City of Lexington, Oklahoma

REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

For the Year Ended June 30, 2016

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CITY OF LEXINGTON, OKLAHOMA

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Lexington, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lexington, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Lexington's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lexington, Oklahoma as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension exhibits and budgetary comparison information on pages 3 through 10 and 44 through 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2016 on our consideration of the City of Lexington, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lexington, Oklahoma's internal control over financial reporting and compliance.

Saunders + Associates, PLLC

SAUNDERS & ASSOCIATES, PLLC
Certified Public Accountants
Ada, Oklahoma

November 22, 2016

CITY OF LEXINGTON, OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

UNAUDITED

Our discussion and analysis of the City of Lexington's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the City's financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- The City's net position increased by $228 thousand, or 9.5 percent as a result of this year's operations. While net position of our business-type activities decreased by $75 thousand, or 5.3 percent, net position of our governmental activities increased by $303 thousand, or 31.5 percent.

- During the year, the City had expenses that were $308 thousand more than the $907 thousand generated in tax and other revenues for governmental programs (before special items and transfers from business-type activities). This compares to last year when expenses exceeded revenues by $499 thousand.

- In the City's business-type activities, revenues decreased by $120 thousand (or 5.0 percent) while expenses decreased 1%.

- Total cost of all of the City's programs decreased $26 thousand (0.9%) with no new programs added this year.

- For the general fund, the resources available for appropriation were $6 thousand more than budgeted; the resources transferred from the proprietary funds were $135 thousand less than budgeted; and expenditures were kept $94 thousand less than budgeted.

USING THIS ANNUAL REPORT

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

Reporting the City as a Whole

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

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

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

- Governmental Activities – Most of the City's basic services are reported here, including the police, fire, general administration, streets, parks, and ambulance. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities.

- Business-Type Activities – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water, sewer, sanitation, and electric systems are reported here.

Reporting the City's Most Significant Funds

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

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

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

THE CITY AS TRUSTEE

Reporting the City's Fiduciary Responsibilities

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

THE CITY AS A WHOLE

Net Position

The City's combined net position increased 9.5% from $2,390,057 to $2,617,973. (See Table 1) In comparison, last years' net position increased 7.1%.

TABLE 1 – NET ASSETS

	Governmental Activities		Business-Type Activities		Total Primary Government		Total
	06/30/16	06/30/15	06/30/16	06/30/15	06/30/16	06/30/15	% Change
Capital Assets	$ 598,806	$ 490,348	$ 1,847,705	$ 1,135,364	$ 2,446,511	$ 1,625,712	50.5%
Current and Other Assets	792,652	607,190	1,187,278	1,070,368	1,979,930	1,677,558	18.0%
Total Assets	1,391,458	1,097,538	3,034,983	2,205,732	4,426,441	3,303,270	34.0%
Total Deferred Outflows Of Resources	19,027	3,195	0	0	19,027	3,195	495.5%
Long-Term Liabilities	52,606	64,649	1,386,637	618,154	1,439,243	682,803	110.8%
Other Liabilities	63,157	66,662	295,035	159,196	358,192	225,858	58.6%
Total Liabilities	115,763	131,311	1,681,672	777,350	1,797,435	908,661	97.8%
Total Deferred Inflows of Resources	30,060	7,747	0	0	30,060	7,747	288.0%
Net Position:							
Investment in Capital Assets, Net	598,806	490,348	389,969	448,649	988,775	938,997	5.3%
Restricted	716,436	524,742	39,417	34,826	755,853	559,568	35.18%
Unrestricted	(50,580)	(53,415)	923,925	944,907	873,345	891,492	-2.0%
Total Net Position	$ 1,264,662	$ 961,675	$ 1,353,311	$ 1,428,382	$ 2,617,973	$ 2,390,057	9.5%

Net position of the City's governmental activities increased 31.5% ($1,264,662 compared to $961,675). Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased 5.3% from $(53,415) to $(50,580).

The net position of our business-type activities decreased by 5.3% ($1,353,311 compared to $1,428,382).

Changes in Net Position

The City's total revenues increased by 2.2% ($68,006). The total cost of all new programs and services decreased 0.9% ($25,574). Table 2 and the narrative that follows consider the operations of governmental and business-type activities separately.

TABLE 2 – CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total Primary Government		Total
	06/30/16	06/30/15	06/30/16	06/30/15	06/30/16	06/30/15	% Change
Program Revenues:							
Charges for Services	$ 236,186	$ 173,102	$ 2,264,335	$ 2,387,530	$ 2,500,521	$ 2,560,632	-2.3%
Operating Grants/ Contributions	66,502	10,687	325	0	66,827	10,687	525.3%
Capital Grants/ Contributions	95,000	36,290	0	0	95,000	36,290	161.8%
General Revenues:							
Franchise Taxes	18,780	21,283	0	0	18,780	21,283	-11.8%
Public Service Taxes	487,067	474,728	0	0	487,067	474,728	2.6%
Interest	848	491	2,587	2,778	3,435	3,269	5.1%
Miscellaneous	2,436	2,472	5,925	2,624	8,361	5,096	64.1%
Total Revenues	906,819	719,053	2,273,172	2,392,932	3,179,991	3,111,985	2.2%
Program Expenses:							
Administration	337,954	342,663	266,207	282,201	604,161	624,864	-3.3%
Police	609,830	637,883	0	0	609,830	637,883	-4.4%
Fire	62,618	44,378	0	0	62,618	44,378	41.1%
Civil Defense	1,593	3,584	0	0	1,593	3,584	-55.6%
Ambulance	106,962	87,045	0	0	106,962	87,045	22.9%
Street and Alley	85,484	73,413	0	0	85,484	73,413	16.4%
Parks and Recreation	7,663	29,193	0	0	7,663	29,193	-73.8%
Economic Development	2,400	439	0	0	2,400	439	446.7%
Water	0	0	219,477	178,457	219,477	178,457	23.0%
Wastewater	0	0	121,678	64,992	121,678	64,992	87.2%
Refuse Collection	0	0	159,328	155,353	159,328	155,353	2.6%
Electric	0	0	974,140	1,081,307	974,140	1,081,307	-9.9%
Total Expenses	1,214,504	1,218,598	1,740,830	1,762,310	2,955,334	2,980,908	-0.9%
Excess Before Contributions Etc.	(307,685)	(499,545)	532,342	630,622	224,657	131,077	71.4%
Transfers	607,413	669,212	(607,413)	(669,212)	0	0	0.0%
Non Employer Pension Contribution	3,259	3,894	0)	0	3,259	3,894	-16.3%
Special Items	0	807	0	(8,269)	0	(7,462)	-100.%
Extraordinary Items	0	0	0	0	0	0	0.0%
Changes in Net Position	$ 302,987	$ 174,368	$(75,071)	$(46,859)	$ 227,916	$ 127,509	78.7%

Governmental Activities

Revenues for the City's governmental activities increased by 26.1% ($187,766), while total expenses decreased by 0.3% ($4,094). With the transfer in of funds from the business-type activities, the net position for governmental activities increased 31.5%.

