

CITY OF LEXINGTON, NEBRASKA

FINANCIAL STATEMENTS

September 30, 2015

CITY OF LEXINGTON, NEBRASKA

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Independent Auditors' Report

Honorable Mayor, City Council, and
City Manager
Lexington, Nebraska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Lexington, Nebraska, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City'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.

Auditors' 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 from 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 auditors' 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, the aggregate discretely presented component unit, and each major fund of the City of Lexington, Nebraska, as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, listed on the table of contents, 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, Nebraska's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and is derived from and relates 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2016 on our consideration of the City of Lexington, Nebraska'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 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, Nebraska's internal control over financial reporting and compliance.


Certified Public Accountants
Lexington, Nebraska

February 15, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the city of Lexington, Nebraska presents this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2015. This discussion is to be considered in conjunction with the additional information provided in the transactions, events, and conditions reflected in the City's financial statements.

FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities by \$53,537,127 (net position). Of this amount, \$3,477,587 (unrestricted net position) may be used to meet the government's ongoing obligations to its citizens and creditors.

The City's total net position increased by \$1,525,869 in comparison with the previous year. Of this amount, \$857,009 was the increase from governmental activities. Business-type activities net position increased by \$668,860.

The City's governmental funds reported combined ending fund balances of \$2,245,264. Of this total fund balance, 65%, or \$1,462,478 is available for spending at the City's discretion (unassigned fund balance), all of which is in the General Fund.

The City's total long-term debt decreased \$931,713. This decrease is due primarily to scheduled payments to pay down debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's basic financial statements are comprised of three components: 1) the government-wide financial statements 2) fund financial statements and 3) notes to the financial statements. In addition to the basic financial statements this report contains supplementary information.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or declining.

The *statement of activities* presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported when the event causing the change occurs, regardless of the timing of the related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a portion of their costs through user fees and charges (business-

type activities). Governmental activities of the City include general administrative services, planning and zoning, public safety, aging services, library, aquatic, recreation and parks, cemeteries, and streets. Also included are economic development and housing as well as debt service. Business-type activities include electric, water, sewer, sanitation, landfill, and ambulance.

The government-wide financial statements include not only the City of Lexington itself (known as the primary government), but also a legally separate City of Lexington Community Development Agency for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government.

The government-wide financial statements can be found on pages 16-18 of the report.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific purposes. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All City funds are divided into three categories: governmental, proprietary, and fiduciary.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund.

The City adopts an annual appropriated budget for all its funds. A budgetary comparison statement has been provided for all funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 19-23 of this report.

Proprietary Funds

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water, sewer, sanitation, landfill, and ambulance. Internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its health fund and central garage. Because these services benefit both governmental and business-type functions, they have been allocated to the governmental and business-type activities in the government-wide financial statements based on usage.

Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric, water, sewer, sanitation, landfill, and ambulance; all funds are considered to be major funds of the City. Internal service funds are presented combined in the proprietary fund financial statement section.

The basic proprietary fund financial statements can be found on pages 24-28 of the report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Currently, the city of Lexington has no fiduciary funds as defined by the Governmental Accounting Standards Board.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Notes to the financial statements can be found on pages 29 – 52 of the report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This analysis requires focus on the current-year results in comparison with the prior year and the positive and negative aspects of this comparison.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the city of Lexington, assets exceeded liabilities by \$53,537,127 at September 30, 2015.

By far, the largest portion of the City's net position (85.3 percent) reflects its investment in capital assets (e.g., land, buildings, improvements, utility plant, infrastructure, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future

spending. Although the City's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

City of Lexington
Condensed Statement of Net Position
September 30, 2015

	Governmental Activities		Business Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and Other Assets	5,492,701	6,363,421	6,122,359	5,817,831	11,615,060	12,181,252
Capital Assets	33,364,329	31,467,356	27,869,899	27,936,109	61,234,228	59,403,465
Total Assets	<u>38,857,030</u>	<u>37,830,777</u>	<u>33,992,258</u>	<u>33,753,940</u>	<u>72,849,288</u>	<u>71,584,717</u>
Long-Term Liabilities						
Outstanding	3,669,587	4,086,364	12,805,135	13,419,372	16,474,722	17,505,736
Other Liabilities	1,176,687	590,666	1,660,752	1,477,057	2,837,439	2,067,723
Total Liabilities	<u>4,846,274</u>	<u>4,677,030</u>	<u>14,465,887</u>	<u>14,896,429</u>	<u>19,312,161</u>	<u>19,573,459</u>
Net Position:						
Invested in Capital Assets						
net of related debt	29,744,439	27,437,480	15,938,892	15,483,376	45,683,331	42,920,856
Restricted	1,339,310	117,050	3,036,899	2,771,936	4,376,209	2,888,986
Unrestricted	<u>2,927,007</u>	<u>5,599,217</u>	<u>550,580</u>	<u>602,199</u>	<u>3,477,587</u>	<u>6,201,416</u>
Total Net Position	<u><u>34,010,756</u></u>	<u><u>33,153,747</u></u>	<u><u>19,526,371</u></u>	<u><u>18,857,511</u></u>	<u><u>53,537,127</u></u>	<u><u>52,011,258</u></u>

An additional portion of the City's net assets, 8.1 percent, represents resources that are subject to external restrictions on their use. The remaining balance of unrestricted net position, 6.5 percent may be used to meet the government's ongoing obligations to citizens and creditors.

At September 30, 2015, the City is able to report positive balances in all three categories of net position; for the government as a whole, and for its separate governmental and business-type activities. The same was true for the prior fiscal year.

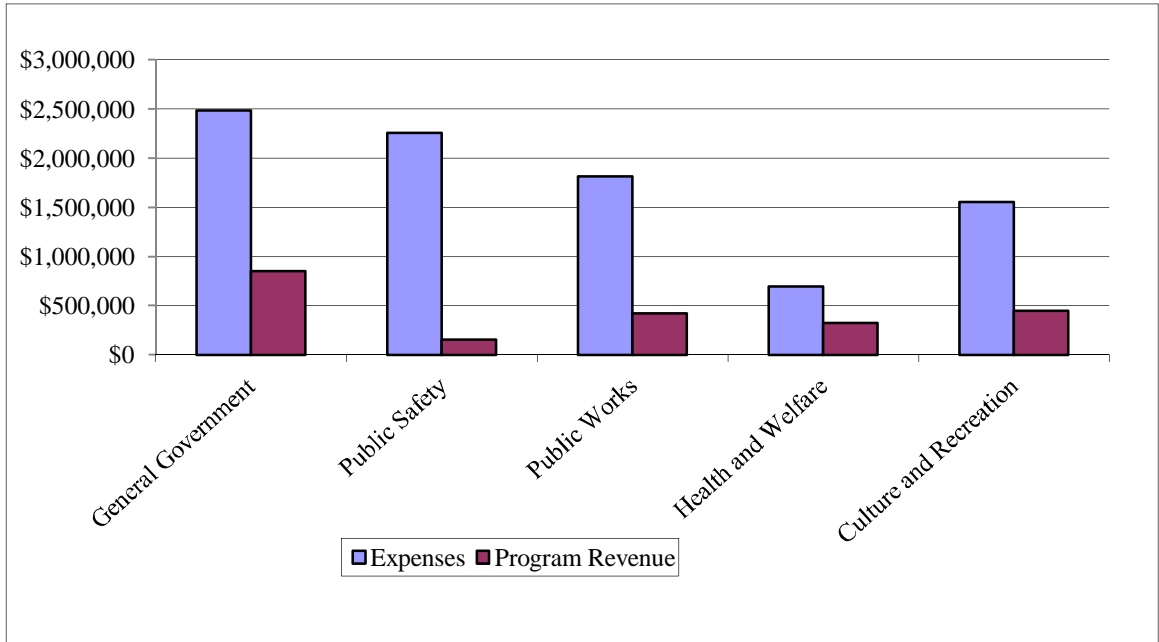
City of Lexington
Condensed Statement of Activities and Change in Net Position
for the Year Ended September 30, 2015

	Governmental Activities		Business Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenue:						
Program Revenue:						
Charges for Services	1,263,218	1,141,250	20,221,433	20,253,580	21,484,651	21,394,830
Operating Grants & Contributions	288,259	688,251	0	29,160	288,259	717,411
Capital Grants & Contributions	653,473	1,241,821	436,660	58,736	1,090,133	1,300,557
General Revenue:					0	0
Property and Other Taxes	1,771,054	1,888,517			1,771,054	1,888,517
Sales and Use Tax	2,066,443	1,941,760			2,066,443	1,941,760
Franchise Taxes	1,158,363	1,175,988			1,158,363	1,175,988
Intergovernmental	2,262,119	2,201,316			2,262,119	2,201,316
Interest	14,138	23,026	11,597	17,793	25,735	40,819
Other	173,287	2,086,151	48,395	2,206	221,682	2,088,357
Gain on sale of asset	0	0	5,297		5,297	0
Transfers	13,108	38,195	-13,108	-38,195	0	0
Total Revenue	9,663,462	12,426,275	20,710,274	20,323,280	30,373,736	32,749,555
Expenses:						
General Government	2,485,900	2,559,268		0	2,485,900	2,559,268
Public Safety	2,259,121	2,186,534		0	2,259,121	2,186,534
Public Works	1,813,010	1,805,842		0	1,813,010	1,805,842
Health and Welfare	696,349	2,056,760		0	696,349	2,056,760
Culture and Recreation	1,552,073	1,463,305		0	1,552,073	1,463,305
Utilities / Ambulance			20,041,414	21,053,919	20,041,414	21,053,919
Total Expenses	8,806,453	10,071,709	20,041,414	21,053,919	28,847,867	31,125,628
Change In Net Position	857,009	2,354,566	668,860	-730,639	1,525,869	1,623,927
Net Position-Beginning	33,153,747	30,799,181	18,857,511	19,588,150	52,011,258	50,387,331
Net Position-ENDING	34,010,756	33,153,747	19,526,371	18,857,511	53,537,127	52,011,258

