



CITY OF LEXINGTON, OKLAHOMA

**ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS**

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2023**

CITY OF LEXINGTON, OKLAHOMA

LIST OF PRINCIPAL OFFICIALS

City Council

David Adams
Mike Donovan
Max Punneo
Sarah Callen
Raul Trejo

Mayor
Vice Mayor
Council Member
Council Member
Council Member

Deana Allen

City Manager

Carey Bonner

City Clerk

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Lexington, Oklahoma

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lexington, Oklahoma (“the City”), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City’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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2023, 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 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’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.

INDEPENDENT AUDITOR'S REPORT - Continued

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 and *Government 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 and *Government 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'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'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, the budgetary comparison information, and the pension plan information listed in the table of contents 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.

INDEPENDENT AUDITOR'S REPORT - Continued

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining and individual nonmajor fund financial statements, debt service coverage schedules, and state awards information listed in the table of contents 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 relates 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 and individual nonmajor fund financial statements and the debt service coverage schedules 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 (under separate cover) dated June 30, 2023 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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'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 City's internal control over financial reporting and compliance.

Dillon & Associates, PC

Midwest City, Oklahoma
December 29, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis
City of Lexington, Oklahoma
June 30, 2023

As management of the City of Lexington, we offer readers this narrative overview and analysis of the financial activities of the City of Lexington for the fiscal year ended June 30, 2023. We encourage readers to use this information in conjunction with the City's financial statements, which follow this section.

FINANCIAL AND ACTIVITY HIGHLIGHTS

- The City's total net position increased by \$395,262 and the assets of the City exceeded its liabilities \$3,518,563 (net position). Of this amount, \$808,550 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- On June 30, 2023, the City's governmental funds reported combined ending fund balances of \$1,185,140. Of this total amount, \$14,788 is available for spending at the government's discretion (unassigned fund balance).
- At the end of fiscal year 2023, unassigned fund balance for the General Fund was \$14,788, or approximately 1.0% of total General Fund expenditures and transfers.
- Sales and use taxes totaled \$746,082, an increase of \$68,611 or 4.6% over the prior fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Lexington (the "City") and its component unit the Lexington Public Works Authority (HPWA) using the integrated approach as prescribed by GASB Statement No. 34. Included in this report are government-wide statements for two categories of activities - governmental and business-type activities. The government-wide financial statements present the complete financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type of activities separately and combined. These statements include all of the assets of the City (including infrastructure capital assets) as well as all liabilities (including all long-term debt), along with any inflows and outflows that are deferred.

Management's Discussion and Analysis
City of Lexington, Oklahoma
June 30, 2023

REPORTING ON THE CITY AS A WHOLE

The Statement of Net Position and the Statement of Activities

One of the most frequently asked questions about the City's finances is, "Has the City's overall financial condition improved, declined, or remained steady over the past year?" 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. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two government-wide statements report on the City's net position and changes in net position from the prior year. You can think of the City's net position - the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources - as one way to measure the City's financial condition, or position. Over time, increases or decreases in the City's net position are one indicator of whether the financial position of the City is improving, deteriorating, or remaining steady. However, you must consider other non-financial factors, such as changes in the City's tax base, the condition of the City's roads, and the quality of services to assess the overall health and performance of the City.

As mentioned above, in the Statement of Net Position and the Statement of activities, we divide the City into three kinds of activities:

- Governmental activities - Most of the City's basic services are reported here, including the police, fire, general administration, streets, and parks. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities.
- Business-type activities - The City's activities that charge a fee to customers to help cover all or most of the cost of certain services it provides. The City's electric, water, sewer, solid waste utilities, golf course operations are reported here.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements 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, management 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. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Management's Discussion and Analysis
City of Lexington, Oklahoma
June 30, 2023

Fund Financial Statements - Continued

Governmental funds - Most of the City's basic services are reported in governmental funds. Governmental fund financial statements are prepared on the modified accrual basis. Under the modified accrual basis, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred, with the exception of long-term debt and other similar items which are recorded when due. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basis of service it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences of results in the Governmental Fund financial statements to the Government-Wide financial statements are explained in a reconciliation following each Government Fund financial statement.

Proprietary fund - When the City charges customers for the services it provides - whether to outside customers or to other units of the City - these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Fund Net Position. In fact, the City's enterprise funds are essentially the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

The City uses enterprise funds to account for its electric, water, sewer, solid waste utilities, golf course and airport operations.

Fiduciary funds - The City can be responsible for assets that - because of a trust arrangement or fiduciary requirement - can be used only for trust beneficiaries or other parties. The City is responsible for ensuring that assets to be reported in these funds are used for their intended purpose. The City does not have any fiduciary activities in FY 2021-22 or FY 2022-23.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

NET POSITION

The City's combined net position increased from \$3,123,301 to \$3,518,563 between fiscal years 2021-22 and 2022-23. Looking at the net position of governmental and business-type activities separately, governmental activities increased \$568,365 primarily due to increased transfers from Lexington Public Works Authority.

The net position for business-type activities decreased by \$192,247 primarily due to Authority transfers to the City General Fund.

**Management's Discussion and Analysis
City of Lexington, Oklahoma
June 30, 2023**

NET POSITION - Continued

A comparative, condensed presentation of net position is as follows:

**Table 1
Net Position (In Thousands)**

	Governmental			Business-type			Total		
	Activities		% Inc.	Activities		% Inc.	Primary Government		% Inc.
	<u>2023</u>	<u>2022</u>	<u>(Dec.)</u>	<u>2023</u>	<u>2022</u>	<u>(Dec.)</u>	<u>2023</u>	<u>2022</u>	<u>(Dec.)</u>
Current and other assets	\$ 1,665	1,367	22%	944	916	3%	2,609	2,283	14%
Capital assets	647	640	1%	3,693	3,924	-6%	4,340	4,564	-5%
Total assets	<u>2,312</u>	<u>2,007</u>	15%	<u>4,637</u>	<u>4,840</u>	-4%	<u>6,949</u>	<u>6,847</u>	1%
Deferred outflow of resources	<u>388</u>	<u>80</u>		<u>-</u>	<u>-</u>		<u>388</u>	<u>80</u>	
Long-term debt outstanding	84	57	47%	3,041	3,028	0%	3,125	3,085	1%
Other liabilities	454	264	72%	226	249	-9%	680	513	33%
Total liabilities	<u>538</u>	<u>321</u>	68%	<u>3,267</u>	<u>3,277</u>	0%	<u>3,805</u>	<u>3,598</u>	6%
Deferred inflow of resources	<u>14</u>	<u>206</u>		<u>-</u>	<u>-</u>		<u>14</u>	<u>206</u>	
Net assets:									
Invested in capital assets, net of debt	624	589	6%	665	773	-14%	1,289	1,362	-5%
Restricted	1,170	1,108	6%	250	50	400%	1,420	1,158	23%
Unrestricted (deficit)	354	(137)	-358%	455	740	-39%	809	603	34%
Total net assets	\$ <u>2,148</u>	<u>1,560</u>	38%	<u>1,370</u>	<u>1,563</u>	-12%	<u>3,518</u>	<u>3,123</u>	13%

A significant portion of net position consists of net investment in capital assets, e.g., land, buildings, improvements, equipment (net of related debt) and, as such, is not available for future spending. The increase in net investment in capital assets is largely due to street improvements and other capital projects.

Management's Discussion and Analysis
City of Lexington, Oklahoma
June 30, 2023

CHANGE IN NET POSITION

For the year ended June 30, 2023, the change in net position of the primary government is shown below.

Changes in Net Position (In Thousands)

	Governmental			Business-type			Total		
	Activities		% Inc.	Activities		% Inc.	Primary Government		% Inc.
	2023	2022	(Dec.)	2023	2022	(Dec.)	2023	2022	(Dec.)
Revenues									
Charges for services	\$ 259	237	9%	2,596	2,557	2%	2,855	2,794	2%
Operating grants	19	7	171%	-	10	-	19	17	12%
Capital grants	249	287	-13%	40	12	-	289	299	0%
Sales and use taxes	742	677	10%	-	-	-	742	677	10%
Franchise tax (fees)	26	29	-10%	-	-	-	26	29	-10%
Other taxes	32	30	7%	-	-	-	32	30	7%
Investment income	3	1	200%	3	2	50%	6	3	100%
Other	128	43	198%	12	4	0%	140	47	198%
Total revenues	1,458	1,311	11%	2,651	2,585	3%	4,109	3,896	5%
Expenses									
Administration	351	386	-9%	344	488	-30%	695	874	-20%
Public safety	570	847	-33%	-	-	-	570	847	-33%
Public works	98	142	-31%	-	-	-	98	142	-31%
Cultural & recreation	13	4	225%	-	-	-	13	4	225%
Economic development	273	33	727%	-	-	-	273	33	727%
Electric	-	-	-	1,225	1,101	11%	1,225	1,101	11%
Water	-	-	-	396	349	13%	396	349	13%
Sewer	-	-	-	269	240	12%	269	240	12%
Sanitation	-	-	-	175	155	13%	175	155	13%
Total expenses	1,305	1,412	-8%	2,409	2,333	3%	3,714	3,745	-1%
Increase in net position									
before transfers	153	(101)	-251%	242	252	-4%	395	151	162%
Transfers	435	131	-	(435)	(131)	-	-	-	-
Change in net position	588	30	0%	(193)	121	-260%	395	151	162%
Beginning net position	1,560	1,530	2%	1,563	1,442	8%	3,123	2,972	5%
Ending net position	\$ 2,148	1,560	38%	1,370	1,563	-12%	3,518	3,123	13%

**Management's Discussion and Analysis
City of Lexington, Oklahoma
June 30, 2023**

CHANGE IN NET POSITION - Continued

Governmental Fund Balances

General Fund - The fund balance increase is primarily due to transfers from Lexington Public Works Authority.

Restricted Sales Tax Fund - Funding for the Restricted Sales Tax Fund comes from a sales tax restricted for street improvements and other capital expenditures. The marginal increase in fund balance is due to sales tax collections exceeding budget projecting.

Other Governmental Funds - The fund balance increase is largely due tax collections exceeding appropriated expenditures.

Governmental Funds	2023	2022	Change in Fund Balance
General Fund	\$ 14,788	(127,294)	142,082
Restricted Sales Tax Fund	1,028,563	957,382	71,181
Other Governmental Funds	141,789	124,291	17,498
Totals	<u>\$ 1,185,140</u>	<u>954,379</u>	<u>230,761</u>

Major Fund Budgetary Statement Highlights

General Fund - The original; FY 22-23 budget included a 1.5% decrease in tax revenues. Actual tax revenues came in above the original budget by 14.5%. The sales tax revenue and transfer budgets were revised mid-year to reflect the additional sales tax revenue.

The June 30, 2023 General Fund year-end fund balance was 1% of annual revenues, net of transfers from the Lexington Public Works Authority (LPWA).

GOVERNMENTAL ACTIVITIES

Under Governmental Activities, the public safety expense includes pension income (expense) from the City's proportionate share of the Oklahoma Police Pension and Retirement Fund and the Oklahoma Firefighter's Pension and Retirement Fund. The annual pension plan estimates can cause significant fluctuations in public safety expense.