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

TABLE 3 – GOVERNMENTAL ACTIVITIES

	Total Cost of Services		Total %	Net Cost of Services		Total %
	06/30/16	06/30/15	Change	06/30/16	06/30/15	Change
Administration	$ 337,954	$ 342,663	-1.4%	$ 292,825	$ 313,511	-6.6%
Police	609,830	637,883	-4.4%	495,500	568,471	-12.8%
Fire	62,618	44,378	41.1%	(3,885)	27,744	-114.0%
Civil Defense	1,593	3,584	-55.6%	1,593	3,584	-55.6%
Ambulance	106,962	87,045	22.9%	(2,948)	(3,768)	-21.8%
Street and Alley	85,484	73,413	16.4%	24,022	65,413	-63.3%
Parks and Recreation	7,663	29,193	-73.8%	7,309	23,125	-68.4%
Economic Development	2,400	439	446.7%	2,400	439	446.7%
Total	$ 1,214,504	$ 1,218,598	-0.3%	$ 816,816	$ 998,519	-18.2%

The cost of all governmental activities this year was $1,214,504 compared to $1,218,598 last year (a decrease of $4,094). Some of the costs were paid by those who directly benefited from the program. For 2016, the City received $4,290 in grant funds for the fire department, $20,000 in state grant funds for sidewalk improvements, $60,000 in capital contribution for fire truck, $35,000 for capital contribution for Senior Citizens building, and $41,462 in emergency funds for flood damage. For 2015, the City received $4,484 in grant funds for the fire department and $10,000 in capital contribution for purchase of fire truck. Ultimately, the taxpayers financed $505,847 (41.7%) of the cost with the remainder of the costs primarily being covered through a transfer in from the business-type activities.

Business-Type Activities

Revenues of the City's business type activities decreased by 5.0% ($2,273,172 in 2016 compared to $2,392,932 in 2015) and expenses decreased by 1.2% ($1,740,830 in 2016 compared to $1,762,310 in 2015). Transfers to governmental funds decreased 9.2% ($607,413 in 2016 compared to $669,212 in 2015).

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 13) reported a combined fund balance of $743,838, which is an increase of $191,948 (34.8%) over last year's total of $551,890.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the budget several times. The budget revisions were to set up budgets for state grants, set up budgets for emergency funds for flood damage and to transfer appropriations from line item to line item.

With these adjustments, the actual revenues were above budgeted revenues by $6,171 (1.0%). Additionally, actual expenditures were $94,018 (7.0%) below budgeted expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At year end, the City had $8.9 million invested in capital assets, including police and fire equipment, buildings, park facilities, electric utility equipment, and water and sewer lines. (See table below). This amount represents a net increase of $829,733 (10.2%) over the last year.

	Governmental Activities		Business Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Building and Property	$ 1,916,005	$ 1,836,907	$ 0	$ 0	$ 1,916,005	$ 1,836,907
Construction in Progress	0	0	799,670	0	799,670	0
Water and Sewer Improvements	0	0	3,809,571	3,809,571	3,809,571	3,809,571
Vehicles	563,636	524,696	0	0	563,636	524,696
Equipment	240,666	234,052	1,642,742	1,737,332	1,883,408	1,971,383
Total	$ 2,720,307	$ 2,595,655	$ 6,251,983	$ 5,546,903	$ 8,972,290	$ 8,142,557

This year's major additions included:

Building and Renovations – Senior Citizens Building	$ 59,250
Sidewalks and Playground Equipment – Charlie McCown Park	40,707
Fire Truck	60,000
Vehicle – City Manager	13,000
Meter Readers – Light Department	16,825
Wastewater Treatment Plant (Construction in Progress)	799,670**
	$ 989,452

** Financed by revenue bonds. More detailed information is presented in Note 8 to the financial statements.

More detailed information about the City's capital assets is presented in Note 1 and Note 7 of the financial statements.

Capital expenditures planned for the 2016/2017 fiscal year include $20,000 of equipment for administration; $25,000 of equipment for the fire department; $90,000 for street improvements; $355,000 for economic development; $95,000 for the electric property purchase and $10,000 for sewer line replacement. Portions of these planned capital expenditures will be financed through grants.

Debt

At year-end, the City had $1,457,736 in outstanding bonds and notes compared to $687,715 last year. That is an increase of 112% as shown in the following table.

	Governmental Activities		Business Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenue Bonds (backed by specific fee revenues)	$ 0	$ 0	$ 1,390,894	$ 605,000	$ 1,390,894	$ 605,000
Capital Lease Obligations	0	0	0	0	0	0
Note Obligations	0	0	66,842	81,715	66,842	81,715
Total	$ 0	$ 0	$ 1,457,736	$ 686,715	$ 1,457,736	$ 686,715

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

Long-Term Liabilities – At year end, the City had $26,750 in long-term liabilities for the City's proportionate share of the Net Pension Obligation compared to $51,177 last year. That is a decrease of 47.7%. (See table below.)

	Governmental Activities		Business Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Net Pension Obligation						
Firefighter's	$ 26,638	$ 51,177	$ 0	$ 0	$ 26,638	$ 51,177
Police	112	0	0	0	112	0
Total	$ 26,750	$ 51,177	$ 0	$ 0	$ 26,750	$ 51,177

More detailed information about the City's pension plans for firefighter's and police officer's is presented in Note 1, Note 5 and Note 12 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Lexington, due to economic factors that were present in 2015-2016 fiscal years, have elected to continue the implementation of stringent expense controls for all city associates requiring total prior expenditure approvals.

The City had received notification form DEQ informing the City of Notice of Violation requiring submission of an engineering report for construction of a disinfection system at our wastewater treatment facility. The estimated cost of treatment facility replacement is $3 Million dollars. Construction is set to end on or around February 2017. The loan has been secured through OWRB and the rate increases in Sewer and Water have been approved by the City Council of Lexington. The rate increases went into effect in August 2014, and are as follows: water $14.00 for the first 1,000 gallons, and $6.20 for the next 1,000 gallons. The fee increases at a rate of an additional 5 cents per 1,000 gallons, up to 5,000 gallons and over.

Additionally, ODOT is set to begin a reconstruction project of the US 77 bridge between Lexington and Purcell. The project is scheduled to be a multi-year project, which could cause an economic downturn for the City of Lexington.

The City's elected and appointed officials considered many factors when setting the fiscal year 2016-2017 budget. For 2015-2016, the General Fund budget for expenditures was $1,219,566 million. The total revenues for 2016-2017 are budgeted at $4,690,000 million, and the General Fund is budgeted at $1,338,567 million.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the city's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the City Manager's Office at 111 East Broadway, Lexington, Oklahoma.

Chris Coker
City Manager

BASIC FINANCIAL STATEMENTS

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF NET POSITION

June 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash, Including Time Deposits	$ 736,438	$ 896,298	$ 1,632,736
Internal Balances	0	0	0
Accounts Receivable			
Utility Fees	0	238,487	238,487
Other	56,214	2,891	59,105
Interest Receivable	0	0	0
Total Current Assets	792,652	1,137,676	1,930,328
Non-Current Assets:			
Restricted Cash, Including Time Deposits	0	49,602	49,602
Property, Plant and Equipment:			
Buildings and Property	1,916,005	0	1,916,005
Construction in Progress	0	799,670	799,670
Water and Sewer Improvements	0	3,809,571	3,809,571
Vehicles	563,636	0	563,636
Equipment	240,666	1,642,742	1,883,408
Less: Accumulated Depreciation	(2,121,501)	(4,404,278)	(6,525,779)
Total Non-Current Assets	598,806	1,897,307	2,496,113
Total Assets	1,391,458	3,034,983	4,426,441
DEFERRED OUTFLOWS OF RESOURCES			
Pension Activities	19,027	0	19,027
Total Deferred Outflows of Resources	19,027	0	19,027
LIABILITIES			
Current Liabilities:			
Accounts Payable	33,962	165,812	199,774
Accrued Payroll	14,852	8,566	23,418
Other Payables	0	16,875	16,875
Current Portion - Compensated Absences	14,343	6,352	20,695
Current Portion - Long-Term Debt	0	97,430	97,430
Total Current Liabilities	63,157	295,035	358,192
Non-Current Liabilities:			
Compensated Absences	25,856	26,331	52,187
Net Pension Obligation	26,750	0	26,750
Long-Term Debt	0	1,360,306	1,360,306
Total Non-Current Liabilities	52,606	1,386,637	1,439,243
Total Liabilities	115,763	1,681,672	1,797,435
DEFERRED INFLOWS OF RESOURCES			
Pension Activities	30,060	0	30,060
Total Deferred Inflows of Resources	30,060	0	30,060
NET POSITION			
Net Investment in Capital Assets	598,806	389,969	988,775
Restricted for Debt Service	0	39,417	39,417
Restricted for Streets and Alleys	93,536	0	93,536
Restricted for Streets and Alleys and Economic Development	598,952	0	598,952
Restricted for Police Department	3,853	0	3,853
Restricted for Parks and Recreation	20,095	0	20,095
Unrestricted	(50,580)	923,925	873,345
Total Net Position	$ 1,264,662	$ 1,353,311	$ 2,617,973