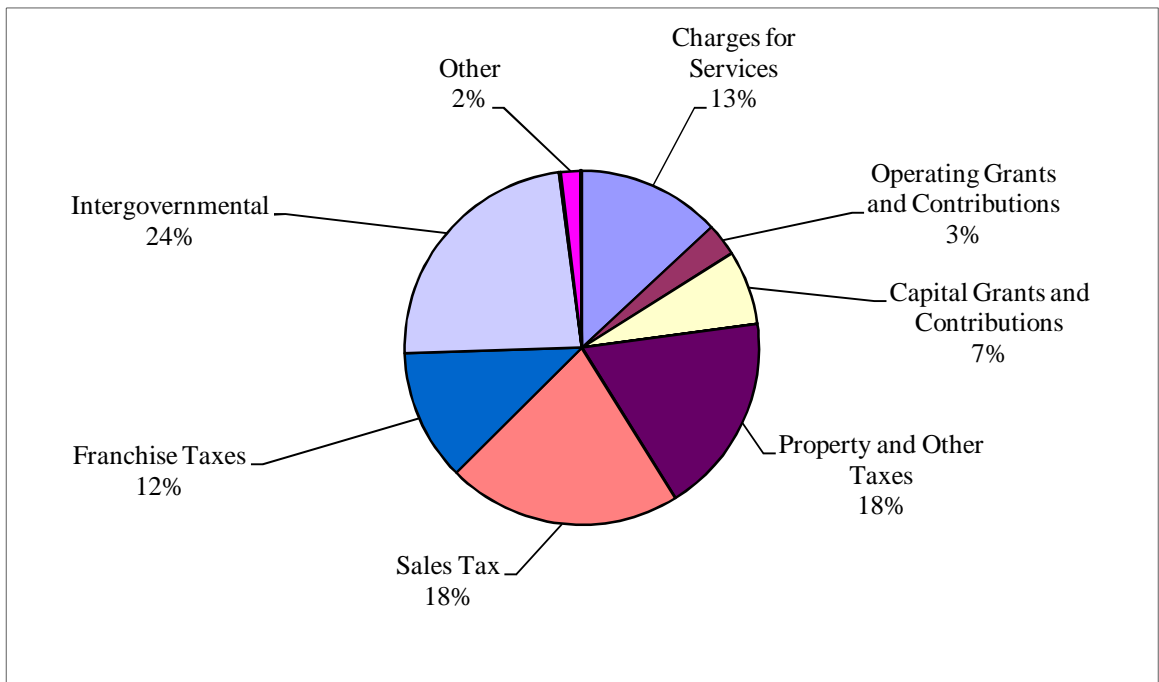
GOVERNMENTAL ACTIVITIES

Governmental activities increased the City’s net position by \$857,009; accounting for 56% of the City’s growth in net position for fiscal 2015.

Expense and Program Revenues – Governmental Activities



Revenue by Source – Governmental Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENTAL FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of September 30, 2015, the City's governmental funds reported combined ending fund balances of \$2,245,264 a decrease of \$837,989 in comparison with the prior year. Of the \$2.245 million, 65 percent is considered unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance, 35 percent; is restricted, committed, or assigned to indicate that it is not available for new spending because it has already been committed to various contracts or projects.

The general fund is the chief operating fund of the City. At September 30, 2015, the unassigned fund balance of the general fund was \$1,476,639 which is the total fund balance. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents about 20 percent of total general fund expenditures.

PROPRIETARY FUNDS

The City's proprietary funds provide the same type of information found in the government-wide financial statements, only in more detail.

Unrestricted net assets in the Proprietary Funds are \$550,580.

GENERAL FUND BUDGETARY HIGHLIGHTS

There are no differences between the original budget and the final adopted budget.

ALL FUNDS BUDGETARY COMPARISON

Actual combined revenue for all funds was comparable to the budget. Only an approximate 5% variance exists at year-end. All funds actual combined expenditures were also comparable to the budgeted amounts. Combined expenditures were approximately 9% under budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The City’s capital assets for its government and business-type activities as of September 30, 2015, totals \$61,234,228 (net of accumulated depreciation). These capital assets include land, buildings, improvements, machinery and equipment, streets, bridges, storm sewers, electric plant, and water and sewer plant.

Major capital asset events during 2015 include the following:

- General Fund Capital activity consists of two projects at the Optimist Recreation Complex, the completion of the maintenance building with 2015 costs at \$27,344 and the Fieldhouse is well under way at a cost of \$883,354. The Plum Creek Park Restoration project is nearly complete at cost totaling \$119,765.
- Street projects include planning and preliminary engineering for the East Viaduct \$231,341; completion of the 6th and Grant-Taft Improvements for \$75,113; Liberty Drive \$348,165; and CIS Improvements for \$296,457. Other small projects totaled \$68,408.35.
- The Electric department installed service to Ponderosa Apartments Addition for \$55,568; Liberty Drive Housing Complex for \$34,153; under build at Orthman Manufacturing for \$69,434; and the Lexington Fieldhouse for \$26,497.
- The Water department completed CIS Improvements at a cost of \$84,324; installed water line for NW 3rd Addition for \$34,542, and \$27,770 for NW Addition.
- The Waste Water Treatment Plant Support Facility project completed with 2015 expenses totaling \$616,515. Infrastructure improvements were finished at Liberty Drive for \$60,724.

City of Lexington
Capital Assets (net of depreciation)
September 30, 2015

	Governmental Activities		Business Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	3,320,235	3,205,672	329,175	328,725	3,649,410	3,534,397
Buildings and Improvements	9,994,575	10,234,816	13,996,870	11,887,219	23,991,445	22,122,035
Machinery and Equipment	1,337,091	1,001,238	680,364	575,571	2,017,455	1,576,809
Infrastructure	16,081,007	15,296,570			16,081,007	15,296,570
Utility Plant			11,780,630	14,785,920	11,780,630	14,785,920
Construction in Progress	2,631,421	1,729,060	1,082,860	358,674	3,714,281	2,087,734
Total	33,364,329	31,467,356	27,869,899	27,936,109	61,234,228	59,403,465

Additional Capital Asset information can be found in Note 5 on pages 42-43 of the report.

LONG-TERM DEBT

At September 30, 2015, the city of Lexington had total outstanding debt of \$15,550,896. Of this amount, \$1,215,000 is General Obligation bonded debt backed by the full faith and credit of the City. Utilities bonded debt totaled \$11,768,244. \$2,567,652 represents notes to finance equipment and other contracts approved by the City Council.

City of Lexington
Total Outstanding Debt
September 30, 2014 and 2015

	Governmental Activities		Business Type Activities		Total	
	2015	2014	2015	2014	2015	2014
GO Bonds	1,215,000	1,625,000			1,215,000	1,625,000
Revenue Bonds			11,768,244	12,225,833	11,768,244	12,225,833
Notes Payable	2,404,890	2,404,876	162,762	226,900	2,567,652	2,631,776
	<u>3,619,890</u>	<u>4,029,876</u>	<u>11,931,006</u>	<u>12,452,733</u>	<u>15,550,896</u>	<u>16,482,609</u>

The City's total debt decreased \$931,713 during fiscal 2015. Scheduled debt payments are responsible for this decrease.

State statutes do not limit the amount of general obligation or revenue bond debt a Nebraska city may issue.

Additional long-term debt information can be found in Note 7 on pages 44-47 of the report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Sales tax collections have increased annually by an average 3.02% over the past 15 years.
- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing the City's budget for the 2016 fiscal year.

BOND INFORMATION DEPOSITORY

The following information is included at the request of the City's bond counsel. This data is required to be filed with the Municipal Securities Rulemaking Board (MSRB) through the Electronic Municipal Market Assess (EMMA) system along with the annual financial report. This document will then include all the information required for submission.

Water Rates:			Fiscal	Sanitary Sewer Rates:		Fiscal
Resolution #:	2015 - 18		2015	Resolution #:	2015 - 18	2015
Council Approved:	11/24/2015		# of	Council Approved:	11/24/2015	# of
Effective Date:	01/01/2016		Users	Effective Date:	01/01/2016	Users
Begin Billing Date:	01/04/2016			Begin Billing Date:	01/04/2016	
Residential Metered:	Monthly		2,634	Residential- Flat Rate	\$25.00	3,106
First 5,000 gallons	\$16.75	minimum		(Daily usage will be prorated)		
Over 5,000 gallons	\$0.90					
				Commercial- Flat Rate	\$25.00	All
						Comm
Residential Flat Rate:	\$24.00		41	Commercial- Metered	\$2.30	SW
per dwelling unit per month				per 1,000 gallons		348
				minimum	\$17.00	
Multi- Unit Service Fee:	\$10.00		621			
per dwelling unit, with more than one				Industrial		3
dwelling unit served by a single meter				As determined by City Manager.		
Commercial Metered:			447	Residential Sanitation:		
First 5,000 gallons	\$16.75	minimum		Resolution #:	2011- 33	
Over 5,000 gallons	\$0.90			Council Approved:	09/13/2011	
				Effective Date:	10/01/2011	
				Begin Billing Date:	10/01/2011	
Industrial Metered:	\$0.2905	per 1,000	1			
				Flat Rate Residential	\$15.00	2,864
				Monthly		
				(Daily usage will be prorated)		
Advanced Metering Infrastructure (AMI) Fee:						
Resolution #:	2015 - 18			Residential customers who are		66
Council Approved:	11/24/2015			65 years or older and live		
Effective Date:	01/01/2016			alone may qualify for a rate of:	\$13.00	
Begin Billing Date:	01/04/2016			per month		
\$1.00 Fee per water meter per billing.				All Rates Are Subject To Change		

Fiscal Year	2015	2014	2013	2012	2011
Population	10,230	10,230	10,230	10,230	10,230
Taxable					
Valuation	296,689,000	289,397,314	289,353,722	275,523,701	272,443,846
# of Employees	92	91	88	82	85

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the city of Lexington's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Lexington, Office of the Finance Director / City Treasurer, PO Box 70, 406 East 7th Street, Lexington, NE 68850.

