grant		N/A	<u>4,763</u>
TOTAL STATE ASSISTANCE			<u>121,233</u>
TOTAL FEDERAL AND STATE ASSISTANCE			\$ <u><u>121,233</u></u>



CITY OF LEXINGTON, OKLAHOMA

STATUS OF PRIOR AUDIT FINDINGS

June 30, 2022

None reported.

CITY OF LEXINGTON, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2022

2022-001 - BANK RECONCILIATIONS NOT PERFORMED TIMELY

Criteria: All bank accounts should be reconciled monthly to ensure all activity is properly accounted for in general ledger and any suspicious reconciling items promptly investigated and adjusted as necessary.

Condition: Bank reconciliations for the period December 2021 through June 2022 were not completed until after fiscal year end. Additionally, as of January 2023 bank reconciliations for July 2022 through December 2022 had not been completed.

Cause/Effect: Failure to reconcile bank accounts each month resulted in unreliable financial information and caused significant delays in the ability to finalize year-end financial statements.

Recommendation: SAUNDERS & ASSOCIATES, PLLC recommends bank accounts be reconciled monthly by the Clerk and that the City Manager review and approve the reconciliations.

Response: After review of the financial audit (draft) for year ending, June 30, 2022, the findings reflect the outcome of losing the city's financial director of 34 years. In May of 2022, long time financial director, Lisa Hadley passed away unexpectedly. At that time, we brought in resources from other cities to give training and guidance and we utilized these resources anytime we had questions or needed assistance.

Later, the city council approved the hiring of Rahhal, Henderson, Willis-CPA, out of Ardmore to assist us with bank reconciliations. Most recently, council entered into an agreement with the same CPA firm to handle the city's finances until such time as the new finance director can receive the proper and appropriate training necessary to handle the city's day to day financial operations. We feel these measures will not only eliminate the possibility for future mistakes, but also future findings within the annual audit.

2022-002 - INSUFFICIENT FISCAL MANAGEMENT

Criteria: Fiscal staff must consistently provide management with current and accurate financial information on a timely basis. Constant problems in receiving timely and current financial information can significantly impact management's ability to effectively guide the City. Critical areas such as financial analysis, budgetary control, and cash flow can all be negatively impacted.

Condition: Based upon the results of our experience and observations made during our audit, it appears that the City has a serious lack of control and direction regarding overall fiscal management. The most significant issues noted were:

- Audit procedures and account reconciliations revealed staff needs additional training on accounting software (Encode).
- Interfund activity did not reconcile as Encode was not used properly. Audit adjustments were made to properly reconcile.
- Issues with accounts payable within Encode. The expenses were accrued at the fund level as appropriate, however, no accounts payable was reflected. Audit adjustments were made to reflect accounts payable as appropriate.

Cause/Effect: Ineffective and inefficient fiscal management results allow for misrepresentative financial statements as well as allows for possible irregularities, including fraud, to exist and continue without being detected in the normal course of business.

CITY OF LEXINGTON, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2022

2022-002 - INSUFFICIENT FISCAL MANAGEMENT, CONTINUED

Recommendation: SAUNDERS & ASSOCITES, PLLC recommends the City take appropriate action to ensure management receives current and accurate financial information on a timely and consistent basis. In addition to ensuring staff receive additional training on accounting software (Encode) we suggest the City consider utilizing outside services for monthly fiscal oversight to ensure financial statements are properly reconciled.

Response: After review of the financial audit (draft) for year ending, June 30, 2022, the findings reflect the outcome of losing the city's financial director of 34 years. In May of 2022, long time financial director, Lisa Hadley passed away unexpectedly. At that time, we brought in resources from other cities to give training and guidance and we utilized these resources anytime we had questions or needed assistance.

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2022-003 - EXPENSES TRANSFERRED TO AVOID BUDGET OVERRUNS

Criteria: Effective budgetary management involves ensuring appropriate budget amendments are made throughout fiscal year as necessary which involves transferring budgeted amounts at the appropriate expenditure category level.

Condition: During the course of our audit we noted journal entries were made to transfer expenses within various accounts to avoid budget overruns. Audit adjustments were made to reverse these journal entries and properly reflect expenditures.

Cause/Effect: Lack of understanding of the budget process resulted in expenditures not properly reflecting actual activity.

Recommendation: SAUNDERS & ASSOCIATES, PLLC recommends the City ensure staff receive appropriate training on proper budget management.

Response: After review of the financial audit (draft) for year ending, June 30, 2022, the findings reflect the outcome of losing the city's financial director of 34 years. In May of 2022, long time financial director, Lisa Hadley passed away unexpectedly. At that time, we brought in resources from other cities to give training and guidance and we utilized these resources anytime we had questions or needed assistance.

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CITY OF LEXINGTON, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2022

2022-004 - BUDGETED APPROPRIATIONS EXCEEDED

Criteria: In accordance with the Municipal Budget Act (11Q.S., S.17-201 – 17-218) no encumbrance or expenditure may be authorized or made by any officer or employee which exceeds the available appropriation for each department within a fund.

Condition: Actual expenditures of exceeded approved appropriations by \$38,832 for the general fund. Additionally, actual expenditures exceeded approved appropriations within departments and categories within departments in the general fund.

Cause/Effect: Lack of timely, accurate financial information and proper budget management resulted in non-compliance with the Municipal Budget Act.

Recommendation: SAUNDERS & ASSOCIATES, PLLC recommends the City enhance procedures to ensure appropriations are sufficient to meet expenditures.

Response: After review of the financial audit (draft) for year ending, June 30, 2022, the findings reflect the outcome of losing the city's financial director of 34 years. In May of 2022, long time financial director, Lisa Hadley passed away unexpectedly. At that time, we brought in resources from other cities to give training and guidance and we utilized these resources anytime we had questions or needed assistance.

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2022-005 - INSUFFICIENT COLLATERALIZATION

Criteria: State statutes (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, 2000 the City's deposits exceeded FDIC and collateralization coverage by \$109,459.

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.

CITY OF LEXINGTON, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2022

2022-005 - INSUFFICIENT COLLATERALIZATION, CONTINUED

Response: After review of the financial audit (draft) for year ending, June 30, 2022, the findings reflect the outcome of losing the city's financial director of 34 years. In May of 2022, long time financial director, Lisa Hadley passed away unexpectedly. At that time, we brought in resources from other cities to give training and guidance and we utilized these resources anytime we had questions or needed assistance.

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