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

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
					Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
PRIMARY GOVERNMENT:							
Governmental Activities:							
Administration	$ 337,954	$ 10,129	$ 0	$ 35,000	$ (292,825)		$ (292,825)
Police	609,830	113,934	396	0	(495,500)		(495,500)
Fire	62,618	2,213	4,290	60,000	3,885		3,885
Civil Defense	1,593	0	0	0	(1,593)		(1,593)
Ambulance	106,962	109,910	0	0	2,948		2,948
Street and Alley	85,484	0	61,462	0	(24,022)		(24,022)
Parks and Recreation	7,663	0	354	0	(7,309)		(7,309)
Economic Development	2,400	0	0	0	(2,400)		(2,400)
Total Governmental Activities	1,214,504	236,186	66,502	95,000	(816,816)		(816,816)
Business-Type Activities:							
Administration	266,207	0	0	0		$ (266,207)	(266,207)
Water	219,477	400,566	0	0		181,089	181,089
Wastewater	121,678	231,538	0	0		109,860	109,860
Refuse Collection	159,328	187,812	0	0		28,484	28,484
Electric	974,140	1,444,419	325	0		470,604	470,604
Total Business-Type Activities	1,740,830	2,264,335	325	0		523,830	523,830
TOTAL PRIMARY GOVERNMENT	$ 2,955,334	$ 2,500,521	$ 66,827	$ 95,000	(816,816)	523,830	(292,986)
General Revenues:							
Taxes:							
Franchise Taxes					18,780	0	18,780
Public Service Taxes					487,067	0	487,067
Grants and Contributions not restricted to specific programs					0	0	0
Unrestricted Investment Earnings					848	2,587	3,435
Miscellaneous					2,436	5,925	8,361
Non-Employer Pension Contribution					3,259	0	3,259
Special Item					0	0	0
Transfers					607,413	(607,413)	0
Total General Revenues, Special Items and Transfers					1,119,803	(598,901)	520,902
Change in Net Position					302,987	(75,071)	227,916
Net Position, June 30, 2015					961,675	1,428,382	2,390,057
NET POSITION, JUNE 30, 2016					$ 1,264,662	$ 1,353,311	$ 2,617,973

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

CITY OF LEXINGTON, OKLAHOMA

BALANCE SHEET -
GOVERNMENTAL FUNDS

June 30, 2016

	General Fund	Special Revenue Restricted Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash, Including Time Deposits	$ 56,469	$ 588,247	$ 91,722	$ 736,438
Due From Other Funds	374	0	0	374
Accounts Receivable:				
Utility Fees	0	0	0	0
Other	42,169	11,857	1,814	55,840
Total Assets	99,012	600,104	93,536	792,652
DEFERRED OUTFLOWS OF RESOURCES				
Total Deferred Outflows of Resources	0	0	0	0
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 99,012	$ 600,104	$ 93,536	$ 792,652
LIABILITIES				
Accounts Payable	$ 32,810	$ 1,152	$ 0	$ 33,962
Accrued Payroll	14,852	0	0	14,852
Due to Other Funds	0	0	0	0
Total Liabilities	47,662	1,152	0	48,814
DEFERRED INFLOWS OF RESOURCES				
Total Deferred Inflows of Resources	0	0	0	0
FUND BALANCE				
NonSpendable	0	0	0	0
Restricted for:				
Streets and Alleys	0	0	93,536	93,536
Streets and Alleys & Economic Development	0	598,952	0	598,952
Police Department	3,853	0	0	3,853
Parks & Recreation	20,095	0	0	20,095
Committed for:				
Streets and Alleys	0	0	0	0
Assigned	31,726	0	0	31,726
Unassigned	(4,324)	0	0	(4,324)
Total Fund Balance	51,350	598,952	93,536	743,838
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$ 99,012	$ 600,104	$ 93,536	$ 792,652

Fund equity - total governmental funds	$ 743,838
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	598,806
Compensated absences are not reported in the fund financial statements (See Note 1).	(40,199)
Deferred outflows of resources - pension activities apply to future periods and therefore are not reported in the funds.	19,027
Deferred inflows of resources - pension activities apply to future periods and therefore are not reported in the funds.	(30,060)
Net pension obligation in governmental activities is not due and payable in current period and therefore is not reported in the funds.	(26,750)
Net position of governmental activities	$ 1,264,662

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

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2016

	General Fund	Special Revenue Restricted Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$ 333,110	$ 152,868	$ 19,869	$ 505,847
Licenses and Permits	8,218	0	0	8,218
Intergovernmental	36,466	29,286	0	65,752
Charges for Services	118,058	0	0	118,058
Ambulance Assessments	109,910	0	0	109,910
Donations	95,750	0	0	95,750
Interest	848	0	0	848
Miscellaneous	2,436	0	0	2,436
Total Revenues	704,796	182,154	19,869	906,819
EXPENDITURES				
Current:				
Administration	339,068	0	0	339,068
Police	614,902	0	0	614,902
Fire	126,885	0	0	126,885
Civil Defense	1,593	0	0	1,593
Ambulance	106,962	0	0	106,962
Street and Alley	73,787	1,959	6,359	82,105
Parks and Recreation	48,369	0	0	48,369
Economic Development	0	2,400	0	2,400
Total Expenditures	1,311,566	4,359	6,359	1,322,284
Excess of Revenues Over (Under) Expenditures	(606,770)	177,795	13,510	(415,465)
Other Financing Sources (Uses):				
Operating Transfers In (Out)	607,413	0	0	607,413
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	643	177,795	13,510	191,948
Fund Balance, June 30, 2015	50,707	421,157	80,026	551,890
FUND BALANCE, JUNE 30, 2016	$ 51,350	$ 598,952	$ 93,536	$ 743,838

Net change in fund balances - total governmental funds	$ 191,948
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays ($172,956) exceeded depreciation ($64,498) in the current period.	108,458
Compensated absences are not reported in the fund financial statements (See Note 1).	(15,365)
Pension obligation is not reported in the funds. This amount represents the current year change.	17,946
Change in net position of governmental activities	$ 302,987

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

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

June 30, 2016

	Enterprise Funds		
	Light Fund	LPWA Fund	Total
ASSETS			
Current Assets:			
Cash, Including Time Deposits	$ 443,169	$ 453,129	$ 896,298
Due From Other Funds	0	2,891	2,891
Accounts Receivable	165,130	73,357	238,487
Interest Receivable	0	0	0
Total Current Assets	608,299	529,377	1,137,676
Non-Current Assets:			
Restricted Cash, Including Time Deposits	10,185	39,417	49,602
Property, Plant and Equipment:			
Water and Sewer Improvements	0	3,809,571	3,809,571
Construction in Progress	0	799,670	799,670
Equipment	1,464,075	178,667	1,642,742
Less: Accumulated Depreciation	(1,174,133)	(3,230,145)	(4,404,278)
Total Non-Current Assets	300,127	1,597,180	1,897,307
Total Assets	908,426	2,126,557	3,034,983
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	0	0	0
LIABILITIES			
Current Liabilities:			
Accounts Payable	2,219	163,593	165,812
Accrued Payroll	5,833	2,733	8,566
Other Payables	13,725	3,150	16,875
Due to Other Funds	0	0	0
Current Portion - Long-Term Debt	15,430	82,000	97,430
Total Current Liabilities	37,207	251,476	288,683
Non-Current Liabilities:			
Long-Term Debt	51,412	1,308,894	1,360,306
Total Non-Current Liabilities	51,412	1,308,894	1,360,306
Total Liabilities	88,619	1,560,370	1,648,989
DEFERRED INFLOWS OF RESOURCES			
Total Deferred Inflows of Resources	0	0	0
NET POSITION			
Net Investment in Capital Assets	223,100	166,869	389,969
Restricted for Debt Service	0	39,417	39,417
Unrestricted	596,707	359,901	956,608
Total Net Position	$ 819,807	$ 566,187	$ 1,385,994