CITY OF LEXINGTON, NEBRASKA

STATEMENT OF NET POSITION

September 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash	2,915,626	339,293	3,254,919	0
Cash with County Treasurer	58,146	0	58,146	0
Receivables (net)	1,649,522	1,839,480	3,489,002	0
Internal balances	(486,135)	486,135	0	0
Due from other governmental agencies	9,993	0	9,993	0
Inventories	0	420,552	420,552	0
Restricted assets:				
Cash	497,483	3,036,899	3,534,382	4,554
Receivables	841,318	0	841,318	47,431
Receivable from other governments	6,748	0	6,748	0
Capital assets				
Nondepreciable	5,951,656	1,412,034	7,363,690	468,476
Depreciable - net	<u>27,412,673</u>	<u>26,457,865</u>	<u>53,870,538</u>	<u>20,776</u>
TOTAL ASSETS	<u>38,857,030</u>	<u>33,992,258</u>	<u>72,849,288</u>	<u>541,237</u>
LIABILITIES				
Accounts payable and accrued expenses	860,224	1,541,261	2,401,485	446
Compensated absences	233,575	60,681	294,256	0
Retainage payable	82,888	58,810	141,698	0
Long-term liabilities				
Due within one year				
Bonds and notes	908,703	1,143,210	2,051,913	148,923
Accrued interest	49,697	76,578	126,275	14,698
Due in more than one year				
Bonds and notes	2,711,187	10,787,797	13,498,984	433,705
Customer deposits	0	247,859	247,859	0
Accrued landfill closure costs	0	549,691	549,691	0
TOTAL LIABILITIES	<u>4,846,274</u>	<u>14,465,887</u>	<u>19,312,161</u>	<u>597,772</u>

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

STATEMENT OF NET POSITION (CONTINUED)

September 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
NET POSITION				
Net investment in capital assets	29,744,439	15,938,892	45,683,331	(93,376)
Restricted for:				
Special revenue	1,339,310	0	1,339,310	0
Debt service	0	3,036,899	3,036,899	0
Other purposes	0	0	0	36,841
Unrestricted	2,927,007	550,580	3,477,587	0
TOTAL NET POSITION	34,010,756	19,526,371	53,537,127	(56,535)

See accompanying notes.

CITY OF LEXINGTON, NEBRASKA

STATEMENT OF ACTIVITIES

Year Ended September 30, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
GOVERNMENTAL ACTIVITIES:				
General government	2,485,900	853,742	0	0
Public safety	2,259,121	78,923	75,697	0
Public works	1,813,010	24,830	48,801	348,561
Health and welfare	696,349	141,142	163,761	19,562
Culture and recreation	1,552,073	164,581	0	285,350
TOTAL GOVERNMENTAL ACTIVITIES	8,806,453	1,263,218	288,259	653,473
BUSINESS-TYPE ACTIVITIES:				
Electric	16,080,454	16,330,015	0	36,959
Water	1,697,828	1,424,870	0	0
Sewer	1,786,450	1,801,261	0	399,701
Sanitation	483,032	515,030	0	0
Landfill	(116,665)	0	0	0
Ambulance	110,315	150,257	0	0
TOTAL BUSINESS-TYPE ACTIVITIES	20,041,414	20,221,433	0	436,660
TOTAL PRIMARY GOVERNMENT	28,847,867	21,484,651	288,259	1,090,133
COMPONENT UNIT:				
Community Development Association	959,274	797,943	0	0

GENERAL REVENUE:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for specific purposes

Sales taxes

Franchise taxes

Intergovernmental

Interest income

Miscellaneous

Gain on sale of asset

Transfers

TOTAL GENERAL REVENUE

CHANGE IN NET POSITION

Net position - beginning

NET POSITION - ENDING

See accompanying notes.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
(1,632,158)	0	(1,632,158)	0
(2,104,501)	0	(2,104,501)	0
(1,390,818)	0	(1,390,818)	0
(371,884)	0	(371,884)	0
(1,102,142)	0	(1,102,142)	0
<u>(6,601,503)</u>	<u>0</u>	<u>(6,601,503)</u>	<u>0</u>
	286,520	286,520	0
	(272,958)	(272,958)	0
	414,512	414,512	0
	31,998	31,998	0
	116,665	116,665	0
	39,942	39,942	0
	<u>616,679</u>	<u>616,679</u>	<u>0</u>
<u>(6,601,503)</u>	<u>616,679</u>	<u>(5,984,824)</u>	<u>0</u>
			<u>(161,331)</u>
1,771,054	0	1,771,054	0
0	0	0	0
2,066,443	0	2,066,443	0
1,158,363	0	1,158,363	0
2,262,119	0	2,262,119	0
14,138	11,597	25,735	337
173,287	48,395	221,682	127,503
0	5,297	5,297	73,697
13,108	(13,108)	0	0
<u>7,458,512</u>	<u>52,181</u>	<u>7,510,693</u>	<u>201,537</u>
857,009	668,860	1,525,869	40,206
<u>33,153,747</u>	<u>18,857,511</u>	<u>52,011,258</u>	<u>(96,741)</u>
<u>34,010,756</u>	<u>19,526,371</u>	<u>53,537,127</u>	<u>(56,535)</u>

CITY OF LEXINGTON, NEBRASKA

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2015

	General Fund	Federal Grants
ASSETS:		
Cash - unrestricted	2,423,679	0
Cash with County Treasurer	58,146	0
Receivables (net)	568,519	0
Due from other funds	71,312	0
Receivable from other governments	9,993	0
Restricted assets:		
Cash	0	87,305
Receivables (net)	0	841,318
Receivable from other governments	0	0
	3,131,649	928,623
TOTAL ASSETS		
LIABILITIES:		
Accounts payable	374,080	0
Retainage payable	82,888	0
Due to other funds	763,887	100
Unearned revenue - other	54,650	841,318
Other accrued expenses	332,629	0
TOTAL LIABILITIES	1,608,134	841,418
DEFERRED INFLOWS OF RESOURCES:		
Unavailable revenue - property taxes	46,876	0
Unavailable revenue - special assessments	0	0
TOTAL DEFERRED INFLOWS OF RESOURCES	46,876	0
FUND BALANCES:		
Restricted	0	87,205
Committed	0	0
Unassigned	1,476,639	0
TOTAL FUND BALANCES	1,476,639	87,205
TOTAL LIABILITIES AND FUND BALANCES	3,131,649	928,623

See accompanying notes.

<u>Street Fund</u>	<u>Economic Development</u>	<u>Debt Service Fund</u>	<u>Meals on Wheels Fund</u>	<u>Total Governmental Funds</u>
281,444	0	3,426	0	2,708,549
0	0	0	0	58,146
106,200	787,428	187,375	0	1,649,522
186,430	0	0	0	257,742
0	0	0	0	9,993
0	367,704	0	42,474	497,483
0	0	0	0	841,318
0	0	0	6,748	6,748
<u>574,074</u>	<u>1,155,132</u>	<u>190,801</u>	<u>49,222</u>	<u>6,029,501</u>
241,440	0	0	2,555	618,075
0	0	0	0	82,888
0	0	18,396	0	782,383
0	787,428	869	0	1,684,265
47,840	0	0	3,584	384,053
<u>289,280</u>	<u>787,428</u>	<u>19,265</u>	<u>6,139</u>	<u>3,551,664</u>
0	0	228	0	47,104
0	0	185,469	0	185,469
0	0	185,697	0	232,573
0	367,704	0	43,083	497,992
284,794	0	0	0	284,794
0	0	(14,161)	0	1,462,478
<u>284,794</u>	<u>367,704</u>	<u>(14,161)</u>	<u>43,083</u>	<u>2,245,264</u>
<u>574,074</u>	<u>1,155,132</u>	<u>190,801</u>	<u>49,222</u>	<u>6,029,501</u>

CITY OF LEXINGTON, NEBRASKA

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO STATEMENT OF NET POSITION

September 30, 2015

Total fund balance, governmental funds	2,245,264
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	33,364,329
Unearned revenue and deferred inflows of resources received on the balance sheet of the governmental fund statements are not reported on the full accrual Statement of Net Position	1,916,838
The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.	153,912
Some liabilities, (such as notes payable, capital lease contract payable, long-term compensated absences, interest payable, and bonds payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.	(3,669,587)
Total Net Position of Governmental Activities in the Statement of Net Position	<u><u>34,010,756</u></u>

See accompanying notes.

CITY OF LEXINGTON, NEBRASKA

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUNDS

Year Ended September 30, 2015

	General Fund	Federal Grants
REVENUE:		
Local and county sources:		
Property taxes	1,805,636	0
Sales taxes	2,066,443	0
Other miscellaneous taxes	1,158,771	0
Licenses and permits	13,858	0
Charges for services	1,046,009	0
Interest and loan principal	3,288	44,243
Miscellaneous	111,882	50,000
Donations and private grants	285,350	0
Rent	200,654	0
State sources	1,232,854	0
Federal sources	328,829	0
TOTAL REVENUE	8,253,574	94,243
EXPENDITURES:		
Current:		
General government	2,207,623	0
Public safety	2,134,730	0
Public works	0	0
Health and welfare	409,473	90,000
Culture and recreation	1,276,540	0
Debt service:		
Principal	0	0
Interest and other charges	1,835	0
Capital outlay	1,539,077	0
TOTAL EXPENDITURES	7,569,278	90,000
REVENUE OVER (UNDER) EXPENDITURES	684,296	4,243

(Continued on next page.)

<u>Street Fund</u>	<u>Economic Development</u>	<u>Debt Service Fund</u>	<u>Meals on Wheels</u>	<u>Total Governmental Funds</u>
0	0	0	0	1,805,636
0	0	0	0	2,066,443
0	0	0	0	1,158,771
0	0	0	0	13,858
0	0	0	0	1,046,009
790	23,433	8,667	48	80,469
61,646	410,000	30,431	4,470	668,429
0	0	0	69,361	354,711
0	0	0	0	200,654
1,075,769	0	11,688	0	2,320,311
104,050	0	0	94,737	527,616
<u>1,242,255</u>	<u>433,433</u>	<u>50,786</u>	<u>168,616</u>	<u>10,242,907</u>
0	0	0	0	2,207,623
0	0	0	0	2,134,730
1,097,814	0	11,126	0	1,108,940
0	0	0	162,139	661,612
0	0	0	0	1,276,540
0	0	1,929,986	0	1,929,986
0	0	130,226	0	132,061
1,623,435	0	0	0	3,162,512
<u>2,721,249</u>	<u>0</u>	<u>2,071,338</u>	<u>162,139</u>	<u>12,614,004</u>
<u>(1,478,994)</u>	<u>433,433</u>	<u>(2,020,552)</u>	<u>6,477</u>	<u>(2,371,097)</u>

CITY OF LEXINGTON, NEBRASKA

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUNDS (CONTINUED)

Year Ended September 30, 2015

	<u>General Fund</u>	<u>Federal Grants</u>
OTHER FINANCING SOURCES (USES)		
Proceeds from long-term debt, net	0	0
Transfers in	43,251	0
Transfers out	(1,411,597)	0
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,368,346)</u>	<u>0</u>
REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(684,050)	4,243
Fund balances - beginning	<u>2,160,689</u>	<u>82,962</u>
FUND BALANCES - ENDING	<u><u>1,476,639</u></u>	<u><u>87,205</u></u>

See accompanying notes.