To aid in the understanding of the Statement of Activities on page 2 of the Basic Financial Statements, some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenditures, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note all taxes are classified as general revenue even if restricted for a specific purpose.

**Management's Discussion and Analysis
City of Lexington, Oklahoma
June 30, 2023**

GOVERNMENTAL ACTIVITIES - Continued

For the year ended June 30, 2023, expenses for governmental activities totaled \$1,644,237, an increase from the prior year of \$1,486,970. Governmental transfers from business-type activities totaled \$435,000 and the Street and Alley Fund had expenditures totaling \$451.

GOVERNMENTAL ACTIVITIES SOURCES AND USES

<u>Governmental Activity</u>	Charges for Services, Capital and Operating Grants	Total Expense of Services	Net Revenue (Expense) of Services
Administration	\$ 138,771	351,493	(212,722)
Public safety	252,877	570,324	(317,447)
Public works	135,663	98,250	37,413
Culture and recreation	-	13,216	(13,216)
Economic development	-	273,172	(273,172)
Totals	<u>\$ 527,311</u>	<u>1,306,455</u>	<u>(779,144)</u>

BUSINESS-TYPE ACTIVITIES SOURCES AND USES

<u>Governmental Activity</u>	Charges for Services, Capital and Operating Grants	Total Expense of Services	Net Revenue (Expense) of Services
Administration	\$ 40,225	313,713	273,488
Electric	1,556,591	1,224,904	(331,687)
Water	399,321	395,826	(3,495)
Sewer	262,863	268,863	6,000
Sanitation	222,880	175,047	(47,833)
Other	154,077	-	(154,077)
Capital outlays	-	29,151	29,151
Totals	<u>\$ 2,635,957</u>	<u>2,407,504</u>	<u>(228,453)</u>

The City's business-type activities include utility services for electric, water, sewer, and sanitation.

**Management's Discussion and Analysis
City of Lexington, Oklahoma
June 30, 2023**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2023, the City had \$4,339,219 invested in capital assets, net of depreciation, including land, buildings, machinery and equipment, park facilities, electric, water, sewer and stormwater systems, roads, and bridges. This represents a net decrease of approximately \$224,884 over last year.

Capital Assets

	Governmental		Business-Type		Total	
	Activities		Activities			
	2023	2022	2023	2022	2023	2022
Construction in progress	\$ -	-	-	70,454	-	70,454
Land	-	-	-	-	-	-
Buildings	2,015,754	2,015,754	42,587	42,587	2,058,341	2,058,341
Machinery and equipment	329,308	329,308	253,933	253,933	583,241	583,241
Vehicles	940,184	844,921	124,403	96,903	1,064,587	941,824
Infrastructure	-	-	9,163,398	9,072,419	9,163,398	9,072,419
Lease assets	64,809	64,809	-	-	64,809	64,809
Less: Accumulated depreciation	(2,703,385)	(2,614,850)	(5,891,772)	(5,612,135)	(8,595,157)	(8,226,985)
Totals	\$ 646,670	639,942	3,692,549	3,924,161	4,339,219	4,564,103

Major capital asset events during the current fiscal year included the following:

- Infrastructure upgrades.
- Vehicle purchases for various departments.
- Park and street equipment.

**Management's Discussion and Analysis
City of Lexington, Oklahoma
June 30, 2023**

Long-term Debt

At year-end, the City had \$3,178,426 in long-term debt outstanding, excluding accrued compensated absences, due to depositors and net pension liability, which represents a \$105,513 decrease from the prior year.

Outstanding Debt

	Governmental		Business-Type		Total	
	Activities		Activities			
	2023	2022	2023	2022	2023	2022
Lease obligations	\$ 36,797	51,050	-	-	36,797	51,050
Note payable - Bank	-	-	132,122	104,873	132,122	104,873
Revenue note - OWRB	-	-	3,009,507	2,916,990	3,009,507	2,916,990
Totals	\$ 36,797	51,050	3,141,629	3,021,863	3,178,426	3,072,913

ECONOMIC OUTLOOK

- The unemployment rate for the Oklahoma City metropolitan area which includes Lexington is currently 2.8 percent, which is a decrease of 1.6 percent from a year ago. This compares favorably to the state's average unemployment rate of 2.7 percent and favorably to the national average rate of 3.5 percent.
- Inflationary trends in the region compare favorably to national indices.
- The City's major source of revenue is sales and use tax revenue. Sales and use tax revenue increased 4.6% over the prior year total.

All of these factors were considered in preparing the City's budget for the 2023-2024 fiscal year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, bond rating agencies and creditors with a general overview of the City's finances reflecting the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Office at 111 E. Broadway St., Lexington, Oklahoma 73051.

BASIC FINANCIAL STATEMENTS

City of Lexington, Oklahoma
Statement of Net Position
June 30, 2023

	Primary Government		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Pooled cash and cash equivalents	\$ 1,470,455	548,573	2,019,028
Investments	25,399	-	25,399
Restricted cash and investments	-	156,808	156,808
Receivables, net of allowance for uncollectible -			
Accounts	16,030	239,166	255,196
Due from other governments	118,966	-	118,966
Net pension asset	34,964	-	34,964
Capital assets:			
Land and land improvements	-	-	-
Other capital assets, net of depreciation	646,670	3,692,549	4,339,219
Total assets	<u>2,312,484</u>	<u>4,637,096</u>	<u>6,949,580</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amounts related to pensions	388,485	-	388,485
Total deferred outflow of resources	<u>388,485</u>	<u>-</u>	<u>388,485</u>
LIABILITIES			
Accounts payable and accrued expenses	52,226	75,518	127,744
Accrued interest payable	-	22,960	22,960
Unearned revenue - Grants	393,484	-	393,484
Current portion of long-term debt	21,913	127,010	148,923
Long-term liabilities:			
Long-term debt and other liabilities	50,529	3,041,174	3,091,703
Net pension liability	20,322	-	20,322
Total liabilities	<u>538,474</u>	<u>3,266,662</u>	<u>3,805,136</u>
DEFERRED INFLOW OF RESOURCES			
Deferred amounts related to pensions	14,366	-	14,366
Total deferred inflow of resources	<u>14,366</u>	<u>-</u>	<u>14,366</u>
NET POSITION			
Net investment in capital assets	624,126	665,071	1,289,197
Restricted for:			
Debt service	-	250,464	250,464
Capital improvements	1,028,563	-	1,028,563
Other purposes	141,789	-	141,789
Unrestricted	<u>353,651</u>	<u>454,899</u>	<u>808,550</u>
Total Net Position	<u>\$ 2,148,129</u>	<u>1,370,434</u>	<u>3,518,563</u>

See accompanying notes to the basic financial statement.

City of Lexington, Oklahoma
Statement of Activities
For the Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Primary government:					
Governmental activities:					
Administration	\$ 351,493	25,466	-	113,305	(212,722)
Public safety	570,324	233,911	18,966	-	(317,447)
Public works	98,250	-	-	135,663	37,413
Culture and recreation	13,216	-	-	-	(13,216)
Economic development	273,172	-	-	-	(273,172)
Total government activities	<u>1,306,455</u>	<u>259,377</u>	<u>18,966</u>	<u>248,968</u>	<u>(779,144)</u>
Business-type activities:					
Administration	313,713	-	40,225	-	(273,488)
Electric	1,224,904	1,556,591	-	-	331,687
Water	395,826	399,321	-	-	3,495
Sewer	268,863	262,863	-	-	(6,000)
Sanitation	175,047	222,880	-	-	47,833
Other fees	-	154,077	-	-	154,077
Capital outlays	29,151	-	-	-	(29,151)
Total business-type activities	<u>2,407,504</u>	<u>2,595,732</u>	<u>40,225</u>	<u>-</u>	<u>228,453</u>
Total primary government	<u>3,713,959</u>	<u>2,855,109</u>	<u>59,191</u>	<u>248,968</u>	<u>(550,691)</u>

City of Lexington, Oklahoma
Statement of Activities
For the Year Ended June 30, 2023

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Change in Net Position:			
Net (expense) revenue	\$ (779,144)	228,453	(550,691)
General revenues:			
Taxes:			
Sales and use	742,354	-	742,354
Franchise	26,069	-	26,069
Other	31,585	-	31,585
Unrestricted investment income	2,674	2,867	5,541
Miscellaneous	128,971	11,433	140,404
Transfers - internal activity	435,000	(435,000)	-
Total general revenues and transfers	<u>1,366,653</u>	<u>(420,700)</u>	<u>945,953</u>
Change in net position	587,509	(192,247)	395,262
Net Position - beginning	<u>1,560,620</u>	<u>1,562,681</u>	<u>3,123,301</u>
Net Position - ending	<u>\$ 2,148,129</u>	<u>1,370,434</u>	<u>3,518,563</u>

See accompanying notes to the basic financial statement.

City of Lexington, Oklahoma
Governmental Funds
Balance Sheet
June 30, 2023

	General Fund	Restricted Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 299,919	995,771	141,476	1,437,166
Cash - Police bond account	2,004	-	-	2,004
Cash - Payroll account	31,285	-	-	31,285
Investments	25,399	-	-	25,399
Receivables, net	16,030	-	-	16,030
Due from other governments	85,861	32,792	313	118,966
Total assets	460,498	1,028,563	141,789	1,630,850
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	52,226	-	-	52,226
Unearned revenue - ARPA grant	393,484	-	-	393,484
Total liabilities (Note 2)	445,710	-	-	445,710
Fund balances:				
Restricted	-	1,028,563	141,789	1,170,352
Unassigned	14,788	-	-	14,788
Total fund balances	14,788	1,028,563	141,789	1,185,140
Total liabilities, deferred inflows and fund balances	\$ 460,498	1,028,563	141,789	

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 required in the funds, net of accumulated depreciation of \$2,703,385	646,670
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds:	
Net pension asset	34,964
Pension related deferred outflows	388,485
Certain liabilities are not due and payable in the current period from current financial resources, and therefore are not reported in the funds:	
Net pension liability	(20,322)
Pension related deferred inflows	(14,366)
Lease obligations payable	(36,797)
Accrued compensated absences	(35,645)
Net position of governmental activities	\$ 2,148,129

See accompanying notes to the basic financial statement.

City of Lexington, Oklahoma
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2023

	General Fund	Restricted Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 572,744	209,315	17,949	800,008
Intergovernmental	113,305	135,663	-	248,968
Licenses and permits	20,367	-	-	20,367
Charge for services	130,848	-	-	130,848
Fines and forfeitures	108,162	-	-	108,162
Interest	2,673	-	-	2,673
Miscellaneous	128,971	-	-	128,971
Total revenues	<u>1,077,070</u>	<u>344,978</u>	<u>17,949</u>	<u>1,439,997</u>
EXPENDITURES				
Current:				
General government	333,531	-	-	333,531
Public safety	886,500	-	-	886,500
Public works	129,472	625	451	130,548
Culture and recreation	20,485	-	-	20,485
Economic development	-	273,172	-	273,172
Total expenditures	<u>1,369,988</u>	<u>273,797</u>	<u>451</u>	<u>1,644,236</u>
Excess (deficiency) of revenues over expenditures	<u>(292,918)</u>	<u>71,181</u>	<u>17,498</u>	<u>(204,239)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	435,000	-	-	435,000
Transfers out	-	-	-	-
Total other financing sources and uses	<u>435,000</u>	<u>-</u>	<u>-</u>	<u>435,000</u>
Net change in fund balances	142,082	71,181	17,498	230,761
Fund balances-beginning	(127,294)	957,382	124,291	954,379
Fund balances-ending	<u>\$ 14,788</u>	<u>1,028,563</u>	<u>141,789</u>	<u>1,185,140</u>

See accompanying notes to the basic financial statement.