Net Position - total proprietary funds	$ 1,385,994
Compensated absences are not reported in the fund financial statements (See Note 1).	(32,683)
Net Position of Business Type Activities	$ 1,353,311

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

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

For the Year Ended June 30, 2016

	Enterprise Funds		
	Light Fund	LPWA Fund	Total
Operating Revenues:			
Electric Charges	$ 1,444,419	$ 0	$ 1,444,419
Water Charges	0	400,566	400,566
Garbage Charges	0	187,812	187,812
Sewer Charges	0	231,538	231,538
Total Operating Revenues	1,444,419	819,916	2,264,335
Operating Expenses:			
Administration:			
Personnel Services	83,088	10,462	93,550
Materials and Supplies	1,207	618	1,825
Other Services and Charges	56,937	8,022	64,959
Depreciation	41,149	63,005	104,154
Total Administration	182,381	82,107	264,488
Water:			
Personnel Services	0	120,249	120,249
Materials and Supplies	0	16,511	16,511
Other Services and Charges	0	28,432	28,432
Total Water	0	165,192	165,192
Wastewater:			
Personnel Services	0	19,116	19,116
Materials and Supplies	0	8,683	8,683
Other Services and Charges	0	26,379	26,379
Total Wastewater	0	54,178	54,178
Refuse Collection:			
Other Services and Charges	0	159,328	159,328
Total Refuse Collection	0	159,328	159,328

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

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

For the Year Ended June 30, 2016

	Enterprise Funds		
	Light Fund	LPWA Fund	Total
Electric:			
Personnel Services	189,001	0	189,001
Materials and Supplies	16,983	0	16,983
Other Services and Charges	7,347	0	7,347
Power Purchases	691,369	0	691,369
Total Electric	904,700	0	904,700
Total Operating Expenses	1,087,081	460,805	1,547,886
Net Operating Income	357,338	359,111	716,449
Non-Operating Revenue (Expense):			
Interest Revenue	1,521	1,066	2,587
Interest Expense	(3,064)	(14,768)	(17,832)
Other	5,925	0	5,925
Debt Issuance Costs	0	(67,500)	(67,500)
Gain (Loss) on Sale of Asset	0	0	0
Bad Debt Expense	(68,223)	(39,375)	(107,598)
Intergovernmental	325	0	325
Total Non-Operating Revenues (Expense)	(63,516)	(120,577)	(184,093)
Net Income Before Other Financing Sources and (Uses)	293,822	238,534	532,356
Other Financing Sources (Uses):			
Capital Contributions	0	0	0
Debt Issue Costs	0	0	0
Trustee Fees	0	0	0
Operating Transfers In (Out)	(358,250)	(249,163)	(607,413)
Total Other Financing Sources (Uses)	(358,250)	(249,163)	(607,413)
Change in Net Position	(64,428)	(10,629)	(75,057)
Net Position, June 30, 2015	884,235	576,816	1,461,051
NET POSITION, JUNE 30, 2016	$ 819,807	$ 566,187	$ 1,385,994

Change in Net Position - total proprietary funds	$ (75,057)
Compensated absences are not reported in the fund financial statements (See Note 1).	(14)
Change in Net Position of business-type activities	$ (75,071)

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

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended June 30, 2016

	Enterprise Funds		
	Light Fund	LPWA Fund	Total
Cash Flows From Operating Activities:			
Receipts from customers	$ 1,495,370	$ 863,591	$ 2,358,961
Payments to suppliers	(787,295)	(105,031)	(892,326)
Payments to employees	(269,507)	(148,612)	(418,119)
Net Cash Provided (Used) by Operating Activities	438,568	609,948	1,048,516
Cash Flows From Non-Capital Financing Activities:			
Other receipts (payments)	(61,973)	(39,375)	(101,348)
Operating Transfers (To) From Other Funds	(358,250)	(249,794)	(608,044)
Net Cash Provided (Used) by Non-Capital Financing Activities	(420,223)	(289,169)	(709,392)
Cash Flows From Capital and Related Financing Activities:			
Proceeds from capital debt	0	798,394	798,394
Purchases of capital assets	(16,825)	(799,670)	(816,495)
Principal paid on capital debt	(14,873)	(80,000)	(94,873)
Interest paid on capital debt	(3,064)	(14,768)	(17,832)
Other receipts (payments)	0	0	0
Net Cash Provided (Used) by Capital and Related Financing Activities	(34,762)	(96,044)	(130,806)
Cash Flows Provided by Investing Activities:			
Interest and dividends	1,521	1,066	2,587
Net Cash Provided (Used) by Investing Activities	1,521	1,066	2,587
Net Increase (Decrease) in Cash and Cash Equivalents	(14,896)	225,801	210,905
Cash and Cash Equivalents, June 30, 2015	468,250	266,745	734,995
CASH AND CASH EQUIVALENTS, JUNE 30, 2016	$ 453,354	$ 492,546	$ 945,900

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

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended June 30, 2016

	Enterprise Funds		
	Light Fund	LPWA Fund	Total
Cash Consists of:			
Cash on Hand	$ 600	$ 0	$ 600
Demand Deposits	30,142	332,237	362,379
Certificates of Deposit	412,427	120,892	533,319
Restricted Deposits	10,185	39,417	49,602
TOTAL CASH, END OF YEAR	$ 453,354	$ 492,546	$ 945,900
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	$ 357,338	$ 359,111	$ 716,449
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	41,149	63,005	104,154
Change in assets and liabilities:			
Receivables, net	50,951	43,675	94,626
Accounts and other payables	(10,870)	144,157	133,287
Net Cash Provided by Operating Activities	$ 438,568	$ 609,948	$ 1,048,516

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

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

June 30, 2016

	Agency Funds			
	Meter Deposit	Payroll	Municipal Court	Total
ASSETS				
Cash, Including Time Deposits	$ 115,977	$ 245	$ 1,970	$ 118,192
Accounts Receivable	0	0	0	0
Due From Other Funds	0	0	0	0
TOTAL ASSETS	$ 115,977	$ 245	$ 1,970	$ 118,192
LIABILITIES				
Accounts Payable	$ 0	$ 245	$ 1,596	$ 1,841
Due To Other Funds	2,891	0	374	3,265
Meter Deposit Liability	113,086	0	0	113,086
TOTAL LIABILITIES	$ 115,977	$ 245	$ 1,970	$ 118,192

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

The following fund types are used by the City:

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

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

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

- Sales Tax Improvement Fund – Used to account for and report financial resources that are restricted for street improvement projects and economic development. See related Note 4.

- Street and Alley Fund – Used to account for and report financial resources that are restricted for construction, maintenance, repair, improvement, or lighting of streets and alleys.