<u>Street Fund</u>	<u>Economic Development</u>	<u>Debt Service Fund</u>	<u>Meals on Wheels</u>	<u>Total Governmental Funds</u>
630,000	0	890,000	0	1,520,000
488,440	167,500	1,148,591	0	1,847,782
(177,166)	(245,911)	0	0	(1,834,674)
<u>941,274</u>	<u>(78,411)</u>	<u>2,038,591</u>	<u>0</u>	<u>1,533,108</u>
(537,720)	355,022	18,039	6,477	(837,989)
822,514	12,682	(32,200)	36,606	3,083,253
<u>284,794</u>	<u>367,704</u>	<u>(14,161)</u>	<u>43,083</u>	<u>2,245,264</u>

CITY OF LEXINGTON, NEBRASKA

RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES

Year Ended September 30, 2015

Net change in fund balances - total governmental funds: (837,989)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays exceeded depreciation in the current period. 1,404,058

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. (31,080)

The issuance of long-term debt (e.g. bonds, leases, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items as expenses when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 416,778

Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and information technology, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities. (94,758)

Change in net position of governmental activities 857,009

See accompanying notes.

CITY OF LEXINGTON, NEBRASKA

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

September 30, 2015

ASSETS	Electric	Water
CURRENT ASSETS:		
Cash	248,884	0
Accounts receivable, net	1,111,399	285,978
Inventories	194,912	225,378
TOTAL CURRENT ASSETS	1,555,195	511,356
NON-CURRENT ASSETS:		
Restricted assets:		
Cash	1,757,126	21,657
Due from other funds	550,983	0
Fixed assets (net)	9,430,872	3,269,595
TOTAL NON-CURRENT ASSETS	11,738,981	3,291,252
TOTAL ASSETS	13,294,176	3,802,608
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	1,237,538	120,524
Retainage payable	0	0
Salaries payable	18,103	16,474
Accrued interest payable	33,837	2,919
Compensated absences	22,725	20,278
Current portion of long-term debt	326,000	88,000
TOTAL CURRENT LIABILITIES	1,638,203	248,195
NON-CURRENT LIABILITIES:		
Customer deposits	247,859	0
Due to other funds	0	1,046
Bonds, notes and loans payable	3,078,957	398,597
Accrued landfill closure costs	0	0
TOTAL NON-CURRENT LIABILITIES	3,326,816	399,643
TOTAL LIABILITIES	4,965,019	647,838
NET POSITION		
Net investment in capital assets	6,025,915	2,782,998
Restricted for debt service	1,757,126	21,657
Unrestricted	546,116	350,115
TOTAL NET POSITION	8,329,157	3,154,770

See accompanying notes.

<u>Sewer</u>	<u>Sanitation</u>	<u>Landfill</u>	<u>Ambulance</u>	<u>Total Enterprise Funds</u>	<u>Internal Service Funds</u>
0	50,607	0	39,802	339,293	207,077
334,440	107,664	0	0	1,839,481	0
262	0	0	0	420,552	0
<u>334,702</u>	<u>158,271</u>	<u>0</u>	<u>39,802</u>	<u>2,599,326</u>	<u>207,077</u>
958,239	0	299,877	0	3,036,899	0
0	0	0	0	550,983	0
14,862,231	3,401	115,983	187,817	27,869,899	0
<u>15,820,470</u>	<u>3,401</u>	<u>415,860</u>	<u>187,817</u>	<u>31,457,781</u>	<u>0</u>
<u>16,155,172</u>	<u>161,672</u>	<u>415,860</u>	<u>227,619</u>	<u>34,057,107</u>	<u>207,077</u>
132,108	0	0	418	1,490,588	91,670
58,810	0	0	0	58,810	0
16,095	0	0	0	50,672	0
39,758	0	0	64	76,578	0
17,678	0	0	0	60,681	0
692,572	0	0	36,638	1,143,210	0
<u>957,021</u>	<u>0</u>	<u>0</u>	<u>37,120</u>	<u>2,880,539</u>	<u>91,670</u>
0	0	0	0	247,859	0
25,297	0	0	0	26,343	0
7,272,825	0	0	37,418	10,787,797	0
0	0	549,691	0	549,691	0
<u>7,298,122</u>	<u>0</u>	<u>549,691</u>	<u>37,418</u>	<u>11,611,690</u>	<u>0</u>
<u>8,255,143</u>	<u>0</u>	<u>549,691</u>	<u>74,538</u>	<u>14,492,229</u>	<u>91,670</u>
6,896,834	3,401	115,983	113,761	15,938,892	0
958,239	0	299,877	0	3,036,899	0
44,956	158,271	(549,691)	39,320	589,087	115,407
<u>7,900,029</u>	<u>161,672</u>	<u>(133,831)</u>	<u>153,081</u>	<u>19,564,878</u>	<u>115,407</u>

CITY OF LEXINGTON, NEBRASKA

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS

Year Ended September 30, 2015

	Electric	Water
OPERATING REVENUE:		
Charges for services	16,050,454	1,386,450
Reimbursements from other funds	0	0
Miscellaneous	327,955	38,420
TOTAL OPERATING REVENUE	16,378,409	1,424,870
OPERATING EXPENSES:		
Operating expenses	15,627,422	1,302,586
Supplies	0	0
Medical expenses	0	0
Depreciation	368,132	377,277
TOTAL OPERATING EXPENSES	15,995,554	1,679,863
OPERATING INCOME (LOSS)	382,855	(254,993)
NON-OPERATING REVENUE (EXPENSES):		
Bond costs	0	0
Interest income	8,784	1,973
Change in landfill closure costs estimate	0	0
Capital grants and contributions	36,959	0
Interest expense	(77,283)	(9,714)
TOTAL NON-OPERATING REVENUE (EXPENSES)	(31,540)	(7,741)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS:	351,315	(262,734)
Aid in construction	0	0
Transfers in	0	0
Transfers out	(13,108)	0
Gain on sale of assets	0	0
NET INCOME (LOSS)	338,207	(262,734)
Net position - beginning	7,990,950	3,417,504
NET POSITION - ENDING	8,329,157	3,154,770

See accompanying notes.

<u>Sewer</u>	<u>Sanitation</u>	<u>Landfill</u>	<u>Ambulance</u>	<u>Total Enterprise Funds</u>	<u>Internal Service Funds</u>
1,766,304	515,030	0	150,257	19,868,495	154,087
0	0	0	0	0	741,071
34,959	0	0	0	401,334	30,164
<u>1,801,263</u>	<u>515,030</u>	<u>0</u>	<u>150,257</u>	<u>20,269,829</u>	<u>925,322</u>
972,390	482,925	0	90,561	18,475,884	157,266
1,582	106	0	0	1,688	0
0	0	0	0	0	810,548
632,401	0	0	21,604	1,399,414	0
<u>1,606,373</u>	<u>483,031</u>	<u>0</u>	<u>112,165</u>	<u>19,876,986</u>	<u>967,814</u>
<u>194,890</u>	<u>31,999</u>	<u>0</u>	<u>38,092</u>	<u>392,843</u>	<u>(42,492)</u>
(3,250)	0	0	0	(3,250)	0
1	6	697	137	11,598	26
0	0	116,665	0	116,665	0
0	0	0	0	36,959	0
(172,262)	0	0	(2,300)	(261,559)	0
<u>(175,511)</u>	<u>6</u>	<u>117,362</u>	<u>(2,163)</u>	<u>(99,587)</u>	<u>26</u>
19,379	32,005	117,362	35,929	293,256	(42,466)
399,701	0	0	0	399,701	0
0	0	30,000	0	30,000	0
0	(30,000)	0	0	(43,108)	0
0	0	0	5,297	5,297	0
419,080	2,005	147,362	41,226	685,146	(42,466)
<u>7,480,949</u>	<u>159,667</u>	<u>(281,193)</u>	<u>111,855</u>	<u>18,879,732</u>	<u>157,873</u>
<u>7,900,029</u>	<u>161,672</u>	<u>(133,831)</u>	<u>153,081</u>	<u>19,564,878</u>	<u>115,407</u>

CITY OF LEXINGTON, NEBRASKA

RECONCILIATION OF STATEMENT OF NET POSITION OF PROPRIETARY FUNDS TO STATEMENT OF NET POSITION OF BUSINESS-TYPE ACTIVITIES

September 30, 2015

Total net position - Utility Funds 19,564,878

Amounts reported for business-type activities in the statement of net position are different because:

Certain Internal Service Fund assets and liabilities are included with
business-type activities (38,507)

Net position of business-type activities 19,526,371

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET POSITION OF PROPRIETARY FUNDS TO THE STATEMENT OF ACTIVITIES OF BUSINESS-TYPE ACTIVITIES

Year Ended September 30, 2015

Net change in fund net position - Utility Funds 685,146

Amounts reported for business-type activities in the statement of activities are different because:

Net revenue (expense) of certain Internal Service Funds are reported with
business-type activities (16,286)

Change in net position of business-type activities 668,860

See accompanying notes.

