

ANNUAL FINANCIAL REPORT

For Fiscal Year Ended September 30, 2016



CITY OF LEXINGTON

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Lexington, Texas 78947

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City of Lexington, Texas

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September 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Lexington, Texas:

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, Texas (the "City"), as of and for the year ended September 30, 2016, 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

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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 discretely presented component unit, and each major fund of the City as of September 30, 2016 and the respective changes in financial position and, where applicable, cash flows thereof for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Correction of an Error

As discussed in Note V.E to the financial statements, beginning fund balance and net position has been restated to reflect a correction of an error in the 2015 financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of employee contributions to pension plan, and budgetary comparison information 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lexington's basic financial statements. The accompanying supplementary information, which includes the budget to actual schedule for the Lexington Economic Development fund, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements and individual fund schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Brooks Cardiel, PLLC". The signature is written in a cursive, flowing style.

BrooksCardiel, PLLC
Certified Public Accountants
The Woodlands, Texas
September 11, 2017

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***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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City of Lexington, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2016

The purpose of the Management's Discussion and Analysis (the "MD&A") is to give the readers an objective and easily readable analysis of the City of Lexington's financial activities for the year ending September 30, 2016. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current-year results with those of the prior year, and discusses the positive and negative aspects of that comparison. GASB Statement No. 34 establishes the content of the minimum requirements for the MD&A. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

The annual financial report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. This financial reporting model requires governments to present certain basic financial statements as well as an MD&A and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements.

Financial Highlights

- The City's total combined net position was \$5,831,382 at September 30, 2016. Of this, \$1,493,586 (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- At the close of the current fiscal year, the City's governmental fund reported a fund balance of \$50,079, a decrease of \$7,029.
- As of the end of the year, the unassigned fund balance of the general fund was \$27,400 or 3% of total general fund expenditures.
- The City had an overall decrease in net position of \$56,666, which is primarily due to a decrease in utility revenue.
- The City closed the year with a net pension liability of \$212,691.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City of Lexington. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

City of Lexington, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2016

The Statement of Net Position presents information on all of the City of Lexington's assets and liabilities. The difference between the two is 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 of Lexington is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City into two classes of activities:

1. Governmental Activities - Most of the City's basic services are reported here, including general government, garbage, public safety (police and fire); parks and recreation, and public works. Sales tax, property tax, franchise taxes, municipal court fines and permit fees finance most of these activities.
2. Business-Type Activities - Services involving a fee for those services. These services, the City's electricity and water distribution and wastewater collection/treatment services are reported here.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City of Lexington. They are usually segregated for specific activities or objectives. The City of Lexington uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of City funds are governmental and proprietary.

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 year. Such information may be useful in evaluating the City's near-term financing requirements.

City of Lexington, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2016

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 this comparison between *governmental funds* and *governmental activities*.

The City of Lexington maintains one governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance. The general fund is considered to be a major fund.

The City of Lexington adopts an annual appropriated budget for its general and utility funds. A budgetary comparison schedule has been provided to demonstrate compliance with the general fund budget.

Proprietary Funds

The City maintains one type of proprietary fund. 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 electricity and water distribution, wastewater collection/treatment, and water construction operations. The proprietary fund financial statements provide separate information for the electric and water distribution and wastewater collection/treatment funds. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Component Unit

The City maintains the accounting and financial statements for one component unit. The Lexington Economic Development Corporation is a discretely presented component unit displayed on the government-wide financial statements.

Notes to Financial Statements

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

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI that GASB Statement No. 34 requires

City of Lexington, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

includes a budgetary comparison schedule for the general fund and schedule of funding progress for Texas Municipal Retirement System. RSI can be found after the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Lexington, assets exceed liabilities by \$5,831,382 as of September 30, 2016, in the primary government.