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

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

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

Financial Statement Amounts:

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

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

Receivables – Receivables at June 30, 2016 were as follows:

	Accounts	Taxes	Grants	Other	Total Receivables
Governmental Activities:					
General	$ 0	$ 36,826	$ 0	$ 374	$ 37,200
Ambulance	10,301	0	0	0	10,301
Fire	8,713	0	0	0	8,713
Total Governmental Activities	$ 19,014	$ 36,826	$ 0	$ 374	$ 56,214
Business-Type Activities:					
Administration	$ 0	$ 0	$ 0	$ 3,064	$ 3,064
Electric	165,130	0	0	0	165,130
Water	36,226	0	0	0	36,226
Sewer	20,828	0	0	0	20,828
Garbage	16,130	0	0	0	16,130
Total Business-Type Activities	$ 238,314	$ 0	$ 0	$ 3,064	$ 241,378

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

Payables – Payables at June 30, 2016 were as follows:

	(Interest) Other	Vendors	(Sales Tax) Other	Total Payables
Governmental Activities:				
General	$ 0	$ 32,810	$ 0	$ 32,810
Restricted Sales Tax	0	1,152	0	1,152
Other Governmental	0	0	0	0
Total Governmental Activities	$ 0	$ 33,962	$ 0	$ 33,962
Business-Type Activities:				
Administration	$ 0	$ 0	$ 0	$ 0
Electric	0	2,219	13,725	15,944
Water/Sewer/Garbage	3,150	163,593	0	166,743
Total Business-Type Activities	$ 3,150	$ 165,812	$ 13,725	$ 182,687

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

Capital Assets – Capital assets are recorded at cost (or estimated historical cost). The City maintains a capitalization threshold of $2,500. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The City reports all major general infrastructure assets constructed or acquired in fiscal years ending after June 30, 2000, or that received major renovations, restorations, or improvements during that period. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives.

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

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

Deferred Outflows of Resources – The City reports decreases in net position/fund balance that relate to future periods as deferred outflows of resources in a separate section of its government-wide statement of net position, governmental funds balance sheets and proprietary funds statement of net position. The only deferred outflows of resources reported in this year's financial statements are related to pension activities. See related Note 5 – Pension Plans – Volunteer Firefighters and Police Officers for the components of deferred inflows related to pension activities.

Deferred Inflows of Resources – The City reports increases in net position/fund balance that apply to future periods as deferred inflows of resources in a separate section of its government-wide statement of net position, governmental funds balance sheets and proprietary funds statement of net position. The only deferred inflows of resources reported in this year's financial statements are related to pension activities. See related Note 5 – Pension Plans – Volunteer Firefighters and Police Officers for the components of deferred inflows related to pension activities.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

- Net Investment in Capital Assets – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

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

- Unrestricted – all other net position is reported in this category.

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

- Non-spendable – Amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.

- Restricted – Amounts that can be spent only for specific purposes because of the City Charter, the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.

- Committed – Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance or resolution.

- Assigned – Amounts that are designated by the Mayor for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by City Council.

- Unassigned – All amounts not included in other spendable classifications.

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

The general fund has not assigned any of the June 30, 2016 fund balance to meet budgeted expenditures for fiscal year 2016/2017.

NOTE 2: DEPOSITS, INVESTMENTS AND COLLATERAL

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

During the year ended June 30, 2016, the City's deposits were limited to insured checking and savings accounts and collateralized certificates of deposit. At June 30, 2016, the amount of total bank deposits at certain financial institutions exceeded the amount of insurance coverage and acceptable collateral pledged to secure the deposits.

Custodial Credit Risk – Deposits
Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it.

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

Unreconciled

Category	Balance Per Bank
Insured or collateralized with securities held by the organization or by its agent in the organization's name.	$ 306,000
Collateralized with securities held by the pledging financial institution's trust department.	1,235,164
Uncollateralized.	219,569
TOTAL	$ 1,760,733

NOTE 3: SALES TAX RESTRICTIONS

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

NOTE 4: RESTRICTED ASSETS

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

NOTE 5: PENSION PLANS

Defined Contribution Plan – The City contributes to the City of Lexington 401k Plan (Plan), a defined contribution pension plan, for its full-time employees, excluding police officers pensions covered under a separate defined benefit plan (see Police Pension section of Note 5 Pension Plans). The Plan is administered by July Business Services. Benefit terms, including contribution requirements, for the Plan are established and may be amended by the City Council. The City and employees are required to contribute 10% of employee's total earnings each month to individual employee accounts for each participating employee. For the year ended June 30, 2016, employee contributions totaled $58,424, and the City recognized pension expense of $58,424.

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

The City had no liability to the Plan at June 30, 2016.

Volunteer Firefighters – *Plan description.* The City contributes to the Oklahoma Firefighters Pension and Retirement Plan ("Plan) which is a cost sharing multiple employer defined benefit pension plan covering members who have actively participated in firefighting activities. The plan is administered by the Oklahoma Firefighters Pension and Retirement System. The Plan provides defined retirement benefits based on members' final average compensation, age, and term of service; benefits upon disability; and survivor's benefits upon death of eligible members. The Plan benefits are established and amended by Oklahoma statute. The Plan issues a publicly available financial report which includes financial statements and required supplementary information. That report may be obtained by writing to the Oklahoma Firefighters Pension and Retirement System, 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, Oklahoma 73105-3414.

Contributions. The contribution requirements of the Plan are at an established rate determined by Oklahoma statute and are not based on actuarial calculations. The City is required by Oklahoma statute to contribute annually $60 per volunteer firefighter. The City's contributions to the Plan for the year ended June 30, 2016 were $1,980 which represents 100% of required contributions for the current fiscal year. Additionally, the State of Oklahoma, a non-employer contributing entity, contributes a portion of the insurance premium tax collected through its taxing authority. For the fiscal year ended June 30, 2016 the City's proportionate share of non-employer contributions to the Plan were $2,290.

NOTE 5: PENSION PLANS, CONTINUED

Net Pension Liability. At June 30, 2016 the City reported a liability of $26,638 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016 the City's proportion was 0.0025%. The employer allocation percentage represents the portion of the City's actual cash contributions divided by the total of all employer contributions for the year.

Actuarial Assumptions. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	3%
Salary increases:	3.5% to 9.0% average, including inflation
Investment rate of	7.5% net of pension plan investment expense

Mortality rates were based on the RP2000 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 June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2012.

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, 2015 are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed income	5.13%
Domestic equity	8.02%
International equity	9.94%
Real estate	7.47%
Other assets	6.25%

NOTE 5: PENSION PLANS, CONTINUED

Discount Rate. The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at the contractually required rates, determined by Oklahoma statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 36% of the insurance premium, as established by Oklahoma statute. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	Discount Rate	City's proportionate share of net pension liability
1% decrease	6.5%	$34,591
Current discount rate	7.5%	$26,638
1% increase	8.5%	$19,974

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

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the fiscal year ended June 30, 2016 the City recognized pension expense of $(4,267). At June 30, 2016 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
Difference between expected and actual plan experience	$ 526	$ 0
Net difference between projected and actual earnings on plan investments	945	2,930
Changes in assumptions	0	0
Changes in proportion and differences between City's contributions and proportionate share of contributions	0	24,071
City's contributions subsequent to the measurement date	1,980	0
Total	$ 3,451	$ 27,001

NOTE 5: PENSION PLANS, CONTINUED

The $1,980 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net position liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Fiscal year ending June 30,	
2017	$ (6,473)
2018	$ (6,473)
2019	$ (6,473)
2020	$ (6,474)
2021	$ 277
Thereafter	$ 86

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

Contributions. The contribution requirements of the Plan are at an established rate determined by Oklahoma statute and are not based on actuarial calculations. The City is required by Oklahoma statute to contribute 13% of the total earnings, excluding overtime, of each participant employed by the City. Each participant (police officer) contributes 8% of their total earnings, excluding overtime. The City's contributions to the Plan for the year ended June 30, 2016 were $11,300 and participant's (police officer's) contributed $6,954 which represents 100% of required contributions for the current fiscal year. Additionally, the State of Oklahoma, a non-employer contributing entity, contributes a portion of the insurance premium tax collected through its taxing authority. For the fiscal year ended June 30, 2016 the City's proportionate share of non-employer contributions to the Plan were $969.

Net Pension Liability. At June 30, 2016 the City reported a liability (asset) of $112 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2015, and the total pension liability (asset) used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability (asset) was based on projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016 the City's proportion was 0.000027%. The employer allocation percentage represents the portion of the City's actual cash contributions divided by the total of all employer contributions for the year.