CITY OF LEXINGTON, NEBRASKA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended September 30, 2015

	Electric	Water
OPERATING ACTIVITIES:		
Receipts from customers	15,598,444	1,418,345
Receipts from Interfund Services	425,777	5,791
Miscellaneous revenue	327,955	38,420
Payments to suppliers	(14,115,762)	(684,032)
Payments to employees	(233,556)	(219,060)
Payments for franchise taxes to City	(804,783)	(65,422)
Payments for Interfund Services	(502,304)	(302,952)
Receipts of customer meter deposits	100,995	0
Refunds of customer meter deposits	(71,045)	0
NET OPERATING ACTIVITIES	725,721	191,090
NONCAPITAL FINANCING ACTIVITIES:		
Net change in due to (from) other funds	0	0
Federal sources	36,959	0
Capital contributions	0	0
Transfers to other funds	(13,108)	0
Change in landfill closure cost estimate	0	0
NET NONCAPITAL FINANCING ACTIVITIES	23,851	0
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments:		
Bonds	(224,168)	(90,000)
Notes	0	0
Proceeds:		
Bonds	0	0
Bond costs	0	0
Acquisition and construction of capital assets	(382,890)	(147,868)
Interest paid on bonds and notes	(77,358)	(9,214)
NET CAPITAL AND RELATED FINANCING ACTIVITIES	(684,416)	(247,082)
INVESTING ACTIVITIES:		
Interest received	8,784	1,973
NET INCREASE (DECREASE) IN CASH	73,940	(54,019)
Cash - beginning of year	1,932,070	75,676
CASH - END OF YEAR	2,006,010	21,657

(Continued on next page)

Sewer	Sanitation	Landfill	Ambulance	Total Enterprise Funds	Internal Service Fund
1,773,592	520,038	0	150,257	19,460,676	0
12,319	0	0	0	443,887	925,322
34,959	0	(122,009)	0	279,325	0
(338,818)	(483,030)	0	(93,172)	(15,714,814)	(874,827)
(292,485)	0	0	0	(745,101)	(49,602)
(87,809)	0	0	0	(958,014)	0
(158,151)	0	0	0	(963,407)	0
0	0	0	0	100,995	0
0	0	0	0	(71,045)	0
<u>943,607</u>	<u>37,008</u>	<u>(122,009)</u>	<u>57,085</u>	<u>1,832,502</u>	<u>893</u>
0	0	0	0	0	(11,695)
0	0	0	0	36,959	0
399,701	0	0	0	399,701	0
0	(30,000)	30,000	0	(13,108)	0
0	0	116,665	0	116,665	0
<u>399,701</u>	<u>(30,000)</u>	<u>146,665</u>	<u>0</u>	<u>540,217</u>	<u>(11,695)</u>
(601,614)	0	0	0	(915,782)	0
0	0	0	(35,944)	(35,944)	0
430,000	0	0	0	430,000	0
(3,250)	0	0	0	(3,250)	0
(745,384)	0	0	7,046	(1,269,096)	0
(173,172)	0	0	(2,268)	(262,012)	0
<u>(1,093,420)</u>	<u>0</u>	<u>0</u>	<u>(31,166)</u>	<u>(2,056,084)</u>	<u>0</u>
<u>1</u>	<u>5</u>	<u>697</u>	<u>135</u>	<u>11,595</u>	<u>26</u>
249,889	7,013	25,353	26,054	328,230	(10,776)
708,350	43,594	274,524	13,748	3,047,962	217,853
<u>958,239</u>	<u>50,607</u>	<u>299,877</u>	<u>39,802</u>	<u>3,376,192</u>	<u>207,077</u>

CITY OF LEXINGTON, NEBRASKA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)

Year Ended September 30, 2015

	<u>Electric</u>	<u>Water</u>
RECONCILIATION OF OPERATING INCOME TO NET OPERATING ACTIVITIES:		
Operating income (loss)	382,855	(254,993)
Items not requiring cash:		
Depreciation	368,132	377,277
(Increase) decrease in assets:		
Receivables	(26,233)	37,686
Inventories	14,504	(43,062)
Increase (decrease) in liabilities:		
Accounts payable and other accrued expenses	(43,487)	74,182
Accrued landfill closure costs	0	0
Customer deposits	29,950	0
NET OPERATING ACTIVITIES	<u>725,721</u>	<u>191,090</u>
 CASH RECONCILIATION:		
Unrestricted	248,884	0
Restricted	1,757,126	21,657
CASH TOTAL	<u>2,006,010</u>	<u>21,657</u>

See accompanying notes.

<u>Sewer</u>	<u>Sanitation</u>	<u>Landfill</u>	<u>Ambulance</u>	<u>Total Enterprise Funds</u>	<u>Internal Service Fund</u>
194,890	31,999	0	38,092	392,843	(42,492)
632,401	0	0	21,604	1,399,414	0
19,607	5,009	0	0	36,069	0
(91)	0	0	0	(28,649)	0
96,800	0	0	(2,611)	124,884	43,385
0	0	(122,009)	0	(122,009)	0
0	0	0	0	29,950	0
<u>943,607</u>	<u>37,008</u>	<u>(122,009)</u>	<u>57,085</u>	<u>1,832,502</u>	<u>893</u>
0	50,607	0	39,802	339,293	207,077
958,239	0	299,877	0	3,036,899	0
<u>958,239</u>	<u>50,607</u>	<u>299,877</u>	<u>39,802</u>	<u>3,376,192</u>	<u>207,077</u>

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS

September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government

The City of Lexington, Nebraska is a municipality located in Dawson County in the south central portion of Nebraska. It operates a City Manager form of government. Citizens elect five (5) council members at large who appoint the mayor.

The financial statements of the City are presented in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The basic financial statements report on the government as a whole. They include the City of Lexington and its component unit. The discretely presented component unit reflects the financial information of the Community Development Agency (CDA). All of the board members of the CDA are appointed by the City Council. Its purpose is to develop, finance, and maintain business property.

Government-wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole and report using the economic resources measurement focus on the accrual basis of accounting. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities are generally financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

In the Statement of Net Position, both the governmental and business-type activities are presented on a consolidated basis which recognizes all long-term assets, receivables, and long-term debt and obligations. The City's net position is reported in three categories – net investment in capital assets; restricted net position; and unrestricted net position.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide Financial Statements (Continued)

The Statement of Activities reports both the gross and net cost of each of the City's governmental functions and business-type activities. The net costs of each governmental function are also supported by general government revenues (taxes and certain intergovernmental revenues, 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 governmental function or business-type activity.

Discretely Presented Component Unit – The CDA reports using the economic resources measurement focus on the accrual basis of accounting.

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 asset, liabilities, reserves, fund equity, revenues and expenditures/expenses.

The governmental funds financial statements use the current financial resources measurement focus on 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 within 60 days after year end. Expenditures are generally recognized under the accrual basis of accounting when the related liability is incurred except for principal and interest on general obligation bonds, which are reported as expenditures when paid.

The following fund types are used by the City:

Governmental Fund Types

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.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements (Continued)

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted or designated by management to expenditures for specific purposes.

Debt Service Funds are used to account for the accumulation of funds for the payment of principal, interest, and related costs on general long-term debt.

Proprietary Fund Types

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 (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments on a cost-reimbursement basis. Because the principal users of the internal services are the City's governmental activities, the financial statement of the internal service funds have been allocated to the governmental fund activities columns when presented in the government-wide financial statements. To the extent possible, the cost of these services is reported in the appropriate functional activity.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. GASBS No. 34 sets forth minimum criteria for the determination of major funds. Some funds may have been reclassified as major from the prior year.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements (Continued)

The following funds are considered major funds:

Governmental Funds

General Fund as previously described

Federal Grant Funds is a special revenue fund that accounts for revenues and expenditures for the grants for community development.

Street Fund is a special revenue fund that accounts for revenues and expenditures for the maintenance, construction, and improvements of the streets of the City.

Economic Development Funds account for revenues and expenditures for community economic development.

Debt Service Fund accounts for the accumulation of funds for the payment of principal, interest, and related costs on long-term debt.

Meals on Wheels Fund accounts for revenue and expenditures related to the senior citizens meal and other related programs.

Proprietary Funds (Enterprise)

Utility Funds account for the activities of the City's utility operation. (Electric, Water, Sewer, Sanitation, and Landfill)

Ambulance Fund accounts for activities of the City's ambulance services.

Financial Statement Amounts:

Cash

The City has defined cash to include cash on hand, cash in banks and certificates of deposit (valued at cost plus accrued interest to September 30, 2015).

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Amounts (Continued)

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include property taxes, sales and use taxes, franchise taxes, grants, and interest.

Business-type activities report utilities including trade receivables and unbilled utilities, and interest as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals for property taxes, sales and use taxes, franchise taxes, grants and other similar intergovernmental revenues since they are usually measurable and available in 60 days. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual basis, but are not deferred in the government-wide financial statements in accordance with the accrual basis.

Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. At September 30, 2015, the balances of the allowance for doubtful accounts are:

General Fund	\$	10,000
Electric Fund		10,000
Water Fund		3,000
Sewer Fund		5,000
Sanitation Fund		2,000
Total	\$	<u>30,000</u>

Inventory Valuation

Proprietary Fund inventories are recorded at the lower of cost (average cost) or market, using the first-in first-out method.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Amounts (Continued)

Capital Assets

The City's policy is to capitalize purchased or donated capital assets, including improvements to capital assets that significantly extend the life of the assets, that have an estimated life of more than one year and a cost of \$5,000 or more. Cost includes original actual cost, estimated historical cost or the fair value at the date received of donated assets. Estimated historical cost was used to value the majority of the assets acquired prior to October 1, 2002 in the governmental activities.

Depreciation of all exhaustible capital assets is recorded as an expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided using the straight-line method of depreciation over the estimated useful lives as follows:

Buildings	20 – 50 years
Improvements	10 – 20 years
Electric, water and sewer plants	30 – 50 years
Machinery and equipment	5 – 10 years
Infrastructure	10 – 50 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Amounts (Continued)

Deferred Inflows of Resources (Continued)

Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Long-Term Debt

Long-term debt is reported in the government-wide statements and the proprietary fund statements. The long-term debt consists of notes payable, revenue bonds and general obligation bonds.

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

Compensated Absences

The liability for compensated absences is recorded as current in other accrued expenses. In the fund financial statements, governmental funds report only the liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

Government-wide Net Position

In the government-wide statements, net position is displayed in three components.

- 1) Net investment in capital assets – Consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Amounts (Continued)

- 2) Restricted net position – Consists of net position with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
- 3) Unrestricted net position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

It is the City’s policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

Proprietary fund balance is classified the same as in the government-wide statements.