The largest portion of the City's net position, \$4,315,117, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are 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 investment 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 the assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 212,262	\$ 222,714	\$ 1,960,442	\$ 2,313,100	\$ 2,172,704	\$ 2,535,814
Capital assets, net	1,203,861	1,202,983	5,188,047	4,842,780	6,391,908	6,045,763
Total Assets	1,416,123	1,425,697	7,148,489	7,155,880	8,564,612	8,581,577
Deferred Outflows of Resources	83,722	29,391	47,094	16,533	130,816	45,924
Other liabilities	73,663	66,168	530,728	319,858	604,391	386,026
Long-term liabilities	205,135	160,008	2,050,841	2,210,208	2,255,976	2,370,216
Total Liabilities	278,798	226,176	2,581,569	2,530,066	2,860,367	2,756,242
Deferred Inflows of Resources	2,355	(10,745)	1,324	(6,044)	3,679	(16,789)
Net Position:						
Net investment in capital assets	1,143,648	1,145,623	3,171,469	3,190,870	4,315,117	4,336,493
Restricted	22,679	21,651	-	-	22,679	21,651
Unrestricted	52,365	72,383	1,441,221	1,457,521	1,493,586	1,529,904
Total Net Position	\$ 1,218,692	\$ 1,239,657	\$ 4,612,690	\$ 4,648,391	\$ 5,831,382	\$ 5,888,048

City of Lexington, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

Statement of Activities:

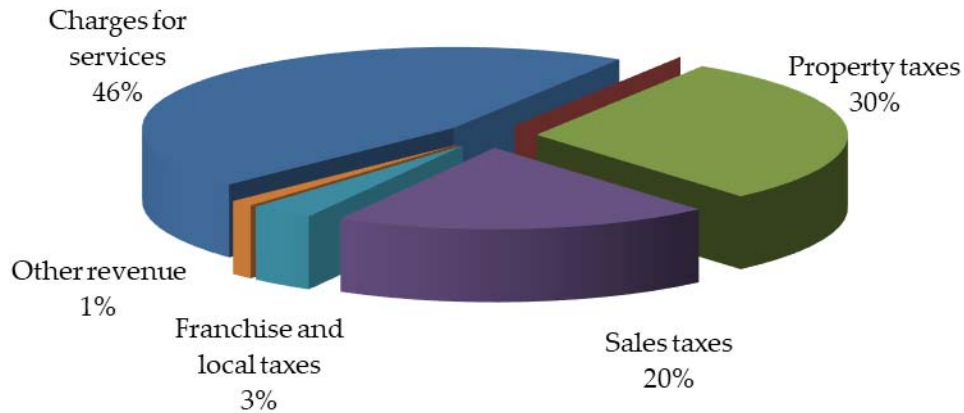
The following table provides a summary of the City's changes in net position:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Charges for services	\$ 337,379	\$ 397,918	\$ 1,760,483	\$ 1,858,020	\$ 2,097,862	\$ 2,255,938
General revenues:						
Property taxes	217,033	216,041	-	-	217,033	216,041
Sales taxes	142,970	155,552	-	-	142,970	155,552
Franchise and local taxes	24,282	29,844	-	-	24,282	29,844
Investment income	-	-	11,362	13,431	11,362	13,431
Other revenue	8,201	3,983	300	-	8,501	3,983
Total Revenues	729,865	803,338	1,772,145	1,871,451	2,502,010	2,674,789
Expenses						
General government	160,156	145,045	-	-	160,156	145,045
Police department	472,931	393,781	-	-	472,931	393,781
Fire services	18,246	11,244	-	-	18,246	11,244
Sanitation services	202,153	202,771	-	-	202,153	202,771
Parks and recreation	23,431	27,166	-	-	23,431	27,166
Public works	98,277	86,613	-	-	98,277	86,613
Welfare	15,487	14,116	-	-	15,487	14,116
Interest and fiscal charges	2,464	2,197	-	-	2,464	2,197
Utilities	-	-	1,565,531	1,706,387	1,565,531	1,706,387
Total Expenses	993,145	882,933	1,565,531	1,706,387	2,558,676	2,589,320
Change in Net Position						
Before Transfers	(263,280)	(79,595)	206,614	165,064	(56,666)	85,469
Transfers	242,315	68,086	(242,315)	(68,086)	-	-
Total	242,315	68,086	(242,315)	(68,086)	-	-
Change in Net Position	(20,965)	(11,509)	(35,701)	96,978	(56,666)	85,469
Beginning Net Position	1,239,657	1,251,166	4,648,391	4,551,413	5,888,048	5,802,579
Ending Net Position	\$ 1,218,692	\$ 1,239,657	\$ 4,612,690	\$ 4,648,391	\$ 5,831,382	\$ 5,888,048

City of Lexington, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the City's activities.