NOTE 5: PENSION PLANS, CONTINUED

Actuarial Assumptions. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	3%
Salary increases:	4.5% to 17% average, including inflation
Investment rate of	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 non-disabled 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 June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2012.

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, 2015 are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed income	2.24%
Domestic equity	4.87%
International equity	7.68%
Real estate	5.47%
Private equity	5.80%
Commodities	2.96%

NOTE 5: PENSION PLANS, CONTINUED

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

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

	Discount Rate	City's proportionate share of net pension liability
1% decrease	6.5%	$6,734
Current discount rate	7.5%	$112
1% increase	8.5%	$(5,470)

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

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the fiscal year ended June 30, 2016 the City recognized pension expense of $11,300. At June 30, 2016 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
Difference between expected and actual plan experience	$ 2,008	$ 620
Net difference between projected and actual earnings on plan investments	0	2,439
Changes in assumptions	0	0
Changes in proportion and differences between City's contributions and proportionate share of contributions	2,268	0
City's contributions subsequent to the measurement date	11,300	0
Total	$ 15,576	$ 3,059

NOTE 5: PENSION PLANS, CONTINUED

The $11,300 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net position liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Fiscal year ending June 30,	
2017	$ 1,506
2018	$ 1,506
2019	$ 1,506
2020	$ 1,505
2021	$ 692
Thereafter	$ 0

NOTE 6: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance June 30, 2015	Increase	Decrease	Balance June 30, 2016
Governmental Activities:				
Capital Assets Not Being Depreciated				
Construction in Progress	$ 0	$ 0	$ 0	$ 0
Total Capital Assets Not Being Depreciated	0	0	0	0
Other Capital Assets				
Buildings and Property	1,836,907	79,098	0	1,916,005
Vehicles	524,696	73,000	(34,060)	563,636
Equipment	234,052	20,858	(14,244)	240,666
Total Other Capital Assets	2,595,655	172,956	(48,304)	2,720,307
Accumulated Depreciation				
Buildings and Property	(1,408,151)	(19,012)	0	(1,427,163)
Vehicles	(465,012)	(40,360)	34,060	(471,312)
Equipment	(232,144)	(5,126)	14,244	(223,026)
Total Accumulated Depreciation	(2,105,307)	(64,498)	48,304	(2,121,501)
Other Capital Assets, Net	490,348	108,458	0	598,806
Net Governmental Activities				
Capital Assets, Net	$ 490,348	$ 108,458	$ 0	$ 598,806

NOTE 6: CAPITAL ASSETS, CONTINUED

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Business Type Activities:				
Capital Assets Not Being Depreciated				
Construction in Progress	$ 0	$ 799,670	$ 0	$ 799,670
Total Capital Assets Not Being Depreciated	0	799,670	0	799,670
Other Capital Assets				
Water and Sewer Improvements	3,809,571	0	0	3,809,571
Equipment	1,737,332	16,825	(111,415)	1,642,742
Total Accumulated Depreciation	5,546,903	16,825	(115,415)	5,452,313
Accumulated Depreciation				
Water and Sewer Improvements	(2,989,379)	(62,100)	0	(3,051,479)
Equipment	(1,422,160)	(42,054)	111,415	(1,352,799)
Total Accumulated Depreciation	(4,411,539)	(104,154)	111,415	(4,404,278)
Other Capital Assets, Net	1,135,364	(87,329)	0	1,048,035
Net Business Type Activities				
Capital Assets, Net	$ 1,135,364	$ 712,341	$ 0	$ 1,847,705

Depreciation expense was charged to governmental activities as follows:

General Government:	
Administration	$ 64,498

NOTE 7: LONG-TERM LIABILITIES

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

LONG-TERM DEBT:

Governmental Activities:

None.

NOTE 7: LONG-TERM LIABILITIES, CONTINUED

Business Type Activities:

Notes Payable:
LPWA:

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

On October 1, 2015 the Lexington Public Works Authority (LPWA) entered into Series 2015 Clean Water State Revolving Fund (CWSRF) promissory note with the Oklahoma Water Resources Board (OWRB) for improvements to the City's wastewater system for up to $3,091,500. The note is collateralized by pledge and assignment of revenues and receipts derived from water, sewer and garbage disposal services. The note bears an interest rate of 2.14% per annum. Semi-annual interest payments will commence on March 15, 2016. Semi-annual principal and interest payments will commence upon the earlier of project completion or March 15, 2017 over a 30 year period. The loan may be eligible for principal forgiveness funds and the LPWA may receive a credit for principal and interest on a percentage of the loan to be determined by OWRB in accordance with the CWSRF Cap Grant. As of June 30, 2016 principal funds totaling $865,894 had been drawn down on the project.

Light Fund:

On July 17, 2014, the Lexington Public Works Authority (Light Fund) entered into a promissory note in the amount of $96,000 with First United Bank for three equipment trucks. The note bears an interest rate of 3.75% per annum, requires 72 monthly payments of $1,495 and matures July 20, 2020. The note is collateralized by the three equipment trucks.

Compensated Absences:
Governmental and Business-Type Activities:

Compensated absences represent the estimated liability for employees' accrued vacation and sick leave for which employees are entitled to be paid upon termination. (See related Note 1). The retirement of this liability is paid from the General Fund and Enterprise Funds based on the assignment of an employee at termination.

Changes in long-term liabilities for the fiscal year 2015-16 include:

	Principal Balance 06/30/15	Additions	Retirements	Principal Balance 06/30/16	Amounts Due Within One Year
Governmental Activities:					
Compensated Absences	$ 24,834	$ 42,115	$ 26,750	$ 40,199	$ 14,343
Total Governmental Activities	24,834	42,115	26,750	40,199	14,343

NOTE 7: LONG-TERM LIABILITIES, CONTINUED

	Principal Balance 06/30/15	Additions	Retirements	Principal Balance 06/30/16	Amounts Due Within One Year
Business-Type Activities:					
Bonds/Notes Payable –					
Note Payable – First United Bank	81,715	0	14,873	66,842	15,430
Note Payable – Series 2014 Revenue Note	605,000	0	80,000	525,000	82,000
Note Payable – Series 2015 Revenue Note	0	865,894	0	865,894	0
Total Bonds/Notes Payable	686,715	865,894	94,873	1,457,736	97,430
Compensated Activities	32,669	25,916	25,902	32,683	6,352
Total Business-Type Activities	719,384	891,810	120,775	1,490,419	103,782
TOTAL	$ 744,218	$ 933,925	$ 147,525	$ 1,530,618	$ 118,125

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

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

Governmental Activities:

None

Business-Type Activities:

	First United Bank Note		Series 2015 Revenue Note	
	Principal	Interest	Principal	Interest
2016-17	$ 15,430	$ 2,507	$ 82,000	$ 12,108
2017-18	16,009	1,928	84,000	10,128
2018-19	16,609	1,328	86,000	8,100
2019-20	17,233	705	89,000	6,024
2020-21	1,561	57	91,000	3,876
2021-22	0	0	93,000	1,680
TOTAL	$ 66,842	$ 6,525	$ 525,000	$ 41,916

Future principal and interest payments are not disclosed for the Series 2015 CWSRF note as the project has not been completed and note amortization for final completed project has not yet been provided by OWRB.