In the governmental fund statements, fund balances are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- 1) Nonspendable fund balance – amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact. As of September 30, 2015, the nonspendable fund balance was \$0.
- 2) Restricted fund balance – amounts that can be spent only for specific purposes because of constraints imposed by creditors, grantors, contributors, constitutional provisions, enabling legislation or by laws and regulations. As of September 30, 2015, the restricted fund balance of \$497,992 is restricted for the following purposes:

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Amounts (Continued)

Fund	Purpose	Amount
Federal Grant	Grant reuse and housing monies for community development projects	87,205
Economic Development	Sales tax monies designated for community economic development	367,704
Meals on Wheels	Grant monies and local contributions designated for the senior citizen meal program	43,083

- 3) Committed fund balance - amounts that can be spent only for specific purposes determined by formal action of the City of Lexington, Nebraska's City Council which is the highest level of authority for the City. Commitments may be established, modified, or rescinded only through ordinances approved by the City Council. As of September 30, 2015, the committed fund balance was \$284,794 committed for street maintenance and construction.
- 4) Assigned fund balance – amounts that are intended to be used for specific purposes that do not meet the criteria to be classified as restricted or committed. Under the City of Lexington, Nebraska, only the City Council may assign amounts. As of September 30, 2015, the assigned fund balance was \$0.
- 5) Unassigned fund balance – all other spendable amounts.

When an expenditure is incurred for purposes for which restricted, committed, assigned, or unassigned fund balances are available, the City would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to deter the use of these other classified funds.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Amounts (Continued)

Revenues

Substantially all governmental fund revenues are accrued in the government-wide financial statements. Dawson County bills and collects property taxes and remits to the City monthly. These taxes are deemed to be received by the City when collected by the County Treasurer.

Operating revenues for proprietary funds are those that result from providing goods and services. Subsidies and grants, which finance capital items, and other revenues, are reported as nonoperating revenue.

Expenditures

Expenditures are classified by function for both governmental and business-type activities in the government-wide financial statements. In the fund financial statements, expenditures are classified by character (current, capital outlay, and debt service) in the governmental funds, and as operating and nonoperating in the proprietary funds. Proprietary fund inventory costs are reported in the period when inventory items are used, rather than in the period purchased.

Interfund Activity

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Amounts (Continued)

Eliminations

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regard to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities.

NOTE 2: CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City maintains a cash and certificate of deposit pool that is available for use by all funds except those required to maintain separate accounts. Each fund type's portion of these pools is displayed on the balance sheet/statement of net position as "Cash" under each fund's caption. State law requires that all funds held in depositories be fully insured or collateralized.

NOTE 3: RESTRICTED CASH

Revenue Bond Funds

Under the terms of the revenue bond ordinances, all income and revenue from operation of the Enterprise Funds may be used only for specified purposes. Priorities are as follows:

Bond Payment Subaccount

The Enterprise Funds are required to deposit monthly an amount equal to one-twelfth of the amount of principal and interest due on the next payment date. The amount restricted is \$654,219 at September 30, 2015.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

NOTE 3: RESTRICTED CASH (CONTINUED)

Operating and Maintenance Account

The Enterprise Funds are required to set aside monthly an amount sufficient for the operation and maintenance of its combined utilities. The expenses of maintenance and operations of these utilities will be paid out of this account.

Bond Reserve Account

The Enterprise Funds are required to maintain in this account a specified sum based on the principal outstanding (\$774,215 at September 30, 2015). Funds in these accounts may be used at any time there is insufficient money available in the Bond Payment Subaccount to pay either principal or interest on the revenue bonds as they become due.

Surplus Account

After providing for payment into all of the above accounts, all remaining funds shall be transferred into the Surplus Account to be used as follows:

- (a) To replace any deficiency in the above accounts.
- (b) To declare in-lieu-of tax payment - so long as no deficiency exists in required payments to the above accounts, the utilities may declare an in-lieu-of tax payment to the City, which can be used for any purpose authorized by law.
- (c) To retire bonds prior to maturity and also includes cash from bond issue. The amount restricted is \$1,305,588.

Other Funds

In addition to the funds and accounts created by the revenue bond ordinances, the Enterprise Fund maintains the following special funds:

- (1) Landfill Closure - This account is used to set aside funds for the estimated post-closure costs at the landfill. The amount restricted is \$299,877.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

NOTE 3: RESTRICTED CASH (CONTINUED)

Grant Funds

Under the terms of the grant agreements, certain special revenue funds are restricted as follows:

- (1) Community Development Block Grants and reuse monies. The amount restricted is \$87,305.
- (2) Meals on Wheels-Meal program and outreach for the elderly. The amount restricted is \$42,474.
- (3) Economic Development – The amount restricted is \$367,704.

Component Unit (CDA)

The amount restricted is \$4,554 for the component unit (CDA) for community development.

NOTE 4: RECEIVABLES

The receivables (net of allowances) for the City of Lexington are composed of the following:

	<u>General</u>	<u>Federal Grants</u>	<u>Street</u>	<u>Economic Development</u>	<u>Debt Service</u>	<u>Enterprise</u>	<u>Component Unit</u>
Trade	22,649	0	0	0	0	385,437	0
Unbilled services	0	0	0	0	0	1,454,044	0
Property/sales taxes	466,108	0	0	0	228	0	0
Occupation taxes	23,700	0	0	0	0	0	0
Franchise taxes	56,062	0	0	0	0	0	0
Interest	0	0	0	0	1,678	0	1,073
Special assessments	0	0	0	0	185,469	0	0
Loans	0	841,318	106,200	787,428	0	0	46,358
Totals	568,519	841,318	106,200	787,428	187,375	1,839,481	47,431

The funds to pay for special assessment projects are generated through the levy of an assessment on individual property owners benefited by the project and through property taxes provided by the City to pay for the project’s benefit to the general public.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

NOTE 4: RECEIVABLES (CONTINUED)

The assessments receivable from property owners reflected on the fund statement balance sheet are payable in annual installments of principal and interest over periods up to 10 years. The City is obligated to provide for the funding of any deficiency in the financing of these projects through the levy of property taxes. Delinquent special assessment receivables at September 30, 2015 were \$37,604.

NOTE 5: CAPITAL ASSETS

The following is a summary of the capital assets for the year ended September 30, 2015:

	<u>Beginning Balance</u>	<u>Additions and Reclassifications</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental Activities:				
Land	3,205,672	152,066	(37,503)	3,320,235
Buildings and improvements	13,405,313	207,318	0	13,612,631
Machinery and equipment	3,843,201	606,151	(99,055)	4,350,297
Infrastructure	38,744,094	1,294,368	0	40,038,462
Construction in progress	1,729,060	2,322,881	(1,420,520)	2,631,421
Totals	60,927,340	4,582,784	(1,557,078)	63,953,046
Less accumulated depreciation:				
Buildings and improvements	(3,170,497)	(447,559)	0	(3,618,056)
Machinery and equipment	(2,841,963)	(270,298)	99,055	(3,013,206)
Infrastructure	(23,447,524)	(509,931)	0	(23,957,455)
Totals	(29,459,984)	(1,227,788)	99,055	(30,588,717)
Net	31,467,356	3,354,996	(1,458,023)	33,364,329
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Business-Type Activities:				
Land	328,725	450	0	329,175
Buildings and improvements	16,167,746	138,828	0	16,306,574
Vehicles and equipment	1,129,987	111,407	(103,416)	1,137,978
Utility systems	39,862,542	388,036	0	40,250,578
Construction in progress	358,674	1,227,522	(503,336)	1,082,860
Totals	57,847,674	1,866,243	(606,752)	59,107,165
Less accumulated depreciation:				
Buildings and improvements	(1,959,818)	(349,886)	0	(2,309,704)
Vehicles and equipment	(423,601)	(107,726)	73,713	(457,614)
Utility systems	(27,528,146)	(941,802)	0	(28,469,948)
Totals	(29,911,565)	(1,399,414)	73,713	(31,237,266)
Net	27,936,109	466,829	(533,039)	27,869,899

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

NOTE 5: CAPITAL ASSETS (CONTINUED)

Component Unit:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Land	489,006	96,503	(117,033)	468,476
Building	32,895	0	0	32,895
Totals	521,901	96,503	(117,033)	501,371
Less accumulated depreciation	(10,388)	(1,731)	0	(12,119)
Net	511,513	94,772	(117,033)	489,252

Depreciation expense was charged to functions/programs as follows for the year ended September 30, 2015:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Component Unit</u>
General government	231,932	0	1,731
Public safety	105,217	0	0
Public works	588,065	0	0
Health and welfare	32,421	0	0
Culture and recreation	270,153	0	0
Electric	0	368,132	0
Water	0	377,277	0
Sewer	0	632,401	0
Ambulance	0	21,604	0
Totals	1,227,788	1,399,414	1,731

NOTE 6: COMPENSATED ABSENCES

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Governmental activities	218,323	15,252	0	233,575	233,575
Business-type activities	63,746	0	3,065	60,681	60,681

Compensated absences are included in other accrued expenses on the balance sheet of the governmental funds.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

NOTE 7: LONG-TERM DEBT

The City is in compliance with all significant requirements of various bonds. The following is a summary of transactions for indebtedness for the year ended September 30, 2015:

General Obligation Bonds Payable – Governmental Activities

<u>Issue Date</u>	<u>Due Date</u>	<u>Interest Rates</u>	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within one year</u>
6/15/2008	6/15/2016	2.00% to 3.65%	645,000	0	320,000	325,000	325,000
3/30/2010	4/15/2025	.7% to 4.0%	980,000	0	980,000	0	0
03/31/2015	10/15/2023	.4% to 2.2%	0	890,000	0	890,000	95,000
Total			1,625,000	890,000	1,300,000	1,215,000	420,000

Notes Payable – Governmental Activities (secured by equipment and land)