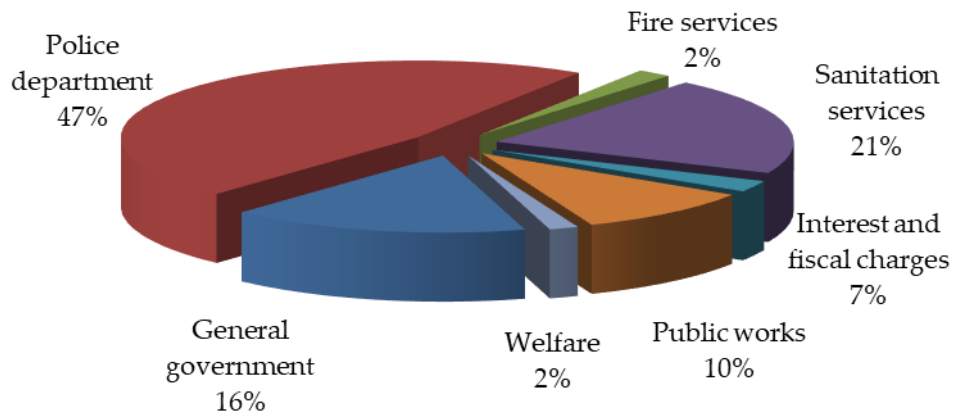
Governmental Activities - Revenues



For the year ended September 30, 2016, revenues from governmental activities totaled \$729,865. Charges for services and property tax are the City's largest revenue sources at \$337,379 and \$217,033, respectively. Charges for services decreased by \$60,539 or 15% primarily due to the reduction of citations issued and collected. Sales tax decreased by \$12,582 or 8% as a result of lower sales in local retail stores. All other revenues remained relatively stable when compared to the previous year.

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses



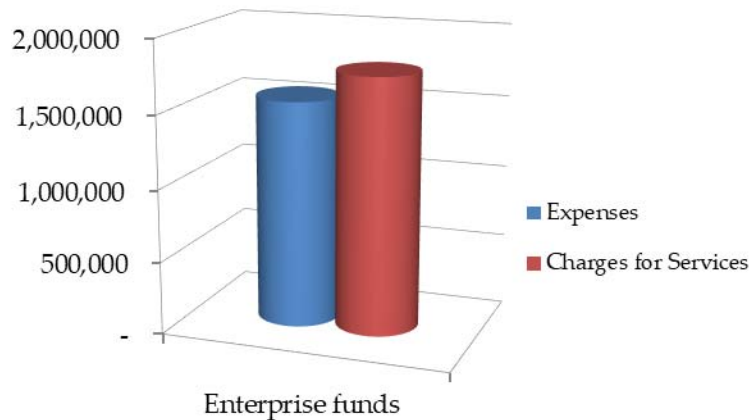
For the year ended September 30, 2016, expenses for governmental activities totaled \$993,145. This represents an increase of \$110,212 or 12% from the prior year. The City's largest functional expense is the police department of \$472,931, which primarily consists of salaries and benefits. Expenses for the police department increased by \$79,150 or 20%, primarily as a result of the payment of added salaries and additional legal fees. General government expenses increased by \$15,111 or 9% primarily due to an

City of Lexington, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

increase in personnel costs. Expenses for fire services increased by \$7,002 or 62% due to added repairs and maintenance costs compared to the previous year. Public works expenses increased \$11,664 or 13% due to the rise of material and supply costs. All other departmental expenditures remained relatively consistent with the previous year.

Business-type activities are shown comparing operating costs to revenues generated by related services.