City of Lexington, Oklahoma
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2023

Net change in fund balances - total governmental funds	\$	230,761
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:</p>		
Capital asset purchases capitalized		95,263
Depreciation expense		(88,535)
<p>In the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as an element of pension expense. The fund financial statements report pension contributions as expenditures.</p>		
		344,517
<p>Repayment of debt principal is an expenditure in the governmental funds, but but the repayment reduces long-term liabilities in the Statement of Net Position:</p>		
Principal payment on lease obligations		14,252
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:</p>		
Change in accrued compensated absences		<u>(8,749)</u>
Change in net position of governmental activities	\$	<u><u>587,509</u></u>

City of Lexington, Oklahoma
Statement of Net Position - Proprietary Funds
June 30, 2023

	Business-type Activities - Enterprise Funds			
	Lexington Public Works Authority			
	Light Fund	LPWA Fund	Meter Deposits	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 248,210	289,981	10,382	548,573
Receivables:				
Account, net of allowance of \$75,086	150,414	88,752	-	239,166
Internal balances	-	10,382	(10,382)	-
Total current assets	398,624	389,115	-	787,739
Non-current assets:				
Restricted cash and investments	-	29,722	127,086	156,808
Capital assets:				
Other capital assets, net of accumulated depreciation	362,987	3,329,562	-	3,692,549
Total non-current assets	362,987	3,359,284	127,086	3,849,357
Total assets	761,611	3,748,399	127,086	4,637,096
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	69,601	5,917	-	75,518
Accrued interest payable	-	22,960	-	22,960
Current portion of long-term obligations	2,471	124,539	-	127,010
Total current liabilities	72,072	153,416	-	225,488
Non-current liabilities:				
Deposits subject to refund	-	-	127,086	127,086
Revenue notes payable, net of current portion	-	2,899,662	-	2,899,662
Accrued compensated absences	7,412	7,014	-	14,426
Total non-current liabilities	7,412	2,906,676	127,086	3,041,174
Total liabilities	79,484	3,060,092	127,086	3,266,662
NET POSITION				
Net investment in capital assets	357,372	307,699	-	665,071
Restricted:				
Debt service	-	250,464	-	250,464
Unrestricted	324,755	130,144	-	454,899
Total net position	\$ 682,127	688,307	-	1,370,434

See accompanying notes to the basic financial statement.

City of Lexington, Oklahoma
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds
For the Year Ended June 30, 2023

	Business-type Activities - Enterprise Funds			
	Lexington Public Works Authority			
	Light Fund	LPWA Fund	Meter Deposits	Total
REVENUES				
Charges for services				
Electric	\$ 1,556,591	-	-	1,556,591
Water	-	399,321	-	399,321
Sewer	-	262,863	-	262,863
Sanitation	-	222,880	-	222,880
Other	26,657	127,420	-	154,077
Total operating revenues	<u>1,583,248</u>	<u>1,012,484</u>	<u>-</u>	<u>2,595,732</u>
OPERATING EXPENSES				
General and administration	149,655	17,162	-	166,817
Electric	1,149,229	-	-	1,149,229
Water	-	340,627	-	340,627
Sewer	-	120,100	-	120,100
Sanitation	-	175,047	-	175,047
Capital project outlays	-	29,151	-	29,151
Bad debt	27,672	31,877	-	59,549
Depreciation and amortization	75,675	203,962	-	279,637
Total operating expenses	<u>1,402,231</u>	<u>917,926</u>	<u>-</u>	<u>2,320,157</u>
Operating income (loss)	<u>181,017</u>	<u>94,558</u>	<u>-</u>	<u>275,575</u>
NONOPERATING REVENUES (EXPENSES)				
Miscellaneous revenues	12,419	(986)	-	11,433
Interest income	1,135	1,732	-	2,867
Grant income	-	40,225	-	40,225
Interest expense and fiscal charges	-	(87,347)	-	(87,347)
Total nonoperating revenues (expenses)	<u>13,554</u>	<u>(46,376)</u>	<u>-</u>	<u>(32,822)</u>
OPERATING TRANSFERS				
Transfers in	-	-	-	-
Transfers out	(360,000)	(75,000)	-	(435,000)
Transfers out - Internal	4,166	(4,166)	-	-
Total operating transfers	<u>(355,834)</u>	<u>(79,166)</u>	<u>-</u>	<u>(435,000)</u>
Change in net position	<u>(161,263)</u>	<u>(30,984)</u>	<u>-</u>	<u>(192,247)</u>
Net position - beginning	843,390	719,291	-	1,562,681
Net position - ending	<u>\$ 682,127</u>	<u>688,307</u>	<u>-</u>	<u>1,370,434</u>

See accompanying notes to the basic financial statement.

City of Lexington, Oklahoma
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2023

	Business-type Activities - Enterprise Funds			
	Lexington Public Works Authority			
	Light Fund	LPWA Fund	Meter Deposits	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 1,628,752	1,038,577	-	2,667,329
Payments to suppliers and employees	(1,339,576)	(675,082)	-	(2,014,658)
Receipt (disbursement) of meter deposits	-	-	2,540	2,540
Net cash provided (used) by operating activities	<u>289,176</u>	<u>363,495</u>	<u>2,540</u>	<u>655,211</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating transfers in (out)	(355,834)	(79,166)	-	(435,000)
Net cash provided (used) by noncapital financing activities	<u>(355,834)</u>	<u>(79,166)</u>	<u>-</u>	<u>(435,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on long-term debt	-	(119,766)	-	(119,766)
Interest expense and fiscal charges	-	(87,347)	-	(87,347)
(Acquisition) disposition of capital assets	(13,000)	(35,026)	-	(48,026)
Net cash provided (used) by capital and related financing activities	<u>(13,000)</u>	<u>(242,139)</u>	<u>-</u>	<u>(255,139)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease (increase) in investments	-	-	-	-
Interest received	1,135	1,732	-	2,867
Net cash provided (used) by investing activities	<u>1,135</u>	<u>1,732</u>	<u>-</u>	<u>2,867</u>
Net increase (decrease) in cash and cash equivalents	(78,523)	43,922	2,540	(32,061)
Cash and cash equivalents, beginning of the year	326,733	275,781	134,928	737,442
Cash and cash equivalents, end of the year	<u>\$ 248,210</u>	<u>319,703</u>	<u>137,468</u>	<u>705,381</u>
Reconciliation to Statement of Net Position:				
Cash and cash equivalents	248,210	289,981	10,382	548,573
Restricted cash and cash equivalents	-	29,722	127,086	156,808
Total cash and cash equivalents, end of year	<u>\$ 248,210</u>	<u>319,703</u>	<u>137,468</u>	<u>705,381</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	181,017	94,558	-	275,575
Adjustments to reconcile operating income to net cash provided by operating activities:				
Cash flows reported in other categories:				
Depreciation and amortization expense	75,675	203,962	-	279,637
Miscellaneous revenue	12,419	(986)	-	11,433
Grant revenue	-	40,225	-	40,225
Change in assets and liabilities:				
(Increase) decrease in receivables	45,504	26,093	-	71,597
(Increase) decrease in due to other funds	-	(7,491)	(10,382)	(17,873)
Increase (decrease) in accounts payable and accrued expenses	(25,439)	7,134	-	(18,305)
Net increase (decrease) in customer deposits	-	-	12,922	12,922
Total adjustments	<u>108,159</u>	<u>268,937</u>	<u>2,540</u>	<u>379,636</u>
Net cash provided by (used in) operating activities	<u>\$ 289,176</u>	<u>363,495</u>	<u>2,540</u>	<u>655,211</u>

See accompanying notes to the basic financial statement.

**NOTES TO BASIC
FINANCIAL STATEMENTS**

Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the City of Lexington, Oklahoma (the “City”) conforms to accounting principles generally accepted in the United States of America for state and local governments. Generally accepted accounting principles for municipalities are defined as those principles promulgated by the Governmental Accounting Standards Board (“GASB”). The following represent the more significant accounting and reporting policies and practices of the City.

Financial Reporting Entity - The City is an incorporated municipality located in central Oklahoma. The City operates under a council-manager form of government with a charter that provides for three branches of government:

- Legislative - the governing body includes an elected five-member City Council
- Executive - the City Manager is the Chief Executive Officer and appointed by the City Council
- Judicial - the Municipal Judge is a practicing attorney appointed by the City Council

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, and GASB Statement 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, and includes all component units for which the City is financially accountable.

The accompanying financial statements present the government and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City’s operations and therefore data from these units are combined with the data of the City. Each blended component unit has a June 30 year end.

Blended Component Units. The Lexington Public Works Authority (LPWA) was created on January 30, 1989 pursuant to a Trust Indenture to finance, develop, and operate the electric, water, wastewater, and solid waste activities of the City. Council members serve as Trustees and the City Manager is the General Manager. The rates for user charges and debt authorization are approved by the city council. The LPWA is reported as an enterprise fund type. Separate financial statements have not been prepared for LPWA.

Each component unit is a Public Trust established pursuant to Title 60 of the Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance City services through the issuance of revenue bonds or other non-general obligation debt and to enable the City Council to delegate certain functions to the governing body (Trustees) of the Authority. In accordance with state law, all debt obligations incurred by public trusts require two-thirds approval by the City Council. In addition, the City has leased certain existing assets at the creation for the Authority to the Trustees on a long-term basis. The City, as beneficiary of the Public Trust, receives title to any residual assets when a Public Trust is dissolved.

Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of presentation and accounting:

The City follows Governmental Accounting Standards Board (“GASB”) statements in the preparation of its financial statements. The presentation includes financial statements that communicate the City’s financial condition and changes therein at two distinct levels:

- The City as a Whole (a government-wide presentation)
- The City’s Funds (a presentation of the City’s major and aggregate non-major funds)

Government-wide and fund financial statements - The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. 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 police, fire, general administration, streets, parks and recreation. Sales taxes, franchise fees, fines, and state and federal grants finance most of the activities.

Business-type activities - Services where the City charges a fee to customers to help cover all or most of the cost of the services it provides. The City’s electric, water, sewer and sanitation systems are reported here. Additionally, operation of the golf course and municipal airport are reported as business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements -

Governmental Funds - Most of the City’s basic services are reported in governmental funds, which focus on how much money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds report their activities on the modified accrual basis of accounting and current financial resources measurement focus that is different from other funds. For example, these funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period except for reimbursement type grants that are recorded as revenues when the related expenditures are recognized. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, judgments, and pension liabilities are recorded only when payment is due.

Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Sales and use taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditure driven grants are recognized as revenues when qualifying expenditures have been incurred and all eligibility requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the City.

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 one determine (through a review of changes in fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The following are the City's major governmental funds:

- General Fund - accounts for general operations of the City including public safety, parks, public facilities, street maintenance and internal service support.
- Restricted Sales Tax Fund - accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for the construction and repair of streets and other infrastructure as approved by a special sales tax ordinance.

The following are the City's aggregate non-major governmental funds:

- Street & Alley Fund

The reconciliation of the governmental fund financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the accrual basis of accounting and economic resources measurement focus on the government-wide level.

Proprietary Funds - When the City charges customers for the services it provides, these services are generally reported as proprietary funds. Proprietary funds include enterprise funds and internal service funds. Enterprise funds are used to account for business-like activities provided to the general public. Internal service funds are used to account for business-like activities provided to other funds or departments of the City. Proprietary funds are reported on the accrual basis of accounting and economic resources measurement focus. For example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as reductions to the liability.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The following are the City's proprietary funds:

- Lexington Public Works Authority (LPWA) - accounts for the revenues from operations of electric, water, sanitary sewer, and sanitation.

Accounting Policies -

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Equity

- a. *Cash and Cash Equivalents* - The City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents.
- b. *Pooled Cash and Investments* - The City requires all cash belonging to the City to be placed in the custody of the Financial Services Department of the City. A "Pooled Cash" concept is used in maintaining the cash and investment accounts in the accounting records. Under this method, all cash is pooled for investment purposes and each fund has equity in the pooled amounts. Investments are allocated to the individual participating funds based upon a percentage determined by the Financial Services Department of the City. An interfund receivable/payable is recognized if the allocation of investments to a particular fund exceeds the fund's pooled cash amount before the allocation of the pooled investments.

The purchases and maturities of the pooled investments, as reported in the fund's statement of cash flow, are allocated to the participating proprietary funds based on their portion of total pooled investments.

- c. *Investments* - Investments are stated at fair value. Fair value is the amount at which a financial instrument can be exchanged in a current transaction between willing parties. The City considers the quoted market price on June 30, 2023, to be the fair value of its investments.

Oklahoma Statutes authorize the City to invest in obligations of the United States government, its agencies and instrumentalities; collateralized or insured certificates of deposit and other evidences of deposit at banks, savings banks, savings and loan associations and credit unions located in this state, or fully insured certificates of deposit at banks, savings bank, savings and loan associations and credit unions located out of state; negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings bank, a savings and loan association or a state-licensed branch of a foreign bank; prime banker's acceptances which are eligible for purchases by the Federal Reserve System and which do not exceed 270 days' maturity; prime commercial paper which shall not have a maturity that exceeds 180 days nor represent more than 10% of the outstanding paper of an issuing corporation; repurchase agreements that have underlying collateral consisting of those items specified above; and money market funds regulated by the Securities and Exchange Commission and which investments consist of those items noted above.

Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- d. *Receivables and payables* - In the government-wide financial statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

In the governmental fund financial statements, receivables are recorded when they are both measurable and available. Proprietary fund receivables consist of all revenues earned at year-end and not yet received.

- e. *Interfund Receivable and Payables* - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to / due from other funds” (i.e., the current portion of interfund loans) or “advances to / from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to / from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”
- f. *Restricted Assets* - Restricted assets include cash and investments of both governmental activities and business-type activities that are legally restricted as to their use. The restricted assets are primarily related to debt trustee accounts and guaranty deposits.
- g. *Capital Assets* - Capital assets, which include property, plant and equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with initial, individual cost of more than \$2,500 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, the majority of which generally consists of donated land and infrastructure which is recorded in the governmental funds and donated water and sewer distribution systems which are recorded in the proprietary funds, are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment is depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 years
Infrastructure	40 years
Improvements other than buildings & infrastructure	40 years
Machinery and equipment	5 years
Vehicles	5 years

- h. *Inventory* - The City records parts and fuel inventory as expenses within the General Fund. Parts inventory is recorded using actual cost.

Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- i. *Long-term Debt* - Accounting treatment of long-term debt varies depending upon the source of repayment and the measurement focus applied, and whether the debt is reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental activities, business-type activities and proprietary funds are reported as liabilities as incurred. The long-term debt presently is primarily comprised of revenue bonds payable, net pension liability, and accrued compensated absences. This long-term debt is reported not of unamortized discounts and premiums.

Long-term debt of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures.

- j. *Claims and Judgments Payable* - Under state law, judgments against the City can be paid over three years or can be paid immediately. A liability would be recorded within the government-wide, proprietary, and fiduciary fund financial statements for claims and judgments payable. A liability for these amounts is reported in governmental funds only if they are paid from current financial resources. On June 30, 2023, the City did not have any judgments outstanding.
- k. *Compensated Absences* - Under the terms of City personnel policies, City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for vacation leave accumulated and vested accumulated sick leave. Vesting of sick leave by employees and maximum number of hours that can be accumulated for vacation and sick leave are dependent upon an employees' service as contained in the City's personnel manual.
- l. *Pensions* - For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflow of resources related to pensions and pension expense, information about the fiduciary net position of the City's multiemployer pension plans and additions to/deductions from the multiemployer pension plans have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
- m. *Fund Equity* - In the government-wide financial statements, equity is classified as net position and displayed in three components:
1. *Net investment in capital assets* - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings attributable to those assets.
 2. *Restricted net position* - Consists of net position with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
 3. *Unrestricted net position* - All other assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

When both restricted and unrestricted net positions are available for use, generally it is the City's policy to use restricted resources first. For projects funded with tax-exempt debt proceeds and other sources, the debt proceeds are used first.

Governmental fund equity is classified as fund balance. Fund balance is further classified as follows and based on the nature of any limitations requiring the use of resources for specific purposes.

- a) *Nonspendable* - Includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual requirements.
- b) *Restricted* - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- c) *Committed* - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City through formal action of the highest level of decision-making authority. The City Council is the highest level of decision-making authority that can, by adoption of an Ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by ordinance remains in place until a similar action by the City Council is taken (the adoption of another ordinance) to remove or revise the limitation.
- d) *Assigned* - Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The City Council may assign fund balance as it does when appropriating fund balance to cover the gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.
- e) *Unassigned* - Includes the residual balance of the General Fund that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes with the General Fund.

When both restricted and unrestricted sources (the total of committed, assigned, and unassigned fund balance) are available for use, generally it is the City's policy to use restricted resources first. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cost Sharing Defined Benefit Pension Plans

The City participates in two cost-sharing multiple-employer defined benefit pension plans, the Oklahoma Police Pension & Retirement System (OPPRS) and the Oklahoma Firefighters Pension and Retirement System (OFPRS), (the Plans). For purposes of measuring the net pension asset, liability, deferred outflows of resources and deferred inflows of resources related to the pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The City has deferred outflows related to pensions, with one being the amount of contributions made to pension plans after the measurement date, and the other the difference in investment experience between actual earnings and projected earnings on pension plan investments and the difference in assumption changes. Deferred outflows related to contributions made after the measurement date will be recognized as a reduction of pension liability in the following year. The remaining amounts will be amortized to pension expense over future periods. See Note 4 for additional information.

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has a deferred inflow related to pensions. This consists of the difference between expected and actual experience related to pension plans as well as the difference in assumption changes. These amounts are amortized over future periods to pension expense.

Revenues, Expenditures and Expenses

- a. *Sales Taxes* - Sales taxes are collected by vendors and required to be remitted to the State of Oklahoma by the 20th of the month following collection. The tax is then paid to the City by the 10th of the next month. A two-month lag exists between collection by the vendor and payment to the City by the State. Revenue received in July and August from sales made in May and June, respectively, is available for prior year expenses and is accrued in both the government-wide and fund financial statements.
- b. *Charges for Services* - Charges for service consist primarily of charges made by one fund for services such as insurance and other benefits provided to the other funds of the City.
- c. *Intergovernmental Revenues/Capital Grants Earned* - Revenues from Federal and State operating grants are recognized when expenditures are made. Similarly, capital grants are considered earned when the expenditures are made. The earned portion of capital grants in Proprietary Funds is treated as a capital contribution within the statement of revenues, expenses, and changes in fund net position.

Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- d. *Investment Earnings* - Investment earnings on pooled cash and investments are allocated on a pro-rata basis to the City's funds based on the percentage of each fund's average month-end pooled cash balance.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Compliance

The City prepares its annual operating budget under the provisions of the Oklahoma Municipal Budget Act of 1979 (the "Budget Act"). In accordance with those provisions, the following process is used to adopt the annual budget:

- a. Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1.
- b. Public hearings are conducted to obtain citizen comments. At least one public hearing is held no later than 15 days prior to the beginning of the budget year.
- c. Subsequent to the public hearings but no later than seven days prior to July 1, the budget is legally enacted through the passage of a resolution by the City Council.
- d. Subsequent to City Council enactment, the adopted budget is filed with the office of the State Auditor and Inspector.
- e. The legal level of control at which expenditures may not legally exceed appropriations is the department level within a fund.

All fund decreases of appropriation and supplemental appropriations require City Council approval. The City Manager may transfer appropriations between departments within a fund without City Council approval. Supplemental appropriations must also be filed with the Office of the State Auditor and Inspector.

In accordance with Title 60 of the Oklahoma State Statutes, the Lexington Public Works Authority is required to prepare an annual budget and submit a copy to the City as beneficiary. However, there are no further requirements such as form of budget, approval of budget or definition of a legal level of control; and, therefore, no budget and actual financial presentation for the PPWA funds is included in this report.

Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

Deposits and Investment Laws and Regulations

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City may not recover its deposits. The City's policy to minimize its exposure to custodial credit risk for deposit is that all deposits shall either be insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized by securities held by the cognizant Federal Reserve Bank or invested in United States government obligations, and direct debt obligations of municipalities, counties, and school districts in the State of Oklahoma, in the City's name.

As of June 30, 2023, the City had bank balances of \$76,849 which were exposed to custodial credit risk as a result of being uninsured and uncollateralized.

Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City minimizes its exposure to interest rate risk by limiting the duration of certificates of deposits or other fixed-income securities.

Investment credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The City minimizes its exposure to investment credit risk by adopting investment policies that comply with the Oklahoma State statutes. As a result, investments are limited to the following:

- Direct obligations of the U.S. Government, its agencies, and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State of Oklahoma is pledged.
- Certificates of deposit or savings accounts that are either insured or secured with acceptable pledged collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality, or school district.
- Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- Money market funds and repurchase agreements which consist of the authorized investments of the United States government agency obligations with restrictions as specified in state law.

Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

Public trusts created under O.S. Title 60 are not subject to the above-mentioned investment limitations and are primarily governed by restrictions in their trust or bond indentures.