<u>Issue Date</u>	<u>Due Date</u>	<u>Interest Rates</u>	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within one year</u>
10/14/2008	10/14/2020	3.98%	312,734	0	39,476	273,258	41,171
4/29/2008	5/01/2023	4.51%	332,373		37,135	295,238	38,073
5/30/2008	6/01/2018	4.50%	185,510	0	43,292	142,218	45,275
7/15/2010	1/15/2016	3.25%	161,232	0	106,621	54,611	54,611
5/02/2011	5/02/2021	3.72%	664,072	0	84,790	579,282	87,810
6/14/2013	5/15/2018	2.14%	108,955	0	26,369	82,586	26,937
5/01/2014	5/01/2021	2.90%	400,000	0	52,303	347,697	53,812
7/17/2014	7/01/2016	2.49%	240,000	0	240,000	0	0
11/7/2014	11/15/2018	2.00%	0	250,000	0	250,000	60,551
11/15/2014	11/15/2019	2.50%	0	320,000	0	320,000	60,805
7/1/2015	6/1/2018	2.13%	0	60,000	0	60,000	19,658
Total			2,404,876	630,000	629,986	2,404,890	488,703
Total Governmental			4,029,876	1,520,000	1,929,986	3,619,890	908,703

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

NOTE 7: LONG-TERM DEBT (CONTINUED)

Bonds Payable – Business-Type Activities

<u>Issue Date</u>	<u>Due Date</u>	<u>Interest Rates</u>	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within one year</u>
		.35% to					
6/1/2011	9/15/2024	4.00%	1,280,000	0	110,000	1,170,000	115,000
11/26/2013	4/15/2027	.45% to	2,925,000	0	190,000	2,735,000	205,000
		3.90%					
07/01/2014	09/30/2023	.30% to	3,420,000	0	380,000	3,040,000	550,000
		2.40%					
9/15/2015	12/15/2018	.65% to	0	430,000	0	430,000	0
		1.2%					
4/29/2013	6/15/2022	1.50%	4,600,833	0	207,589	4,393,244	207,706
	Total		12,225,833	430,000	887,589	11,768,244	1,077,706

Notes Payable – Business-Type Activities (secured by equipment and land)

<u>Issue Date</u>	<u>Due Date</u>	<u>Interest Rates</u>	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within one year</u>
07/15/2014	07/15/2018	2.37%	116,900	0	28,194	88,706	28,866
9/25/2014	9/15/2017	2.09%	110,000	0	35,944	74,056	36,638
	Total		226,900	0	64,138	162,762	65,504

Total Business –Type Activities 12,452,733 430,000 951,727 11,931,006 1,143,210

General Obligation Bonds Payable – Component Unit

<u>Issue Date</u>	<u>Due Date</u>	<u>Interest Rates</u>	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within one year</u>
10/9/2001	12/1/2016	3.00%	12,183	0	4,765	7,418	4,909
11/1/2004	12/1/2020	7.00%	53,059	0	6,701	46,358	7,178
1/15/2010	12/31/2025	3.00%	221,597	0	12,308	209,289	13,422
	Total		286,839	0	23,774	263,065	25,509

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

NOTE 7: LONG-TERM DEBT (CONTINUED)

Notes Payable – Component Unit (secured by building and land)

<u>Issue Date</u>	<u>Due Date</u>	<u>Interest Rates</u>	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within one year</u>
1/11/2008	1/1/2018	7.00%	379,993	0	90,430	289,563	93,414
10/1/2007		0.00%	30,000	0	0	30,000	30,000
	Total		409,993	0	90,430	319,563	123,414
Total Component Unit			696,832	0	114,204	582,628	148,923
GRAND TOTALS			17,179,441	1,950,000	2,995,917	16,133,524	2,195,836

Interest expense was charged to functions/programs as follows:

Governmental activities:	General Government	33,208
	Public safety	7,977
	Public works	89,041
Business-type activities:	Electric	77,283
	Water	9,714
	Sewer	172,262
	Ambulance	2,300
	Component unit:	CDA

Maturities during the next five years and thereafter for the above bond and note categories are as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2016	908,703	95,589	1,143,210	211,757	2,359,259
2017	547,717	71,339	1,297,814	200,695	2,117,565
2018	556,709	56,692	1,169,282	185,739	1,968,422
2019	469,765	41,920	1,157,229	168,769	1,837,683
2020	420,471	27,629	840,500	151,701	1,440,301
2021-2025	716,525	28,518	3,608,307	480,298	4,833,648
2026-2030	0	0	1,787,781	143,894	1,931,675
2031-2034	0	0	926,883	28,013	954,896
	3,619,890	321,687	11,931,006	1,570,866	17,443,449

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CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

NOTE 7: LONG-TERM DEBT (CONTINUED)

Component Unit:

	Bonds		Notes		Total
	Principal	Interest	Principal	Interest	
2016	25,509	9,152	123,414	9,511	167,586
2017	24,614	8,060	96,465	6,460	135,599
2018	23,693	7,010	99,684	3,274	133,661
2019	25,369	5,928	0	0	31,297
2020	27,139	4,768	0	0	31,907
2021-2025	109,948	9,811	0	0	119,759
2026	26,793	696	0	0	27,489
	<u>263,065</u>	<u>45,425</u>	<u>319,563</u>	<u>19,245</u>	<u>647,298</u>

NOTE 8: INTERFUND BALANCES AND ACTIVITY

Due to and due from balances are used to record loans between funds for various cash flow purposes. The City estimates that those balances exceeding \$500,000 will not be paid back within one year.

Balances due to and from other funds:	Fund Statement	
	Due from	Due to
General	71,312	763,887
Federal Grants	0	100
Street	186,430	0
Debt Service	0	18,396
Electric	550,984	0
Water	0	1,046
Sewer	0	25,297
Totals	<u>808,726</u>	<u>808,726</u>

Transfers are used to move revenues between the funds. The transfers below are routine in nature.

	Transfers In	Transfers Out
General	43,251	1,411,597
Economic Development	167,500	245,911
Street	488,440	177,166
Debt Service	1,148,591	0
Electric	0	13,108
Sanitation	0	30,000
Landfill	30,000	0
Totals	<u>1,877,782</u>	<u>1,877,782</u>

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

NOTE 9: MAJOR CUSTOMERS

The City's Enterprise Funds have two major customers with sales of 10% or more of charges for utility services. The services to these customers during the year were \$8,100,483 or 39.5% of total utility service charges.

NOTE 10: RETIREMENT PLANS

The City has the following defined contribution plans for city employees. All plans are administered by outside trustees and are not included in the City's basic financial statements.

City Employees

City employees except policemen, after meeting one year of service, have the option to participate in a defined contribution plan, with all plan contributions held and invested by the Union Bank and Trust of Lincoln. Employees covered by the plan may contribute 3% to 6% of their salary to the plan, which is matched by the City up to 6%. Vesting provisions for City contributions provide for a period of up to 7 years to become fully vested. Employee contributions are 100% vested immediately. The City and 57 employees contributed \$113,402 for the year ended September 30, 2015.

Police Employees

The City's police officers are covered under a defined contribution plan, with all funds held at Union Bank and Trust of Lincoln. Employees covered by the plan contribute 6.5% of their salary to the plan, which is matched by the City. After the completion of four years of service, the vesting percentage increases by 10% for each additional completed year of service, up to 100%. Employee contributions are 100% vested immediately. The City and 20 employees contributed \$61,041 to the police officers' plan for the year ended September 30, 2015. Per State Statute effective October 1, 2015, the required contribution and City match will increase to 7%.

Fire Pension

City firemen are covered under a defined contribution plan, with all funds held at Union Bank and Trust of Lincoln. The City contributed \$17,500 based on voluntary services for 35 firemen for the year ended September 30, 2015.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

NOTE 10: RETIREMENT PLANS (CONTINUED)

Deferred Compensation

The City offers two of its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan assets are held in trust and all are solely the property and rights of the plan. They are not subject to the general creditors of the City. Thus, they are not included in these financial statements. Contributions by the City for each employee is outlined in their employment agreements. The City contributed \$22,281 between the 2 participating employees while employee contributions totaled \$7,359 for the year ended September 30, 2015.

NOTE 11: LANDFILL CLOSURE COSTS

State and federal laws and regulations required the City to place a final cover on its landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The \$549,691 reported as post closure care liability at September 30, 2015, represents the cumulative amount reported to date based on the use of 100 percent of the estimated capacity of the landfill. The City closed the landfill in May, 1999. Actual post closure costs may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by state and federal laws and regulations to make annual contributions to finance post closure care. The City is in compliance with these requirements, and, at September 30, 2015, cash of \$299,877 are held for these purposes. The City expects that future inflation costs will be paid from interest earnings on these contributions. However, if interest earnings are inadequate or additional post closure care requirements are determined; these costs may need to be covered by additional contributions from the City.

NOTE 12: CONTINGENCIES

Federal and State Grants – In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liabilities for reimbursement which may arise as the result of these audits are not believed to be material.

The City is participating in grants (Special Revenue Funds) that have made loans to others for various purposes. These loans have forgivable clauses as follows:

- (a) The City has owner-occupied housing with forgivable clauses totaling \$68,305. These clauses expire in 2022.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

NOTE 13: ECONOMIC DEPENDENCY

The City of Lexington's Electric Department purchases all of its electricity for resale to customers from Nebraska Public Power District. Total power purchased during the year ended September 30, 2015 was \$12,448,019.

NOTE 14: FRANCHISE FEES

The Lexington Utilities System (Enterprise Funds) pays franchise fees based on sales to the General Fund and are included in other miscellaneous taxes. The following is a list of franchise fees paid.

Electric	\$804,783
Water	\$ 65,422
Sewer	\$ 87,809

NOTE 15: PROPERTY TAXES

Real estate and personal property taxes are levied by the County on or before October 15 of each year for all political subdivisions of the County based on assessed values as of January 1. These taxes become due and attach as an enforceable lien on property on December 31. The first half of both taxes is delinquent May 1 and the second half delinquent September 1 of the following year.

State statute limits cities to a levy of \$0.45 per \$100 of valuation, but provides for an additional levy of \$0.05 for expenses incurred in interlocal agreements. Cities may delegate up to \$0.15 of the total levy to other entities within the City (i.e. airport districts). Cities may levy taxes in addition to the \$0.50 limitation upon a vote of the people. Additionally, there is currently a statutory lid limitation which limits taxation to the prior year's level, with provisions for growth. The lid may be increased by 1% upon the approval of a three-fourths majority of the City Council.

The levy set in October, 2014, for the 2014 taxes which were materially collected in May and September, 2015, was set at \$0.341508 per \$100 of assessed valuation. The levy set in October, 2013, for the 2013 taxes which were materially collected in May and September, 2014 was set at \$0.341510 per \$100 of assessed valuation.