Business-Type Activities - Revenues and Expenses



For the year ended September 30, 2016, charges for services by business-type activities totaled \$1,760,483, which is a reduction of \$97,537 or 5% from the previous year. In addition, total expenses decreased by \$146,900 or 9%. These changes are primarily due to a reduction of the electricity consumption compared to the previous year. Transfers from the business-type fund to the governmental fund increased by \$174,229 from \$68,086 to \$242,315 in order to assist the governmental fund's current year deficit.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

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

As of the end of the year the general fund reflected a total fund balance of \$50,079. Unassigned fund balance totaled \$27,400 as of year-end.

City of Lexington, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2016

There was a decrease in the general fund balance of \$7,029 from the prior year, due to governmental expenditures exceeding the governmental revenues, in addition to transfers from the business-type fund.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total negative budget variance of \$27,924 in the general fund. The City experienced a decrease in fund balance of \$275,622 before other financing sources. Property taxes, franchise taxes, and other revenues were slightly more than anticipated. Expenditures exceeded appropriations for general government, fire services, parks and recreation, public works, and capital outlay.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$1,203,861 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$5,188,047 in a variety of capital assets and infrastructure, net of accumulated depreciation.

Major capital asset events during the current year include the following:

- Purchase of patching matching totaling \$37,000
- Purchase of a public works vehicle in the amount of \$24,703
- Various animal control equipment totaling \$10,878
- Electric plant system upgrade totaling \$36,900
- Sewer plant improvement totaling \$26,209
- Construction in process for sewer grant project totaling \$516,785

More detailed information about the City's capital assets is presented in note IV. C to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total bonds outstanding of \$1,965,000. During the year, the City had a reduction in the bonds outstanding of \$190,000. In addition, notes in the amount of \$57,360 were reduced by \$21,850 during the year. Additionally, a new note was issued in the current year for

City of Lexington, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

\$24,703. More detailed information about the City's long-term liabilities is presented in note IV. D to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Lexington and improving services provided to their public citizens.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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 City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Secretary at P.O. Box 56, Lexington, TX 78947.

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FINANCIAL STATEMENTS

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City of Lexington, Texas

STATEMENT OF NET POSITION

September 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	EDC
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 31,134	\$ 818,657	\$ 849,791	\$ 208,104
Investments	-	-	-	91,923
Receivables, net	158,449	332,412	490,861	12,262
Restricted cash	22,679	772,365	795,044	-
Inventory	-	37,008	37,008	-
Total Current Assets	212,262	1,960,442	2,172,704	312,289
Capital assets:				
Non-depreciable	347,092	706,244	1,053,336	-
Net depreciable capital assets	856,769	4,481,803	5,338,572	-
Total Noncurrent Assets	1,203,861	5,188,047	6,391,908	-
Total Assets	1,416,123	7,148,489	8,564,612	312,289
<u>Deferred Outflows of Resources</u>				
Pension contributions	23,544	13,244	36,788	-
Pension investment earnings	60,178	33,850	94,028	-
Total Deferred Outflows of Resources	83,722	47,094	130,816	-
<u>Liabilities</u>				
Current liabilities:				
Accounts payable and accrued liabilities	72,275	330,273	402,548	-
Customer deposits	-	193,238	193,238	-
Accrued interest payable	1,388	7,217	8,605	-
Current portion of long-term debt	55,000	203,345	258,345	-
	128,663	734,073	862,736	-
Noncurrent liabilities:				
Due in more than one year	14,013	1,770,927	1,784,940	-
Net pension liability	136,122	76,569	212,691	-
Total Liabilities	278,798	2,581,569	2,860,367	-
<u>Deferred Intflows of Resources</u>				
Pension experience vs. assumption	2,355	1,324	3,679	-
Total Deferred Intflows of Resources	2,355	1,324	3,679	-
<u>Net Position</u>				
Net investment in capital assets	1,143,648	3,171,469	4,315,117	-
Restricted	22,679	-	22,679	-
Unrestricted	52,365	1,441,221	1,493,586	312,289
Total Net Position	\$ 1,218,692	\$ 4,612,690	\$ 5,831,382	\$ 312,289

See Notes to Financial Statements.