NOTE 8: INTERFUND TRANSACTIONS

Inter-fund receivable/payable balances at June 30, 2016 were:

	DUE FROM								
	Governmental Funds			Proprietary Funds		Agency Funds			
	General	Restricted Sales Tax	Street & Alley	Light	LPWA	Meter Deposit	Payroll	Municipal Court	
Governmental Funds:									
D General	$ ---	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	
U Restricted Sales Tax	0	---	0	0	0	0	0	(374)	
E Street & Alley	0	0	---	0	0	0	0	0	
Proprietary Funds:									
Light	0	0	0	---	0	0	0	0	
T LPWA	0	0	0	0	---	(2,891)	0	0	
O Agency Funds:									
Meter Deposit	0	0	0	0	2,891	---	0	0	
Payroll	0	0	0	0	0	0	---	0	
Municipal Court	374	0	0	0	0	0	0	---	
Total	$ 374	$ 0	$ 0	$ 0	$ 2,891	$(2,891)	$ 0	$(374)	$ 0

Operating Transfers – Interfund operating transfers between funds for the fiscal year ended June 30, 2016 were as follows:

	TRANSFER FROM								
	Governmental Funds			Proprietary Funds		Agency Funds			
	General	Restricted Sales Tax	Street & Alley	Light	LPWA	Meter Deposit	Payroll	Municipal Court	
Governmental Funds:									
T General	$ ---	$ 0	$ 0	$(363,250)	$(244,163)	$ 0	$ 0	$ 0	
R Restricted Sales Tax	0	---	0	0	0	0	0	0	
A Street & Alley	0	0	---	0	0	0	0	0	
N Proprietary Funds:									
S Light	363,250	0	0	---	(5,000)	0	0	0	
F LPWA	244,163	0	0	5,000	---	0	0		
E Agency Funds:									
R Meter Deposit	0	0	0	0	0	---	0	0	
Payroll	0	0	0	0	0	0	---	0	
T Municipal Court	0	0	0	0	0	0	0	---	
O Total	$ 607,413	$ 0	$ 0	$(358,250)	$(249,163)	$ 0	$ 0	$ 0	$ 0

NOTE 9: LITIGATION

At June 30, 2016, the City of Lexington was not involved in any pending or threatened litigation which would have a material impact on these financial statements.

NOTE 10: RISK MANAGEMENT

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

Type of Loss	Method Managed
a. Torts, errors and omissions	Purchased policy with the Oklahoma Municipal Assurance Group
b. Injuries to employees (Workers' Compensation)	Purchased policy with the Oklahoma Municipal Assurance Group (1)
c. Physical property loss and natural disasters	Purchased policies with the Oklahoma Municipal Assurance Group and State of Oklahoma Department of Central Services Risk Management Division

(1) Worker's Compensation Plan – The Oklahoma Municipal Assurance Group (0MAG) Worker's Compensation Plan (Plan) provides worker's compensation coverage through CompSource Oklahoma. The City pays into its own loss fund from which claims are paid. CompSource Oklahoma provides coverage in excess of the City's retention level (Loss Fund) which limits the City's liability to its retention level. The City has a right to return of any loss funds set aside for claims, which have not been paid out as benefits, or are not held in reserve for a pending claim. The City's funds on deposit with OMAG as of June 30, 2016 were as follows:

Year	Loss Fund Available
2014	$ 28,387
2015	30,293
2016	30,000
Total	$ 88,680

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

NOTE 11: LEASES

On May 10, 2013, the City entered into an operating lease for a copier. The lease calls for 60 monthly payments of $207 and terminates May 10, 2018. Lease expense for the fiscal year ending June 30, 2016 was $2,532.

On August 5, 2014, the City entered into an operating lease for a copier. The lease calls for 60 monthly payments of $236 and terminates July 5, 2019. Lease expense for the fiscal year ending June 30, 2016 was $2,833.

On June 17, 2015, the City entered into an operating lease for a mailing system. The lease terminates September 17, 2020 and calls for 12 monthly payments of $611 and 51 monthly payments of $751. Lease expense for the fiscal year ending June 30, 2016 was $7,377.

NOTE 11: LEASES, CONTINUED

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

June 30,	
2017	$ 14,328
2018	13,914
2019	11,845
2020	9,248
2021	2,253
2022	0
TOTAL	$ 51,588

NOTE 12: COMMITMENTS

Encumbrances – Encumbrance accounting is utilized as an extension of budget appropriations for governmental funds. Open encumbrances at fiscal year end are included in restricted, committed or assigned fund balance, as appropriate. Significant encumbrances at June 30, 2016 are as follows:

	Encumbrances Included in		
	Restricted Fund Balance	Committed Fund Balance	Assigned Fund Balance
General Fund	$ 0	$ 0	$ 31,726
Restricted Sales Tax Special Revenue Fund	$ 29,225	$ 0	$ 0
Aggregate Nonmajor Funds	$ 0	$ 0	$ 0

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

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

$3.70 per 1,000 gallons purchased thereafter

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

NOTE 13: SUBSEQUENT EVENTS

Date of Management Evaluation – Management of the City has evaluated subsequent events through November 22, 2016, which is the date the financial statements were available to be issued.

Saunders & Associates, PLLC
Certified Public Accountants

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

To the City Council
City of Lexington, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lexington, Oklahoma as of and for the year ended June 30, 2016, which collectively comprise the City of Lexington, Oklahoma's basic financial statements and have issued our report thereon dated November 22, 2016. We also have audited the financial statements of each of the City of Lexington, Oklahoma's non-major governmental funds presented as supplementary information in the accompanying combining fund financial statements of and for the year ended June 30, 2016, as listed in the table of contents. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lexington, Oklahoma's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lexington, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lexington, Oklahoma's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lexington, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2016-001.

City of Lexington's Response to Findings

The City of Lexington, Oklahoma's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City of Lexington, Oklahoma's response and, accordingly, we express no opinion on it.

Purpose of This Report

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

Saunders + Associates, PLLC

SAUNDERS & ASSOCIATES, PLLC
Certified Public Accountants
Ada, Oklahoma

November 22, 2016

SUPPLEMENTAL INFORMATION

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
UNAUDITED
GENERAL FUND

For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts Budgetary Basis		Budget to GAAP Differences Over (Under)	Actual Amounts GAAP Basis	Budgetary Basis Variance With Final Budget Positive (Negative)
	Original	Final					
REVENUES							
Taxes	$ 333,500	$ 333,500	$ 333,110		$ 0	$ 333,110	$ (390)
Licenses and Permits	8,300	8,300	8,218		0	8,218	(82)
Intergovernmental	5,000	33,475	36,466		0	36,466	2,991
Charges for Services	111,000	111,000	118,058		0	118,058	7,058
Ambulance Assessment	112,000	112,000	109,910		0	109,910	(2,090)
Donations	0	750	750	(2)	95,000	95,750	0
Interest	500	500	848		0	848	348
Miscellaneous	4,100	4,100	2,436		0	2,436	(1,664)
Total Revenues	574,400	603,625	609,796		95,000	704,796	6,171
EXPENDITURES							
Departmental:							
Administration	336,050	316,250	304,068	(2)	35,000	339,068	12,182
Police	675,069	694,940	642,266	(1)	(27,364)	614,902	52,674
Fire	79,950	79,950	71,247	(1), (2)	55,638	126,885	8,703
Civil Defense	3,600	3,600	1,593		0	1,593	2,007
Ambulance	110,000	110,000	106,962		0	106,962	3,038
Street and Alley	82,465	82,465	73,787		0	73,787	8,678
Parks and Recreation	29,251	55,105	48,369		0	48,369	6,736
Total Expenditures	1,316,385	1,342,310	1,248,292		63,274	1,311,566	94,018
Excess of Revenues Over (Under) Expenditures	(741,985)	(738,685)	(638,496)		31,726	(606,770)	100,189
Other Financing Sources (Uses):							
Operating Transfers In	745,000	745,000	610,413		0	610,413	(134,587)
Operating Transfers Out	(3,000)	(3,000)	(3,000)		0	(3,000)	0
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	15	3,315	(31,083)		31,726	643	(34,398)
Fund Balance, June 30, 2015	50,707	50,707	50,707		0	50,707	0
FUND BALANCE, JUNE 30, 2016	$ 50,722	$ 54,022	$ 19,624		$ 31,726	$ 51,350	$ (34,398)

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
UNAUDITED
GENERAL FUND

For the Year Ended June 30, 2016

Explanation of differences:

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

Police	$	27,364
Fire		4,362
	$	31,726

(2) Capital outlay expense and donation revenue are recognized as revenue and expense for GAAP purposes but are not budgetary revenues or expenses.