The City has no formal policy limiting investments based on credit rating but discloses any such credit risk associated with their investments by reporting the credit quality ratings of investments in debt securities as determined by nationally recognized statistical rating organizations and agencies as of the end of year end. Unless there is information to the contrary, obligations of the United States government or obligations explicitly guaranteed by the United States government are not considered to have credit risk and do not require disclosure of credit quality.

Custodial credit risk for investments is the risk that in the event of a bank failure, the City may not recover the value of its investments. The City's policy to minimize its exposure to custodial credit risk for investments is that all investments shall either be insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized by securities held by the cognizant Federal Reserve Bank or invested in United States government obligations, and direct debt obligations of municipalities, counties, and school districts in the State of Oklahoma, in the City's name. On June 30, 2023, the City's investments are certificates of deposit in local banks. On June 30, 2023, the certificates of deposits were fully insured or collateralized.

Debt Restrictions and Covenants

General Obligation Debt

Article 10, Sections 26 and 27 of the Oklahoma Constitution limits the amount of certain outstanding general obligation bonded debt of the municipality for non-utility or non-street purposes to no more than 10% of the net assessed valuation. As of June 30, 2023, the City did not have any general obligation debt outstanding.

Other Long-term Debt

As required by the Oklahoma State Constitution, the City (excluding Public Trusts) may not incur any indebtedness that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval.

Revenue Note Debt

The debt indentures relating to the revenue note issues of the Lexington Public Works Authority contain a number of restrictions or covenants that are financial related. These include covenants such as a required flow of funds through special accounts, debt service coverage requirements and required reserve account balances.

Fund Equity/Net Position Restrictions

Restricted Net Position

Restricted net position at the government-wide financial statements is required to restrict funds in accordance with various laws and regulations, specifically those laws and regulations dealing with debt service and the use of restricted revenues. See Note 3 for details of restricted net position.

Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS

The following notes present detailed information to support the amounts reported in the basic financial statements for the City's various assets, liabilities, equity, revenues, and expenditures/expenses.

Deposits and Investment Risks

The City of Lexington, including its blended component units, held the following deposits and investments on June 30, 2023:

<u>Type</u>	<u>Maturities</u>	<u>Credit Rating</u>	<u>Carrying Value</u>
Deposits:			
Demand deposits			\$ 1,666,597
Cash on hand			800
Time deposits	Due within 1 year		504,116
			<u>2,171,513</u>
Investments:			
Trustee money market account		AAAm	29,722
			<u>29,722</u>
Total deposits and investments			<u>\$ 2,201,235</u>
Reconciliation to Statement of Net Position:			
Cash and cash equivalents			\$ 2,019,028
Restricted cash and investments			156,808
Investments			25,399
			<u>\$ 2,201,235</u>

Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Restricted Assets

The amounts reported as restricted assets on the Statement of Net Position are comprised of cash and investments held by the trustee bank on behalf of the public trusts (Authorities) related to its required revenue bond accounts as described in Note 2 and amounts due to depositors related to utility deposits.

The restricted assets as of June 30, 2023 were as follows:

	Governmental Activities	Business-type Activities
	Current Cash and cash Equivalents	Current Cash and cash Equivalents
2015 OWRB Clean Water SRF Note - Debt Service	\$ -	29,722
Utility Deposits	-	127,086
Accounts receivable, net of allowance	\$ -	156,808

Receivables and Uncollectible Accounts

Accounts receivable of governmental and business-type activities consist of sales tax, franchise tax and fees, grants funds due, customer utilities services provided, both billed and unbilled, all reported net of allowance for uncollectible amounts are as follows:

	Governmental Activities	Business-type Activities
Sales taxes	\$ 87,444	-
Use taxes	28,976	-
Franchise taxes	2,546	-
Ambulance	16,030	-
Other	-	-
Utilities	-	314,252
Less: allowance for uncollectible accounts	-	(75,086)
Accounts receivable, net of allowance	\$ 134,996	239,166

Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Capital Assets

Capital asset balances and activities for the year ended June 30, 2023, were as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Ending</u>
<i>Governmental activities</i>					
Capital assets not being depreciated :					
Land	\$ -	-	-	-	-
Construction in progress	-	-	-	-	-
Total capital assets not being depreciated	-	-	-	-	-
Capital assets being depreciated :					
Buildings and improvements	2,015,754	-	-	-	2,015,754
Machinery and equipment	329,308	-	-	-	329,308
Vehicles	844,921	95,263	-	-	940,184
Leased assets	64,809	-	-	-	64,809
Total capital assets being depreciated	3,254,792	95,263	-	-	3,350,055
Less : Accumulated depreciation					
Buildings and improvements	1,540,045	18,881	-	-	1,558,926
Machinery and equipment	805,441	32,018	-	-	837,459
Vehicles	254,735	23,383	-	-	278,118
Leased assets	14,629	14,253	-	-	28,882
Total capital assets being depreciated	2,614,850	88,535	-	-	2,703,385
Total capital assets being depreciated	639,942	6,728	-	-	646,670
Governmental activities capital assets, net \$	639,942	6,728	-	-	646,670

Depreciation expense for governmental activities is charged to functions as follows:

Governmental activities:

Administration	\$ 23,465
Public safety	50,775
Public works administration	9,375
Cultural and recreation	4,920
Total depreciation expense - governmental activities	<u>\$ 88,535</u>

Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Capital asset activity for business-type activities for the year ended June 30, 2023 was as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Ending</u>
<i>Business-type activities</i>					
Capital assets not being depreciated :					
Land	\$ -	-	-	-	-
Construction in progress	70,454	-	(70,454)	-	-
Total capital assets not being depreciated	<u>70,454</u>	<u>-</u>	<u>(70,454)</u>	<u>-</u>	<u>-</u>
Capital assets being depreciated :					
Buildings and improvements	42,587	-	-	-	42,587
Machinery and equipment	253,933	-	-	-	253,933
Vehicles	96,903	27,500	-	-	124,403
Infrastructure	9,072,419	20,525	70,454	-	9,163,398
Total capital assets being depreciated	<u>9,465,842</u>	<u>48,025</u>	<u>70,454</u>	<u>-</u>	<u>9,584,321</u>
Less : Accumulated depreciation					
Buildings and improvements	41,458	564	-	-	42,022
Machinery and equipment	240,601	4,033	-	-	244,634
Vehicles	91,519	5,442	-	-	96,961
Infrastructure	5,238,557	269,598	-	-	5,508,155
Total capital assets being depreciated	<u>5,612,135</u>	<u>279,637</u>	<u>-</u>	<u>-</u>	<u>5,891,772</u>
Total capital assets being depreciated, net	<u>3,853,707</u>	<u>(231,612)</u>	<u>70,454</u>	<u>-</u>	<u>3,692,549</u>
Business-type activities capital assets, net \$	<u><u>3,924,161</u></u>	<u><u>(231,612)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>3,692,549</u></u>

Depreciation expense for business-type activities is charged to functions as follows:

Business-type activities:

General government	\$ 564
Electric	75,111
Water	55,199
Sewer	148,763
Total depreciation expense - business-type activities	<u><u>\$ 279,637</u></u>

Deposits Subject to Refund

Utility customers are required to make a meter deposit, which is refunded upon the customer's termination of services, provided there are no outstanding bills. Monies are deposited in separate accounts, and a liability has been recorded to represent the amount of deposits due to customers. As of June 30, 2023, cash and investments included \$137,468 available for refund of customer deposits, while the liability to customers was \$127,086.

**Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023**

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Appearance bonds and other payments made to the municipal court funds are held until final disposition by the court at which time they are refunded to the bondholder or paid over to the City general fund as fines. As of June 30, 2023, no bonds were being held that were subject to refund.

Long-term Debt

The reporting entity's long-term debt is segregated by the amounts involving governmental activities and business activities.

Governmental Activities Long-term Debt:

Lease Obligations

The City as lessee has entered into lease agreements involving equipment for City operations.	\$ <u>36,797</u>
Current portion	13,002
Non-current portion	<u>23,795</u>
Total	\$ <u><u>36,797</u></u>

Business-type Activities Long-term Debt:

As of June 30, 2023, the long-term debt payable from enterprise fund resources consisted of the following:

Notes Payable

\$3,091,500 Clean Water SRF Series 2015 loan payable to the Oklahoma Water Resource Board (OWRB), dated October 1, 2015, payable in semi-annual installments with a final payment due March 15, 2046; interest rate of 2.64% and administrative fee of 0.5%; secured by a pledge of utility system net revenues.	\$ 2,916,990
\$143,153 note payable to McClain Bank; dated January 26, 2022, for a sewer line project; due in monthly principal and interest payments of \$2,574 beginning February 15, 2022 and maturing January 15, 2027; secured by equipment; interest included at a rate of 2.95% per annum.	<u>104,873</u>
Total Revenue Notes Payable	\$ <u><u>3,021,863</u></u>
Current portion	\$ 122,201
Non-current portion	<u>2,899,662</u>
	\$ <u><u>3,021,863</u></u>

**Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023**

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Long-term Debt - Continued

Accrued Compensated Absences

Accrued compensated absences reported in the business-type activities are comprised of accrued vacation leave, sick leave and compensatory time.

Governmental activities	\$	35,645
Business-type activities		19,235
Total Accrued Compensated Absences	\$	54,880

Due to Depositors

Outstanding deposits for utility services, refundable only upon termination of services, amounted to the following:

Current portion	\$	-
Non-current portion		127,086
Total Due to Depositors	\$	127,086

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2023:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>	Amounts Due Within <u>One Year</u>
Governmental activities					
Lease obligations	\$ 51,050	-	14,253	36,797	13,002
Accrued compensated absences	26,895	8,750	-	35,645	8,911
Total Governmental Activities	\$ 77,945	8,750	14,253	72,442	21,913
Business-type activities					
<i>Notes payable:</i>					
OWRB - Series 2015	\$ 3,009,507	-	92,517	2,916,990	94,939
Note payable - Bank	132,122	-	27,249	104,873	27,262
Deposits subject to refund	129,769	-	2,683	127,086	-
Accrued compensated absences	15,374	3,861	-	19,235	4,809
Total Business-type Activities	\$ 3,286,772	3,861	122,449	3,168,184	127,010

**Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023**

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Long-term Debt - Continued

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt, with interest rates applicable on June 30, 2023, excluding accrued compensated absences, due to depositors and net pension liability are as follows:

Year Ending June 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 13,002	1,250	123,041	80,458
2025	13,426	828	126,391	76,824
2026	10,369	390	129,834	73,306
2027	-	-	120,530	69,758
2028	-	-	105,273	66,994
2029-2033	-	-	569,160	290,161
2024-2038	-	-	647,633	209,343
2039-2043	-	-	736,925	117,382
2044-2048	-	-	463,076	21,090
Totals	\$ 36,797	2,468	3,021,863	1,005,316

Applicability of Federal Arbitrage Regulations

Debt issuances of the City and Authorities issued after the Tax Reform Act of 1986 are subject to the federal arbitrage regulations. The arbitrage rebate regulations require that all earnings from investment of gross proceeds of a bond issue in excess of the amount that could have been earned had the yield on the investment been equal to the yield on the bonds be remitted to the federal government. These carry strict penalties for noncompliance including taxability of interest retroactive to the date of the issue. The City's management believes the City is in compliance with these rules and regulations.