City of Lexington, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues
		Charges for Services
Primary Government		
Governmental Activities		
General government	\$ 160,156	\$ 11,002
Police department	472,931	94,879
Fire services	18,246	-
Sanitation services	202,153	231,498
Parks and recreation	23,431	-
Public works	98,277	-
Welfare	15,487	-
Interest and fiscal charges	2,464	-
Total Governmental Activities	<u>993,145</u>	<u>337,379</u>
Business-Type Activities		
Utilities	1,565,531	1,760,483
Total Primary Government	<u>\$ 2,558,676</u>	<u>\$ 2,097,862</u>
Component Unit		
Lexington Economic Development Corporation	27,738	-
Total Component Unit	<u>\$ 27,738</u>	<u>-</u>

General Revenues:

Taxes

Property taxes

Sales taxes

Franchise and local taxes

Investment income

Gain on sale of capital assets

Other revenues

Transfers

Total

Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component
Governmental	Business-Type		Unit
Activities	Activities	Total	EDC
\$ (149,154)	\$ -	\$ (149,154)	\$ -
(378,052)	-	(378,052)	-
(18,246)	-	(18,246)	-
29,345	-	29,345	-
(23,431)	-	(23,431)	-
(98,277)	-	(98,277)	-
(15,487)	-	(15,487)	-
(2,464)	-	(2,464)	-
<u>(655,766)</u>	<u>-</u>	<u>(655,766)</u>	<u>-</u>
-	194,952	194,952	-
<u>(655,766)</u>	<u>194,952</u>	<u>(460,814)</u>	<u>-</u>
-	-	-	(27,738)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(27,738)</u>
217,033	-	217,033	-
142,970	-	142,970	71,635
24,282	-	24,282	-
-	11,362	11,362	902
1,575	-	1,575	-
6,626	300	6,926	175
<u>242,315</u>	<u>(242,315)</u>	<u>-</u>	<u>(12,000)</u>
<u>634,801</u>	<u>(230,653)</u>	<u>404,148</u>	<u>60,712</u>
<u>(20,965)</u>	<u>(35,701)</u>	<u>(56,666)</u>	<u>32,974</u>
<u>1,239,657</u>	<u>4,648,391</u>	<u>5,888,048</u>	<u>279,315</u>
<u>\$ 1,218,692</u>	<u>\$ 4,612,690</u>	<u>\$ 5,831,382</u>	<u>\$ 312,289</u>

City of Lexington, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2016

	<u>General Fund</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 31,134
Receivables, net	158,449
Restricted cash	22,679
Total Assets	<u>\$ 212,262</u>
<u>Liabilities</u>	
Accounts payable and accrued liabilities	\$ 72,275
Total Liabilities	<u>72,275</u>
<u>Deferred Inflows of Resources</u>	
Unavailable revenue - property taxes	20,695
Unavailable revenue - fines	69,213
Total Deferred Inflows of Resources	<u>89,908</u>
<u>Fund Balances</u>	
Restricted for:	
Police department training and forfeitures	6,645
Municipal court security and technology	16,034
Unassigned	27,400
Total Fund Balance	<u>50,079</u>
Total Liabilities, Deferred Inflows, and Fund Balance	<u>\$ 212,262</u>

See Notes to Financial Statements.

City of Lexington, Texas

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

September 30, 2016

Fund Balances - Total Governmental Funds	\$ 50,079
Adjustments for the Statement of Net Position:	
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.	
Capital assets - non-depreciable	347,092
Capital assets - net depreciable	856,769
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds	
	89,908
Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expenditure) until then.	
Pension contributions	23,544
Pension investment earnings	60,178
Pension experience vs. assumptions	(2,355)
Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.	
Accrued interest	(1,388)
Non-current liabilities due in one year	(55,000)
Non-current liabilities due in more than one year	(14,013)
Net pension liability	(136,122)
Net Position of Governmental Activities	<u>\$ 1,218,692</u>

See Notes to Financial Statements.