Administration	$	35,000	Donation of Senior Citizen's Building
Fire		60,000	Donation of Fire Truck
	$	95,000	

CITY OF LEXINGTON, OKLAHOMA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
UNAUDITED
SPECIAL REVENUE FUND - RESTRICTED SALES TAX

For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences Over (Under)	Actual Amounts GAAP Basis	Budgetary Basis Variance With Final Budget Positive (Negative)
	Original	Final				
REVENUES						
Taxes	$ 150,000	$ 150,000	$ 152,868	$ 0	$ 152,868	$ 2,868
Intergovernmental	0	29,286	29,286	0	29,286	0
Interest	200	0	0	0	0	0
Total Revenues	150,200	179,286	182,154	0	182,154	2,868
EXPENDITURES						
Departmental:						
Street and Alley	75,000	104,286	31,184 (1)	(29,225)	1,959	73,102
Economic Development	75,000	75,000	2,400	0	2,400	72,600
Total Expenditures	150,000	179,286	33,584	(29,225)	4,359	145,702
Excess of Revenues Over (Under) Expenditures	200	0	148,570	29,225	177,795	148,570
Other Financing Sources (Uses):						
Operating Transfers In	0	0	0	0	0	0
Operating Transfers Out	0	0	0	0	0	0
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	200	0	148,570	29,225	177,795	148,570
Fund Balance, June 30, 2015	421,157	421,157	421,157	0	421,157	0
FUND BALANCE, JUNE 30, 2016	$ 421,357	$ 421,157	$ 569,727	$ 29,225	$ 598,952	$ 148,570

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

CITY OF LEXINGTON, OKLAHOMA

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

For the Year Ended June 30, 2016

Fiscal Year Ending June, 30,		2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Town's Proportionate Share of Collective Net Pension Liability	$	26,638	51,177								
Town's Proportion of Collective Net Pension Liability	%	0.0025	0.0050								
Plan's Fiduciary Net Position % of Total Pension Liability	%	68.27	68.12								
Required Employer Contributions	$	1,980	1,860 **								
Contributions in Relation to Required Contributions	$	1,980	1,860 **								
Contribution Deficiency (Excess)	$	0	0								

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

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

Notes to Required Supplementary Information

Note 1 - Employer Contributions: Contributions represent the City's actual contribution received by the Plan between July 1, 2014 and June 30, 2015. Contribution requirements are at an established rate determined by Oklahoma statute and are not based on actuarial calculations. The City is required by State statute to contribute annually $60 per volunteer firefighter.

CITY OF LEXINGTON, OKLAHOMA

SCHEDULE OF NET PENSION LIABILITY AND CONTRIBUTIONS - POLICE PENSION

For the Year Ended June 30, 2016

Fiscal Year Ending June, 30,		2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Town's Proportionate Share of Collective Net Pension Liability	$	112	0								
	%	0.000027%	0.0000%								
Town's Proportion of Collective Net Pension Liability											
Employer's Proportionate Share of Collective Net Pension Liability as a percentage of the covered -employee payroll	%	0.13%	0.13%								
Plan's Fiduciary Net Position % of Total Pension Liability	%	99.82%	0.00%								
Required Employer Contributions	$	11300	0								
Contributions in Relation to Required Contributions	$	11,300	0								
Contribution Deficiency (Excess)	$	22,600	0								
Covered Employee Payroll	$	86,919	0								
Contributions as a percentage of covered-employee payroll	%	13%	0%								

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

Notes to Required Supplementary Information

Note 1 - Employer Contributions: Contributions represent the City's actual contribution received by the Plan between July 1, 2014 and June 30, 2015. Contribution requirements are at an established rate determined by Oklahoma statute and are not based on actuarial calculations. The City is required by State statute to contribute 13% of police officer's total earning, excluding overtime. The City did not have police officer's as active members in the Plan until March 4, 2015.

CITY OF LEXINGTON, OKLAHOMA

COMBINING GOVERNMENTAL FUND BALANCE SHEET

OTHER GOVERNMENTAL FUNDS

June 30, 2016

	Special Revenue Street and Alley Fund	Total
ASSETS		
Cash, Including Time Deposits	$ 91,722	$ 91,722
Accounts Receivable	1,814	1,814
Total lAssets	93,536	93,536
DEFERRED OUTFLOWS OF RESOURCES		
Total Deferred Outflows of Resources	0	0
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 93,536	$ 93,536
LIABILITIES		
Accounts Payable	$ 0	$ 0
Notes Payable	0	0
Due to Other Funds	0	0
Total Liabilities	0	0
DEFERRED INFLOWS OF RESOURCES		
Total Deferred Inflows of Resources	0	0
FUND BALANCES		
NonSpendable	0	0
Restricted for:		
Streets and Alleys	93,536	93,536
Committed for:		
Streets and Alleys	0	0
Assigned	0	0
Unassigned	0	0
Total Fund Balance	93,536	93,536
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$ 93,536	$ 93,536

CITY OF LEXINGTON, OKLAHOMA

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

OTHER GOVERNMENTAL FUNDS

For the Year Ended June 30, 2016

	Special Revenue Street and Alley Fund	Total
REVENUES		
Taxes	$ 19,869	$ 19,869
Intergovernmental	0	0
Interest	0	0
Total Revenues	19,869	19,869
EXPENDITURES		
Current:		
Economic Development	0	0
Street and Alley	6,359	6,359
Total Expenditures	6,359	6,359
Revenues Over (Under) Expenditures	13,510	13,510
Other Financing Sources (Uses):		
Operating Transfers In (Out)	0	0
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	13,510	13,510
Fund Balance, June 30, 2015	80,026	80,026
FUND BALANCE, JUNE 30, 2016	$ 93,536	$ 93,536

CITY OF LEXINGTON, OKLAHOMA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended June 30, 2016

Grantor/Program Title	CFDA Number	Contract Number	Expenditures
FEDERAL:			
U.S. Department of Housing and Urban Development			
Pass Through Oklahoma Department of Commerce:			
Community Development Block Grant	14.228	15685 CDBG-CIP 13	$ 0
TOTAL FEDERAL ASSISTANCE			0
STATE:			
Oklahoma Tobacco Settlement Endowment Trust			
Community Based Tobacco Control Program - Sidewalk Grant		N/A	20,000
Oklahoma Department of Agriculture - Oklahoma Forestry Services:			
Rural Fire Operational Grant		N/A	4,290
TOTAL STATE ASSISTANCE			24,290
TOTAL FEDERAL AND STATE ASSISTANCE			$ 24,290

CITY OF LEXINGTON, OKLAHOMA

STATUS OF PRIOR AUDIT FINDINGS

June 30, 2016

None reported.

2016-001 DEPOSITS EXCEEDED FDIC COVERGE AND COLLATERALIZATION

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

Condition: At June 30, 2016 the City's deposits exceeded FDIC and collateralization coverage by $219,569.

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

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

Response: Contacted bank and they increased pledge amount to $2,000,000 at all times. Also, verifying pledge amount routinely.

Saunders & Associates, PLLC

Certified Public Accountants

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December 8, 2016

Office of the State Auditor and Inspector
State of Oklahoma

We have compiled the accompanying 2015/2016 annual survey of City and Town finances (SA&I Form 2643), of the City of Lexington, Oklahoma included in the accompanying prescribed form in accordance with Statements of Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The financial statements have been prepared on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Oklahoma, which is a basis of accounting other than generally accepted accounting principles.

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

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

Saunders + Associates, PLLC

SAUNDERS & ASSOCIATES, PLLC
Certified Public Accountants