Pledge of Future Revenues

Utility Revenue Pledge - The City has also pledged future net water, sewer and sanitation revenues to repay \$3,091,500 of OWRB Series 2015 Revenue Notes which are payable through 2046. Proceeds from the notes provided funding for utility system capital assets. The total principal and interest payable for the remainder of the life of the notes is \$3,895,274. The notes are payable from the above-mentioned utility net revenues. The debt service payments on the notes this year were \$172,461 for the current year coverage ratio of 190% of the pledged utility net revenues.

Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Interfund Receivables, Payables, and Transfers

The City’s policy is to eliminate interfund transfers and balances in the statement of activities and net position to avoid grossing up balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances and then offset in the total column in the government-wide statements. Interfund transfers and balances between funds are not eliminated in the fund financial statements.

Transfers:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
Lexington Public Works Auth	General Fund	435,000	Operating subsidy
		<u>435,000</u>	
Reconciliation to Fund Financial Statements:			
	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	435,000	-	435,000
Proprietary Funds	-	(435,000)	(435,000)
	<u>435,000</u>	<u>(435,000)</u>	<u>-</u>
Reconciliation to Statement of Activities:			
Net Transfers		<u>-</u>	

**Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023**

NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued

Fund Balances and Net Position

Fund Balances

The following table shows the fund balance classifications as shown on the Governmental Funds Balance Sheet:

	General Fund	Restricted Sales Tax Fund	Other Governmental Fuunds	Total
Fund Balances:				
Restricted:				
Streets and capital improvements	-	1,028,563	-	1,028,563
Streets	-	-	141,789	141,789
Subtotal Nonspendable	-	1,028,563	141,789	1,170,352
Unassigned (deficit):	14,788	-	-	14,788
TOTAL FUND BALANCES	14,788	1,028,563	141,789	1,185,140

Sales Tax

Sales tax revenue represents a four cents tax on each dollar of taxable sales of which is recorded as follows:

- 2.0 cents are recorded in the General Fund for general operational purposes with no termination date.
- 0.5 cents are recorded in the General Fund for general operational purposes with a termination date of December 31, 2024.
- 1.5 cents are recorded in the General Fund and then transferred to the Restricted Sales Tax Fund for capital expenditures and for the payment of debt service in connection with obligations issued to finance specified capital expenditures. The sales tax would be allocated with 1.0 cents dedicated to streets, alleys, and related capital improvements and 0.5 cents available for other capital improvements if not used on streets and alleys. There is no termination date.

Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023

NOTE 4 - OTHER INFORMATION

Risk Management

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

- General Liability - The City is a member of the Oklahoma Municipal Assurance Group.
- Physical Property - Covered through purchased insurance with a \$1,000 deductible, per occurrence.
- Workers' Compensation - The City is a member of the Oklahoma Municipal Assurance Group. Workers' Compensation Plan (the Plan), an organization formed for the purpose of providing workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the Plan year.

As a matter of the Plan, the City is required to pay fees set by the Plan according to an established payment schedule. The City is responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. A loss Fund has been established from the proceeds of the fees paid by the City. The City expensed these fees when paid. The State Insurance Fund provides coverage in excess of the Loss Fund so the City's Liability for claim loss is limited to the balance of that fund. However, the failure of the State Insurance Fund to honor its obligations could result in losses to the Plan.

- Employee's Group Medical - Covered through purchased insurance with a deductible of \$1,000 per employee.

COMMITMENTS AND CONTIGENCIES

Commitments

Water Purchase Contract - On March 5, 2013 Lexington Public Works Authority (LPWA) 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 LPWA with potable treated water not to exceed 112, 000,000 gallons per year at the following rates -

\$3.68 per \$1,000 gallons up to an agreed yearly minimum water usage
\$3.89 per \$1,000 gallons purchased thereafter

LPWA agreed to a purchase of a minimum of 23,881,047 gallons of water per year upon the construction and activation of the RWD water system in April 2019. The terms of the contract shall extend for forty-five (45) years and shall be automatically extended for successive like terms until terminated by mutual consent. For the year ended June 30, 2023 LPWA made purchases of water totaling \$95,753.

**Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023**

NOTE 4 - OTHER INFORMATION - Continued

COMMITMENTS AND CONTIGENCIES - Continued

Contingent Liabilities

General Litigation - The City and Lexington Public Works Authority are parties to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a City "Sinking Fund" for the payment of any court assessed judgment rendered against the City.

While the outcome of the above noted proceedings cannot be predicted, due to the self-insurance reserves maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance reserves would not have a material adverse effect on the financial condition of the City.

Asset Retirement Obligation - The City has incurred certain asset retirement obligations related to the operation of its wastewater utility system. The estimated liability of the legally required closure costs for the wastewater utility system cannot be reasonably estimated as of June 30, 2023, since the specific legally required costs of retirement have not yet been identified. The City anticipates identifying those specific legally required costs, if any, and obtaining an estimate of those costs in a subsequent fiscal year.

Federal Grants - In the normal course of operations, the City receives grant funds from various federal agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Management does not believe any liability for reimbursement which may arise as the result of these audits will be material.

EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

The City participates in five employee pension systems as follows:

<u>Names of Plan/System</u>	<u>Type of Plan</u>
Oklahoma Police Pension and Retirement Fund	Cost Sharing Multiple Employer - Defined Benefit Plan
Oklahoma Firefighters Pension and Retirement Fund	Cost Sharing Multiple Employer - Defined Benefit Plan
City of Lexington, Oklahoma Employee Retirement Plan	Single Employer - Defined Contribution Money Purchase Plan

**Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023**

NOTE 4 - OTHER INFORMATION - Continued

Employee Retirement Systems and Pension Plans - Continued

Summary of Defined Benefit Plan Balances

	Governmental Activities	Business-Type Activities
Net Pension Liability (Asset)		
Police Pension System	\$ (34,964)	-
Firefighter's Pension System	20,322	-
	\$ (14,642)	-
Total Net Pension Liability		
Deferred Outflows of Resources		
Police Pension System	\$ 380,306	-
Firefighter's Pension System	8,179	-
	\$ 388,485	-
Total Deferred Outflow of Resources		
Deferred Inflows of Resources		
Police Pension System	\$ 5,034	-
Firefighter's Pension System	9,332	-
	\$ 14,366	-
Total Deferred Inflow of Resources		

Oklahoma Police Pension and Retirement System (OPPRS)

Plan Description - The City of Lexington, as the employer, participates in the Police Pension & Retirement - a cost-sharing multi-employer defined benefit pension plan administered by the Oklahoma Police Pension & Retirement System (PPRS). Title 11 of the Oklahoma State Statutes grants the authority to establish and amend the benefit terms to the OPPRS. OPPRS issues a publicly available financial report that can be obtained at www.ok.gov/opprs.

Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023

NOTE 4 - OTHER INFORMATION - Continued

Oklahoma Police Pension and Retirement System (OPPRS) - Continued

Benefits Provided - The Plan provides defined retirement benefits based on members' final average compensation, age, and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon death of eligible members. The Plan's benefits are established and amended by State statute. Retirement provisions are as follows:

- The normal retirement date under the Plan is the date upon which the participant completes 20 years of credited service, regardless of age. Participants become vested upon completing 10 years of credited service as a contributing participant of the Plan. No vesting occurs prior to completing 10 years of credited service. Participants' contributions are refundable, without interest, upon termination prior to normal retirement. Participants who have completed 10 years of credited service may elect a vested benefit in lieu of having their accumulated contributions refunded. If the vested benefit is elected, the participant is entitled to a monthly retirement benefit commencing on the date the participant reaches 50 years of age or the date the participant would have had 20 years of credited service had employment continued uninterrupted, whichever is later.
- Monthly retirement benefits are calculated at 2.5% of the final average salary (defined as the average paid base salary of the officer over the highest 30 consecutive months of the last 60 months of credited service) multiplied by the years of credited service, with a maximum of 30 years of credited service considered.
- Monthly benefits for participants due to permanent disability incurred in the line of duty are 2.5% of the participants' final average salary multiplied by 20 years. This disability benefit is reduced by stated percentages for partial disability based on the percentage of impairment. After 10 years of credited service, participants who retire due to disability incurred from any cause are eligible for a monthly benefit based on 2.5% of their final average salary multiplied by the years of service. This disability benefit is also reduced by stated percentages for partial disability based on the percentage of impairment. Effective July 1, 1998, once a disability benefit is granted to a participant, that participant is no longer allowed to apply for an increase in the dollar amount of the benefit at a subsequent date.
- Survivor's benefits are payable in full to the participant's beneficiary upon the death of a retired participant. The beneficiary of any active participant killed in the line of duty is entitled to a pension benefit.

Contributions - The contributions requirements of the Plan are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute eight percent (8%) of their annual pay. Participating cities are required to contribute thirteen percent (13%) of the employees' annual pay. Contributions to the pension plan from the City were \$21,012. In the government-wide Statement of Activities, revenue is recognized for the state's on-behalf contributions on an accrual basis of \$17,374. These on-behalf payments did not meet the criteria of a special funding situation.

Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023

NOTE 4. OTHER INFORMATION - Continued

Oklahoma Police Pension and Retirement System (OPPRS) - Continued

Net Pension Liabilities/Asset, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - On June 30, 2023, the City reported an asset of \$34,964 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2022, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of July 1, 2022. The City's proportion of the net pension asset was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2022. Based upon this information, the City's proportion was 0.000436%.

For the year ended June 30, 2023, the City recognized pension expense of \$8,268. On June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 20,958	\$ -
Changes of assumptions	1,217	-
Net difference between projected and actual earnings on pension plan investments	336,181	-
Changes in proportion and differences between City contributions and proportionate share of contributions	633	4,884
City contributions during measurement period	305	150
City contributions subsequent to the measurement date	21,012	-
Total	\$ 380,306	\$ 5,034

**Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023**

NOTE 4. OTHER INFORMATION - Continued

Oklahoma Police Pension and Retirement System (OPPRS) - Continued

\$21,012 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2023	\$	114,486
2024		105,054
2025		92,237
2026		40,958
2027		1,525
	\$	<u>354,260</u>

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of July 1, 2022, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	2.75%
Salary increases:	3.5% to 12.0% averages, including inflation
Investment rate of return:	7.5% net of pension plan investment expense
Mortality rates:	Active employees (pre-retirement) RP-2000 Blue Collar Healthy Combined table with age set back 4 years with fully generational improvement using Scale AA. Active employees (post retirement) and nondisabled pensioners: RP-2000 Blue Collar Healthy Combined table with fully generational improvement using Scale AA. Disabled pensioners: RP-2000 Blue Collar Healthy Combined table with age set forward 4 years with fully generational improvement using Scale AA.

The actuarial assumptions used in the July 1, 2022; valuation was based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2017.

Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023

NOTE 4. OTHER INFORMATION - Continued

Oklahoma Police Pension and Retirement System (OPPRS) - 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. 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:

Asset Class	Long-Term Expected Real Rate of Return
Fixed income	3.34%
Domestic equity	4.69%
International equity	8.34%
Real estate	7.64%
Private equity	9.66%
Commodities	0.00%

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 contractually required rates, determined by State Statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 14% of the insurance premium, as established by statute. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate - The following presents the net position liability (asset) of the employers calculated using the discount rate of 7.5%, as well as what the Plan's net pension liability(asset) would be if it were calculated using a discount rate that is one percentage point lower - (6.5%) or one percentage point higher - (8.5%) than the current rate:

	1% Decrease 6.5%	Current Discount Rate (7.5%)	1% Increase 8.5%
Employers' net pension liability (asset) \$	\$ 101,300	\$ (34,964)	\$ (150,140)

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the OPPRS; which can be located at www.ok.gov/OPPRS.

Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023

NOTE 4. OTHER INFORMATION - Continued

Oklahoma Firefighters' Pension and Retirement System (OFPRS)

Plan Description - The City of Lexington, as the employer, participates in the Firefighters Pension & Retirement - a cost-sharing multi-employer defined benefit pension plan administered by the Oklahoma Firefighters Pension & Retirement System (FPRS). Title 11 of the Oklahoma State Statutes grants the authority to establish and amend the benefit terms to the FPRS. FPRS issues a publicly available financial report that can be obtained at www.ok.gov/fprs.

Benefits Provided - In general, the Plan provides defined retirement benefits based on members' final average compensation, age, and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon death of eligible members. The Plan's benefits are established and amended by Oklahoma statute. Retirement provisions are as follows:

Normal Retirement:

Hired Prior to November 1, 2013

Normal retirement is attained upon completing 20 years of service. The normal retirement benefit is equal to 50% of the member's final average compensation. Final average compensation is defined as the monthly average of the highest 30 consecutive months of the last 60 months of participating service. For volunteer firefighters, the monthly pension benefit for normal retirement is \$150.60 per month.

Hired After November 1, 2013

- Normal retirement is attained upon completing 22 years of service. The normal retirement benefit is equal to 55% of the member's final average compensation. Final average compensation is defined as the monthly average of the highest 30 consecutive months of the last 60 months of participating service. Also, participants must be aged 50 to begin receiving benefits. For volunteer firefighters, the monthly pension benefit for normal retirement is \$165.66 per month.
- All firefighters are eligible for immediate disability benefits. For paid firefighters, the disability in-the-line-of-duty benefit for firefighters with less than 20 years of service is equal to 50% of final average monthly compensation, based on the most recent 30 months of service. For firefighters with over 20 years of service, a disability in the line of duty is calculated based on 2.5% of final average monthly compensation, based on the most recent 30 months, per year of service, with a maximum of 30 years of service. For disabilities not in the line of duty, the benefit is limited to only those with less than 20 years of service and is 50% of final average monthly compensation, based on the most recent 60-month salary as opposed to 30 months. For volunteer firefighters, the not-in-the-line-of-duty disability is also limited to only those with less than 20 years of service and is \$7.53 per year of service. For volunteer firefighters, the in-the-line-of-duty pension is \$150.60 with

Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023

NOTE 4 - OTHER INFORMATION - Continued

Oklahoma Firefighters' Pension and Retirement System (OFPRS) - Continued

less than 20 years of service or \$7.53 per year of service, with a maximum of 30 years.

- All firefighters are eligible for immediate disability benefits. For paid firefighters, the disability in-the-line-of-duty benefit for firefighters with less than 20 years of service is equal to 50% of final average monthly compensation, based on the most recent 30 months of service. For firefighters with over 20 years of service, a disability in-the-line-of-duty benefit is calculated based on 2.5% of final average monthly compensation, based on the most recent 30 months, per year of service, with a maximum of 30 years of service. For disabilities not in-the-line-of-duty, the benefit is limited to only those with less than 20 years of service and is 50% of final average monthly compensation, based on the most recent 60-month salary as opposed to 30 months. For volunteer firefighters, the not in-the-line-of-duty disability is also limited to only those with less than 20 years of service, or \$7.53 per year of service, with a maximum of 30 years.
- A \$5,000 lump sum, death benefit is payable to the qualified spouse or designated recipient upon the participant's death. The \$5,000 death benefit does not apply to members electing the vested benefit.

Contributions - The contributions requirements of the Plan are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 9% of their annual pay. Participating cities are required to contribute 14% of the employees' annual pay. Contributions to the pension plan from the City were \$1,200. In the government-wide Statement of Activities, revenue is recognized for the State of Oklahoma's on-behalf contributions on an accrual basis of \$1,592. These on-behalf payments did not meet the criteria of a special funding situation.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - On June 30, 2023, the City reported a liability of \$36,185 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2022. The City's proportion of the net pension liability was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2022. Based upon this information, the City's proportion was 0.0001554%.

**Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023**

NOTE 4 - OTHER INFORMATION - Continued

Oklahoma Firefighters' Pension and Retirement System (OFPRS) - Continued

For the year ended June 30, 2023, the City recognized pension expense of \$372. On June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,609	\$ 103
Changes of assumptions	-	130
Net difference between projected and actual earnings on pension plan investments	2,362	-
Changes in proportion and differences between City contributions and proportionate share of contributions	1,949	9,096
City contributions during measurement period	59	3
City contributions subsequent to the measurement date	1,200	-
Total	\$ 8,179	\$ 9,332

\$1,200 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
	2023	\$ (1,101)
	2024	(859)
	2025	(1,497)
	2026	1,099
	2027	5
	\$	(2,353)

**Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023**

NOTE 4 - OTHER INFORMATION - Continued

Oklahoma Firefighters' Pension and Retirement System (OFPRS) - Continued

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of July 1, 2022, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	2.75%
Salary increases:	2.75% to 10.50% averages, including inflation
Investment rate of return:	7.5% net of pension plan investment expense

Mortality rates were based on the MP2018 combined healthy with blue collar adjustment as appropriate, with adjustments for generational mortality improvement using scale AA for healthy lives and no mortality improvement for disabled lives.

The actuarial assumptions used in the July 1, 2022; valuation was 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	4.90%
Domestic equity	7.09%
International equity	9.19%
Real estate	7.99%
Other assets	5.57%

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 contractually required rates, determined by State Statutes. Projected cash flows also assume the State of Oklahoma will continue contributing thirty-six percent (36%) of the insurance premium, as established by statute. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Notes to Basic Financial Statements
City of Lexington, Oklahoma
June 30, 2023

NOTE 4 - OTHER INFORMATION - Continued

Oklahoma Firefighters' Pension and Retirement System (OFPRS) - Continued

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

	1% Decrease ▼ (6.5%)	Current Discount Rate (7.5%)	1% Increase ▼ (8.5%)
	<u> </u>	<u> </u>	<u> </u>
Employers' net pension liability	\$ 26,187	\$ 20,322	\$ 15,417

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the FPRS; which can be located at www.ok.gov/fprs.

City of Lexington, Oklahoma Employee Retirement Plan (the DC Plan)

The City of Lexington, Oklahoma Employee Retirement Plan, is a single employer defined contribution money purchase pension plan covering City employees not covered by other plans. The Plan operates as a trust administered by July Business Services. Employees are immediately vested in their own contributions and earnings from these contributions. Employees become vested in the City's contributions and earnings after completion of seven years of continuous service. Nonvested contributions are forfeited upon termination of employment and such forfeitures are disbursed to the remaining employees' accounts.

There are no guaranteed retirement benefits in the plan, and the City disclaims any liability between the employer and the employee regarding benefits in the plan. Any and all claims of the employee may be satisfied only out of the funds held in the plan under the individual employee's account. Each employee receives a year-end statement of his account and selects how the funds are invested.

Funding Policy - The employee contributes 10% of compensation to the Plan, and the employer contributes 10% of employee compensation. Contributions to the Plan for the year ended June 30, 2023, for employees and employer were \$59,698 and \$59,698, respectively. For the year ended June 30, 2023, the City's covered payroll was \$597,578. Covered payroll refers to all compensation paid by the City of Lexington to active employees covered by the Plan on which contributions are based.

SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through the date of the independent auditor's report which is the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY
INFORMATION**

City of Lexington, Oklahoma
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2023

	Budget			Actual	Variance with Final Budget Over (Under)
	Original	Revisions	Final		
REVENUES					
Taxes	\$ 546,171	-	546,171	508,551	(37,620)
Intergovernmental	46,675	-	46,675	113,305	66,630
Licenses and permits	14,500	300	14,800	20,367	5,567
Charge for services	147,000	(20,500)	126,500	130,848	4,348
Fines and forfeitures	118,750	(18,750)	100,000	108,162	8,162
Interest	2,000	-	2,000	2,673	673
Miscellaneous	6,650	49,246	55,896	128,971	73,075
Total revenues	<u>881,746</u>	<u>10,296</u>	<u>892,042</u>	<u>1,012,877</u>	<u>120,835</u>
EXPENDITURES					
General government:					
Administration	317,985	14,000	331,985	333,531	(1,546)
Public safety:					
Police	675,418	10,376	685,794	673,284	12,510
Fire	57,199	50,193	107,392	90,307	17,085
Ambulance	115,000	8,000	123,000	122,909	91
Civil defense	1,500	-	1,500	-	1,500
Public works:					
Streets	165,454	(14,650)	150,804	129,472	21,332
Culture and recreation:					
Parks	14,900	8,144	23,044	20,485	2,559
Total expenditures	<u>1,347,456</u>	<u>76,063</u>	<u>1,423,519</u>	<u>1,369,988</u>	<u>53,531</u>
Excess (deficiency) of revenues over (under) expenditures	(465,710)	(65,767)	(531,477)	(357,111)	174,366
OTHER FINANCING SOURCES (USES)					
Transfers	577,250	-	577,250	435,000	(142,250)
Net change in fund balances	111,540	(65,767)	45,773	77,889	32,116
Fund balances - beginning	25,000	17,253	42,253	(127,294)	(169,547)
Fund balances - ending	<u>\$ 136,540</u>	<u>(48,514)</u>	<u>88,026</u>	<u>(49,405)</u>	<u>(137,431)</u>

**Budgetary Comparison Schedule
City of Lexington
For the Year Ended June 30, 2023**

BUDGETARY ACCOUNTING AND CONTROL

Budget Law

The City prepares its annual operating budget under the provisions of the Oklahoma Municipal Budget Act of 1979 (the “Budget Act”). In accordance with those provisions, the following process is used to adopt the annual budget:

- a. Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1.
- b. Public hearings are conducted to obtain taxpayer comments. At least one public hearing must be held no later than 15 days prior to July 1.
- c. Subsequent to the public hearings but no later than seven days prior to July 1, the budget is legally enacted through the passage of a resolution by the City Council.
- d. By July 1, the adopted budget is filed with the office of the State Auditor and Inspector.
- e. The legal level of control at which expenditures may not legally exceed appropriations is the department level within a fund.

All fund decreases of appropriation and supplemental appropriations require City Council approval. The City Manager may transfer appropriations between departments within a fund without City Council approval. Supplemental appropriations must also be filed with the Office of State Auditor and Inspector. The Administration department exceeded its budget by \$1,546.