City of Lexington, Texas

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

For the Year Ended September 30, 2016

	<u>General Fund</u>
<u>Revenues</u>	
Property tax	\$ 216,919
Sales tax	142,970
Franchise and local taxes	24,282
Intergovernmental	11,002
Sanitation services	231,498
Fines and forfeitures	105,731
Other revenue	6,626
Total Revenues	<u>739,028</u>
<u>Expenditures</u>	
Current:	
General government	135,295
Police department	448,545
Fire services	15,454
Sanitation services	202,153
Parks and recreation	14,534
Public works	84,411
Welfare	15,000
Debt service:	
Principal	21,850
Interest	2,284
Capital outlay	75,124
Total Expenditures	<u>1,014,650</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(275,622)</u>
<u>Other Financing Sources (Uses)</u>	
Notes payable issued	24,703
Sale of capital assets	1,575
Transfers	242,315
Total Other Financing Sources (Uses)	<u>268,593</u>
Net Change in Fund Balance	<u>(7,029)</u>
Beginning Fund Balance	57,108
Ending Fund Balance	<u><u>\$ 50,079</u></u>

See Notes to Financial Statements.

City of Lexington, Texas

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

For the Year Ended September 30, 2016

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$	(7,029)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay		77,002
Depreciation expense		(76,124)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(10,738)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences		12,185
Accrued interest		(180)
Pension expense		(13,228)

The issuance of long-term debt (e.g., bonds, notes, leases, certificates of obligation) 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 position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are 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.

Debt issued		(24,703)
Principal payments		21,850
Change in Net Position of Governmental Activities	\$	<u>(20,965)</u>

See Notes to Financial Statements.

City of Lexington, Texas

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2016

	<u>Utility Fund</u>
<u>Assets</u>	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 818,657
Receivables, net	332,412
Restricted cash	772,365
Inventory	37,008
Total Current Assets	<u>1,960,442</u>
<u>Noncurrent Assets</u>	
Capital assets:	
Non-depreciable	706,244
Net depreciable capital assets	4,481,803
Total Noncurrent Assets	<u>5,188,047</u>
Total Assets	<u>7,148,489</u>
<u>Deferred Outflows of Resources</u>	
Pension contributions	13,244
Pension investment earnings	33,850
Total Deferred Outflows of Resources	<u>47,094</u>
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts payable	265,514
Accrued expenses	64,759
Customer deposits	193,238
Accrued interest	7,217
Long-term debt due within one year	203,345
Total Current Liabilities	<u>734,073</u>
<u>Noncurrent Liabilities</u>	
Long-term debt due in more than one year	1,770,927
Net pension liability	76,569
Total Liabilities	<u>2,581,569</u>
<u>Deferred Inflows of Resources</u>	
Pension experience vs. assumption	1,324
Total Deferred Inflows of Resources	<u>1,324</u>
<u>Net Position</u>	
Net investment in capital assets	3,171,469
Unrestricted	1,441,221
Total Net Position	<u>\$ 4,612,690</u>

See Notes to Financial Statements.

City of Lexington, Texas

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

For the Year Ended September 30, 2016

	<u>Utility Fund</u>
<u>Operating Revenues</u>	
Charges for water services	\$ 355,328
Charges for sewer services	150,854
Charges for electrical services	1,234,576
Licenses and permits	4,145
Other revenue	15,580
Total Operating Revenues	<u>1,760,483</u>
 <u>Operating Expenses</u>	
Salaries and wages	173,761
Employee benefits	57,852
Purchase professional and technical services	789,848
Purchased property services	125,683
Other operating expenses	59,527
Supplies	61,518
Depreciation	234,628
Total Operating Expenses	<u>1,502,817</u>
Operating Income (Loss)	<u>257,666</u>
 <u>Nonoperating Revenues (Expenses)</u>	
Investment income	11,362
Sale of capital assets	300
Interest expense	(62,714)
Total Nonoperating Revenues (Expense)	<u>(51,052)</u>
Income Before Transfers	206,614
Transfers (out)	(242,315)
Change in Net Position	(35,701)
Beginning net position	4,648,391
Ending Net Position	<u><u>\$ 4,612,690</u></u>

See Notes to Financial Statements.