Motor vehicle taxes are due when application is made for registration of a motor vehicle. The amount collected for the motor vehicle tax is outlined in State statute.

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CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

NOTE 16: RISK MANAGEMENT

On August 1, 1982, the City established a self-funded health care plan for the benefit of eligible City employees and their eligible dependents. The plan provides reimbursement for covered charges incurred as a result of medically necessary treatment for illness or injury up to a \$1,000,000 lifetime maximum. The City purchases commercial insurance for claims in excess of coverage provided by the Fund. At September 30, 2015, the City's maximum liability was \$40,000 per employee annually under the Plan.

The City makes monthly payments equal to the payments for claims. The Plan's assets are maintained in a local bank and administered by Meritain Health. The balance held for the City, at September 30, 2015, is \$207,077.

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance for general liability, public official's liability, property coverage, workers' compensation coverage, commercial excess liability coverage, and crime and blanket bond coverage to minimize the effects of possible exposure to these risks. There have been no significant reductions in insurance coverage from coverage in the prior year. During the past three fiscal years, there have been no settlements exceeding the amount of the City's insurance coverage.

NOTE 17: AGREEMENTS

Management Agreement

The City has an agreement with Lexington Public Schools and Lexington Community Facilities Agency regarding the use, operation, maintenance, and lease of facilities jointly shared and constructed by above parties. The Schools are required to maintain the property. The City's original contribution towards construction constitutes sufficient consideration to cover future use of the facility by the City.

Communication Center Agreement

The City has an agreement with Dawson County, Nebraska, regarding a combined communication center to cover police and fire services on a 24-hour basis. The City pays an agreed-upon fee determined annually to the County.

Rural Fire District Agreement

The City has an agreement with the Lexington Rural Fire District for the City to provide fire and rescue protection for said District. The District reimburses the City for its share of costs.

(Continued on next page)

CITY OF LEXINGTON, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

NOTE 17: AGREEMENTS (CONTINUED)

Nebraska Public Power District

The City of Lexington has an agreement with Nebraska Public Power District for the maintenance, operation, and capital improvements for their electric system. Total fees paid to Nebraska Public Power District for the year ended September 30, 2015 were approximately \$1,325,000.

NOTE 18: COMMITMENTS

The City has construction projects in progress at year end with a remaining commitment of \$1,343,000. Subsequent to September 30, 2015, the City awarded additional projects totaling \$523,000.

NOTE 19: OTHER REQUIRED DISCLOSURES

At September 30, 2015, the following funds had deficit net position. The City will fund as needed as actual expenses occur.

	<u>Deficit Amount</u>
Landfill Fund – major fund	133,831

NOTE 20: TRANSACTIONS WITH COMPONENT UNIT

The following balances and transactions occurred between the City and its component unit (CDA):

<u>From Component Unit</u>	<u>To City</u>
Note payable – housing	30,000
Bond payable	263,065
Interest payable	1,073
Interest expense	16,943

NOTE 21: ENVIRONMENTAL REMEDIATION

The City is subject to laws and regulations relating to the protection of the environment. The City's policy is to accrue environmental and cleanup related costs of a non-capital nature when it is both probable that a liability has been incurred and when the amount can be reasonably estimated. Although it is not possible to quantify with any degree of certainty the potential impact of the City's continuing compliance efforts, management believes any future remediation or other compliance related costs will not have a material adverse effect on the financial condition or reported results of operations of the City.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LEXINGTON, NEBRASKA

BUDGETARY COMPARISON SCHEDULE - (BUDGET AND ACTUAL)

CASH BASIS - ALL FUNDS

Year Ended September 30, 2015

	<u>Budget (Original & Final)</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUE:			
Local and county sources:			
Property and other taxes	1,084,529	3,003,154	1,918,625
Sales taxes	1,850,000	2,058,409	208,409
Charges and fees for services	30,684,473	22,680,744	(8,003,729)
Interest income	0	93,690	93,690
Miscellaneous	0	1,466,400	1,466,400
Donations and private grants	0	786,655	786,655
Intergovernmental	3,386,281	2,958,174	(428,107)
Bond/note proceeds	0	1,950,000	1,950,000
Transfers in	1,864,063	1,859,478	(4,585)
TOTAL REVENUE	<u>38,869,346</u>	<u>36,856,704</u>	<u>(2,012,642)</u>
EXPENDITURES:			
Governmental:			
General government	558,323	1,388,403	(830,080)
Public safety	2,789,729	2,112,224	677,505
Public works	1,211,402	1,178,906	32,496
Health and welfare	116,043	415,306	(299,263)
Culture and recreation	1,613,543	1,272,192	341,351
Community development and miscellaneous	5,585,015	3,018,642	2,566,373
Business-Type:			
Electric	15,213,416	15,727,450	(514,034)
Water	1,241,090	1,271,466	(30,376)
Sewer	979,168	877,263	101,905
Sanitation and landfill	819,865	483,030	336,835
Ambulance	151,530	93,172	58,358
Capital outlay	7,010,039	3,737,244	3,272,795
Debt service	2,126,361	3,412,600	(1,286,239)
Transfers out	1,864,063	1,859,476	4,587
TOTAL EXPENDITURES	<u>41,279,587</u>	<u>36,847,374</u>	<u>4,432,213</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>(2,410,241)</u>	<u>9,330</u>	<u>2,419,571</u>

See accompanying notes to Budgetary Comparison Schedule.

CITY OF LEXINGTON, NEBRASKA

NOTES TO BUDGETARY COMPARISON SCHEDULE

September 30, 2015

NOTE 1: BUDGET AND BUDGETARY ACCOUNTING

In compliance with Nebraska State Statutes, the City adopts a unified budget that encompasses all governmental funds, proprietary funds, and discretely presented component unit (CDA). It is prepared on the cash basis which differs from that used to present the financial statements in accordance with generally accepted accounting principles (GAAP). Such differences and their effect are summarized as follows:

Revenue over (under) expenditures and other financing sources uses (budgetary basis)	9,330
Adjustments:	
Adjust revenue for receivable accruals and deferrals	(451,138)
Adjust expenditures for payables	<u>286,705</u>
Revenue over (under) expenditures and other financing sources uses (GAAP basis)	<u>(155,103)</u>

SINGLE AUDIT SECTION

CITY OF LEXINGTON, NEBRASKA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2015

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Grant Number</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Development:			
Community Development Block Grant/State's Program	12 TD 004	14.228	152,951
Community Development Block Grant/State's Program	13-CIS-102	14.228	<u>182,274</u>
Total			<u><u>335,225</u></u>
 <u>U. S. Department of Justice</u>			
Direct Program:			
Officer Wages and Benefits	2011 UMWX 0112	16.710	44,853
Officer Wages and Benefits	2014UMWX 0055	16.710	<u>30,844</u>
Total			<u><u>75,697</u></u>
 <u>National Foundation on the Arts and the Humanities:</u>			
Passed through Nebraska Library System:			
State Library Program		45.310	<u>2,080</u>
 <u>U.S. Department of Health and Human Services:</u>			
Passed through West Central Nebraska Area Agency on Aging:			
Special Programs for Aging		93.044	2,400
Special Programs for Aging		93.045	52,358
Nutrition Services Incentive Program		93.053	<u>12,666</u>
Meal Program Cluster Total			67,424
 Passed through Nebraska Department of Health and Human Services:			
Social Services Block Grant		93.667	<u>28,529</u>
Total			<u><u>95,953</u></u>
 TOTAL FEDERAL EXPENDITURES OF FEDERAL AWARDS			 <u><u>508,955</u></u>

See accompanying notes to schedule of expenditures of federal awards

CITY OF LEXINGTON, NEBRASKA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2015

NOTE A: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Lexington, Nebraska under programs of the federal government for the year ended September 30, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reports on the Schedule are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State and Local Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE C: PASS THROUGH AWARDS

The City receives certain federal awards in the form of pass-through awards from the State of Nebraska and other various agencies. Such amounts received as pass-through awards are specifically identified on the Schedule of Expenditures of Federal Awards.

NOTE D: SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the City of Lexington, Nebraska provided federal awards to a subrecipient in the amount of \$210,000 under CFDA number 14.228 (Community Development Block Grant Program).

NOTE E: CONTINGENCIES

The City receives funds under various federal grant programs, and such assistance is to be expended in accordance with the provisions of the various grants. Compliance with the grants is subject to audit by various government agencies which may impose sanctions in the event of noncompliance. Management believes that they have complied with all material aspects of the various grant provisions and the results of adjustments, if any, relating to such audits would not have any material financial impact.



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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*

Independent Auditors' Report

Honorable Mayor, City Council, and
City Manager
Lexington, Nebraska

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Lexington, Nebraska as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Lexington, Nebraska's basic financial statements, and have issued our report thereon dated February 15, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Lexington, Nebraska's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lexington, Nebraska's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Lexington, Nebraska's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.


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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. 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, Nebraska's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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


Certified Public Accountants
Lexington, Nebraska

February 15, 2016

CITY OF LEXINGTON, NEBRASKA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2015

SECTION I-SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? No
- Noncompliance material to financial statements noted? No

Federal Awards

Internal control over programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? No

Type of auditor's report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Low risk auditee? No

CITY OF LEXINGTON, NEBRASKA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Year Ended September 30, 2015

SECTION II-FINANCIAL STATEMENT FINDINGS

None

SECTION III-FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None



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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Independent Auditors' Report

Honorable Mayor, City Council, and
City Manager
Lexington, Nebraska

Report on Compliance for Each Major Federal Program

We have audited the City of Lexington, Nebraska's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the City of Lexington, Nebraska's major federal program for the year ended September 30, 2015. The City of Lexington, Nebraska's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Lexington, Nebraska's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Lexington, Nebraska's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Lexington, Nebraska's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Lexington, Nebraska complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

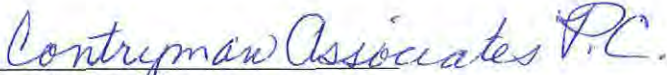
Report on Internal Control over Compliance

Management of the City of Lexington, Nebraska is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Lexington, Nebraska's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Lexington, Nebraska's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Certified Public Accountants
Lexington, Nebraska

February 15, 2016