Budgetary Accounting

The annual operating budgets are prepared and presented on a modified accrual basis of accounting.

The City utilizes encumbrance accounting under which purchase orders, contracts, and other commitments for expenditure of funds are recorded in order to reserve a portion of the applicable appropriation. Encumbrances outstanding at year-end are not considered expenditures for budgetary purposes since the City intends to honor the commitments and provide for supplemental appropriations in the following budget year. All appropriations lapse at year-end.

**Budgetary Comparison Schedule
City of Lexington
For the Year Ended June 30, 2023**

Budget Reconciliations - Items required to adjust actual revenues, expenditures, and fund balances reported on the budgetary basis to those reported within the fund financial statements as of and for the year ended June 30, 2023, are as follows:

	<u>General Fund</u>
Fund balances - budgetary basis, June 30, 2023	\$ (49,405)
Current year revenue accruals	118,652
Prior year revenue accruals	(54,459)
Current year expenditure accruals	<u>-</u>
Fund balances - fund financial statements, June 30, 2023	<u>\$ 14,788</u>
Revenues - budgetary basis, June 30, 2023	\$ 1,012,877
Current year revenue accruals	118,652
Prior year revenue accruals	<u>(54,459)</u>
Revenues - fund financial statements, June 30, 2023	<u>\$ 1,077,070</u>
Expenditures - budgetary basis, June 30, 2023	\$ 1,369,988
Current year expenditure accruals	-
Prior year expenditure accruals	<u>-</u>
Expenditures - fund financial statements, June 30, 2023	<u>\$ 1,369,988</u>

City of Lexington, Oklahoma
Schedule of Employer's Share of Net Pension Liability
Oklahoma Police Pension and Retirement System
Last 10 Fiscal Years *

	2015	2016	2017	2018	2019	2020	2021	2022	2023
1. Employer's proportion of the net pension liability (asset)		0.000027%	0.000297%	0.000503%	0.000398%	0.000360%	0.000365%	0.000391%	0.000436%
2. Employer's proportionate share of the net pension liability (asset)	\$	112	45,539	3,871	(18,976)	(2,297)	41,885	(187,359)	(34,964)
3. Employer's covered-employee payroll	\$	7,769	87,692	150,078	121,513	117,028	127,319	129,329	150,086
4. Employer's proportionate share of the net pension liability (asset) as a percentage of it's covered-employee payroll		1.44%	51.93%	2.58%	-15.62%	-1.96%	32.90%	-144.87%	-23.30%
5. Plan fiduciary net position as a percentage of the total pension liability		99.82%	93.50%	99.68%	101.89%	100.24%	95.80%	117.07%	102.74%

* Complete data for this schedule is not available prior to 2014
Data reported is measured as of July 1, 2022

City of Lexington, Oklahoma
Schedule of Employer's Contributions
Oklahoma Police Pension and Retirement System
Last 10 Fiscal Years *

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Statutorily required contribution	\$	1,010	11,400	19,510	15,797	15,214	16,551	18,106	21,012
Contributions in relation to the statutorily required contribution	\$	1,010	11,400	19,510	15,797	15,214	16,551	18,106	21,012
Contribution deficiency (excess)	\$	-	-	-	-	-	-	-	42,024
City's covered-employee payroll	\$	7,769	87,692	150,078	121,513	117,028	127,319	129,329	150,086
Contributions as a percentage of covered-employee payroll		13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	14.00%	14.00%

* Complete data for this schedule is not available prior to 2014
Data reported is measured as of July 1, 2022
The City did not have police officers as active members in the Plan prior to March 4, 2015

City of Lexington, Oklahoma
Schedule of Employer's Share of Net Pension Liability
Oklahoma Firefighters' Pension and Retirement System
Last 10 Fiscal Years *

	2015	2016	2017	2018	2019	2020	2021	2022	2023
1. Employer's proportion of the net pension liability (asset)	0.004977%	0.002510%	0.002911%	0.003166%	0.002594%	0.002772%	0.002403%	0.002639%	0.001554%
2. Employer's proportionate share of the net pension liability (asset)	\$ 51,177	26,638	35,565	39,824	29,196	29,288	29,606	17,376	20,322
3. Employer's proportionate share of the net pension liability (asset) as a percentage of it's covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
4. Plan fiduciary net position as a percentage of the total pension liability	68.12%	68.27%	64.87%	66.61%	70.73%	72.85%	69.98%	84.24%	69.49%

* Complete data for this schedule is not available prior to 2014
Data reported is measured as of July 1, 2022

City of Lexington, Oklahoma
Schedule of Employer's Contributions
Oklahoma Firefighters' Pension and Retirement System
Last 10 Fiscal Years *

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Statutorily required contribution	\$ 1,860	960	1,140	1,260	1,080	1,200	1,080	1,200	1,200
Contributions in relation to the statutorily required contribution	\$ 1,860	960	1,140	1,260	1,080	1,200	1,080	1,200	1,200
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-
City's covered-employee payroll	\$ N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* Complete data for this schedule is not available prior to 2014
Data reported is measured as of July 1, 2022

**OTHER
SUPPLEMENTARY
INFORMATION**

City of Lexington, Oklahoma
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2023

	Special Revenue	Total
	Street &	Nonmajor
ASSETS	<u>Alley</u>	<u>Governmental</u>
		<u>Funds</u>
Cash and cash equivalents	\$ 141,476	141,476
Receivables, net	313	313
	141,789	141,789
TOTAL	141,789	141,789
 LIABILITIES AND FUND BALANCES		
Liabilities:		
None	-	-
	-	-
Total liabilities	-	-
 Fund balances:		
Restricted	141,789	141,789
Assigned	-	-
	-	-
Total fund balances	141,789	141,789
TOTAL	\$ 141,789	141,789

City of Lexington, Oklahoma
Combining Statement of Revenues, Expenses and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2023

	Special Revenue	Total
	Street & Alley	Nonmajor Governmental Funds
REVENUES		
Taxes	\$ 17,949	17,949
Total revenues	17,949	17,949
EXPENDITURES		
Current:		
Public works	451	451
Total expenditures	451	451
Excess (deficiency) of revenues over expenditures	17,498	17,498
OTHER FINANCING SOURCES (USES)		
Transfers in	-	-
Transfers out	-	-
Total other financing sources and uses	-	-
Net change in fund balances	17,498	17,498
Fund balances-beginning	124,291	124,291
Fund balances-ending	\$ 141,789	141,789

City of Lexington, Oklahoma
Lexington Public Works Authority
Debt Service Coverage Schedule
For the Year Ended June 30, 2023

Gross Revenue Available For Debt Service:

System-wide (water, sewer and sanitation) gross revenues	\$	<u>1,012,484</u>
Total Gross Revenues Available		<u>1,012,484</u>
System-wide operating expense - Exclusive of capital improvements, debt service and depreciation		<u>684,813</u>
Net Revenues Available for Debt Service	\$	<u><u>327,671</u></u>
Debt Service Requirements:		
OWRB Revenue Note - Series 2015		<u>172,461</u>
Maximum annual debt service	\$	<u><u>172,461</u></u>
Coverage		<u><u>1.90</u></u>
Coverage requirement		<u><u>1.25</u></u>

City of Lexington, Oklahoma
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2023

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM/ CLUSTER TITLE	FEDERAL ASSISTANCE LISTING NUMBER	PASS - THROUGH GRANTOR NUMBER	FEDERAL EXPENDITURES
<u>U.S. Department of Housing and Urban Development</u>			
<i>Passed through the Oklahoma Department of Commerce:</i>			
<i>Community Development Block Grant - Entitlement Cluster:</i>			
CDBG Entitlement Grant	14.228	18166 CDBG 20	135,663
Total U.S. Department of Housing and Urban Development			135,663
Total Expenditures of Federal Awards			\$ 135,663

City of Lexington, Oklahoma
 Schedule of Expenditures of State Awards
 For the Year Ended June 30, 2023

STATE GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	PASS - THROUGH GRANTOR NUMBER	STATE EXPENDITURES
STATE ASSISTANCE		
<u>State of Oklahoma</u>		
Passed through the Oklahoma Dept. of Environmental Quality :		
Equipment Grant	103899	41,674
Passed through the Association of Central Oklahoma Governments :		
Rural Economic Action Grant	FY 2023	40,225
Total State Awards		\$ <u>81,899</u>

**INTERNAL CONTROL AND
COMPLIANCE INFORMATION**



DILLON & ASSOCIATES, PC
Certified Public Accountants

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

To the Users of the City of Lexington, Oklahoma, Annual Financial Report

We have audited, in accordance with the 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 (the "City") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 29, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City'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 opinions on financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2023-001 through 2023-002 to be material weaknesses.

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* - Continued

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial 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 item 2023-003.

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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dillon & Associates, PC

Midwest City, Oklahoma
December 29, 2023

CITY OF LEXINGTON

SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2023

Finding 2023-001 - Internal Control - Segregation of Duties

Criteria - The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the City's assets and ensure accurate financial reporting.

Condition - Presently there is not an adequate segregation of duties for the individuals responsible for cash receipts, disbursements, and account reconciliations.

Cause - The City's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect - Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to purchasing and deposit activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation - We recommend that management should consider a formal evaluation of their risks associated with these procedures. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of control duties, such as providing increased management oversight and an independent reconciliation of accounts.

Responsible Official's Response - The City concurs with the recommendation, although, the cost to correct this condition might exceed the benefit, the City will strive to make changes in procedures that will improve the overall lack of segregation of duties. The City has hired an outside accounting firm to assist with bank reconciliations and the review of transactions.

Finding 2023-002 - Internal Control - Closeout of Monthly Financial Reports

Criteria - Management is responsible for establishing internal controls over the process of monthly financial reports.

Condition - There has been a lack of consistency in retaining all necessary detailed financial reports.

Effect or Potential Effect - The lack of proper month end closeout procedures makes it impossible to document and reconcile the financial transactions on a timely basis, catch possible errors and make the necessary corrections.

Recommendation - We recommend that the City adopt a policy of using a checklist of necessary month end procedures and the retention of all necessary reports.

Responsible Official's Response - The City concurs with the recommendation.

CITY OF LEXINGTON

SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2023

Finding 2023-003 - Compliance Matter - Deposits with Financial Institutions

Criteria - Oklahoma statutes require cash accounts be fully covered by Federal deposit insurance or fully collateralized with U.S. government obligations and be interest bearing.

Condition - As of June 30, 2023, the City had bank deposits of \$76,849 which were not covered by FDIC insurance or collateralized assets as required by statute.

Cause - The Organization failed to monitor their cash balance which caused the bank balances to exceed the required coverage requirements.

Effect or Potential Effect - Because of the failure to adequately collateralize its deposits, the City was exposed to potential losses resulting from custodial credit risk up to \$76,849 as of June 30, 2023.

Recommendation - We recommend that the City have procedures in place to ensure that all applicable deposits are adequately insured or collateralized throughout the year.

Responsible Official's Response - The City concurs with the recommendation and has implement additional monitoring procedures to more accurately ensure FDIC and pledged asset coverage is maintained throughout the year.