City of Lexington, Texas

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 1 of 2) For the Year Ended September 30, 2016

	<u>Utility Fund</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 1,753,529
Payments to employees	(224,173)
Payments to suppliers and contractors	(836,635)
Net Cash Provided by Operating Activities	<u>692,721</u>
<u>Cash Flows from Non-Capital Financing Activities</u>	
Transfers from other funds	(242,315)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(242,315)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital purchases	(579,895)
Capital sales	300
Principal paid on debt	(190,000)
Interest paid on debt	(62,714)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(832,309)</u>
<u>Cash Flows from Investing Activities</u>	
Interest on investments	11,362
Net Cash Provided by Investing Activities	<u>11,362</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(370,541)
Beginning cash and cash equivalents	<u>1,961,563</u>
Ending Cash and Cash Equivalents	<u><u>\$ 1,591,022</u></u>

City of Lexington, Texas

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 2 of 2) For the Year Ended September 30, 2016

	<u>Utility Fund</u>
<u>Reconciliation of Operating Income (Loss)</u>	
<u>to Net Cash Provided (Used) by Operating Activities</u>	
Operating Income (Loss)	\$ 257,666
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	234,628
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(15,384)
Inventory	(2,499)
Deferred outflows of resources:	
Pension contributions	(2,047)
Investment experience	(28,514)
Increase (Decrease) in:	
Accounts payable	149,214
Accrued expenses	53,226
Customer deposits	8,430
Deferred inflows of resources:	
Investment earnings	7,368
Net pension liability	30,633
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 692,721</u></u>

See Notes to Financial Statements.

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City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

B. Reporting Entity

The City of Lexington, Texas (the "City") was incorporated in May of 1917 and operates under a Mayor form of government. The City provides: police; code enforcement; public works; street repair and maintenance; health and social services; parks; general administrative services; electricity; water; wastewater; and sanitation.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The Lexington Economic Development Corporation, although legally separate, is considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2016

Discretely Presented Component Unit

Lexington Economic Development Corporation

The Lexington Economic Development Corporation ("LEDC") is governed by a board appointed by the City Council of the City of Lexington and any of whom can be removed from office by the City Council at its will. The LEDC was incorporated in the state of Texas as a non-profit industrial development corporation under Section 4A of the Development Corporation Act of 1979. The Corporation was organized for the purpose of the promotion and development of new and expanded business enterprises and to provide and encourage employment in the furtherance of the public welfare.

C. Basis of presentation – government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of presentation – fund financial statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category—governmental, and fiduciary—are presented. The emphasis of fund financial statements is on major governmental, each displayed in a separate column. All remaining governmental are aggregated and reported as nonmajor funds. Major individual governmental are reported as separate columns in the fund financial statements.

The government reports the following as a major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, sanitation, parks and recreation and public works.

The government reports the following major enterprise fund:

The *municipal utility enterprise fund* accounts for the operation of the City's electricity, water and sewer system for which various fees are charged to residential and commercial customers for goods and services. The activity is financed with debt secured by a pledge of the net revenues and has the requirement that the cost of providing services, including capital costs, be recovered by user fees and charges.

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2016

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements

City of Lexington, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2016

are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

F. Budgetary information

1. *Budgetary basis of accounting*

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund.

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations between departments require the approval of the city council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

Appropriations in all budgeted funds lapse at the end of the fiscal year. While all appropriations lapse at year end, surpluses may be re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

2. *Excess of expenditures over appropriations*

For the year ended September 30, 2016, expenditures exceeded appropriations at the legal level of control for the following departments and amounts:

General Fund

General government	\$	(8,074)
Fire services		(1,955)
Parks and recreation		(2,169)
Public works		(3,053)
Capital outlay		(29,118)

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2016

G. Assets, liabilities, deferred inflows/outflows, and net position/fund balance

1. Cash and cash equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

Investments for the government are reported at fair value (generally based on quoted market prices.) Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexStar, are reported using the pools' share price.

The Local Government Code of Texas authorizes the City to invest in:

- (1) obligations of the United States or its agencies and instrumentalities;
- (2) direct obligations of the State of Texas or its agencies and instrumentalities;
- (3) collateral mortgage obligations although significantly limited;
- (4) other obligations, the principal and interest on which are unconditionally guaranteed or insured or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities;
- (5) obligations of state, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm of not less than A or its equivalent;
- (6) certificates of deposit issued by state and national banks or savings and loan domiciled in Texas which are:
 - (a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor;
or
 - (b) secured by obligations of paragraphs (1) to (5) above and that have a market value of not less than the principal amount of the certificates but excluding certain mortgage-backed securities;
 - (c) fully collateralized repurchase agreements, bankers' acceptances, commercial paper, mutual funds, guaranteed investment contracts, and investment pools all of which are required to meet certain restrictive criteria.

City of Lexington, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2016

3. *Inventory*

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories are valued at the lower of cost or market using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets, except for infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of two years

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight-line method over the following estimated useful lives.

<u>Asset Description</u>	<u>Estimated Useful Lives</u>
Infrastructure	40-50
Buildings & improvements	20-40
Machinery & equipment	5-10

City of Lexington, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2016

5. *Deferred outflows/inflows of resources*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. An example is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net 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. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

6. *Net position flow assumption*

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

7. *Fund balance flow assumptions*

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

City of Lexington, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2016

8. *Fund balance policies*

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The city council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact.

The "not in spendable form" criterion includes resources that cannot ever be spent because of their form (e.g., inventories and prepaid insurance) or cannot currently be spent because of their form.

The city did not have any nonspendable amounts due to legal or contractual requirements at year end.

The restricted fund balance classification represents amounts that are legally restricted for specific future use.

9. *Long-Term obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as

City of Lexington, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2016

expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are expensed as incurred.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

10. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

11. Fair Value

As of September 30, 2016, the City has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2016

H. Revenues and expenditures/expenses

1. *Program revenues*

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. *Property taxes*

Property taxes attach as an enforceable lien on real property and are levied as of October 1st. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Uncollected amounts at year end are reported as deferred revenue. Delinquent property taxes collected within 60 days subsequent to year end were not considered material.

3. *Compensated absences*

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in government-wide financial statements.

4. *Proprietary funds operating and nonoperating revenues and expenses*

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the utility fund are charges to customers for sales and services. The utility fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

City of Lexington, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2016

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net position-governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds. Reconciling items have been presented on the balance sheet of governmental funds in the basic financial statements.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) 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. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” A reconciliation has been presented in the basic financial statements.

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general fund. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control is the department level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year.

Expenditures exceeded appropriations at the legal level of control during the year as noted in note I.F.2.

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2016

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2016, the discretely presented component unit had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Certificates of deposit	\$ 91,923	1.20
Total fair value	\$ 91,923	
Portfolio weighted average maturity		1.20

B. Receivables

The following comprise receivable balances of the primary government at year end:

	General	Utility	Total
Taxes			
Property taxes	\$ 20,695	\$ -	\$ 20,695
Sales taxes	24,523	-	24,523
Fines	69,213	-	69,213
Sanitation	36,114	-	36,114
Accounts	7,904	332,412	340,316
Total	\$ 158,449	\$ 332,412	\$ 490,861

The following comprise receivable balances of the component unit at year end:

	EDC	Total
Taxes		
Sales taxes	\$ 12,262	\$ 12,262
Total	\$ 12,262	\$ 12,262

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2016

C. Capital Assets

A summary of changes in governmental activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 347,092	\$ -	\$ -	\$ 347,092
Total capital assets not being depreciated	<u>347,092</u>	<u>-</u>	<u>-</u>	<u>347,092</u>
Capital assets, being depreciated:				
Buildings	789,362	4,421	-	793,783
Machinery and equipment	624,670	72,581	-	697,251
Furniture and fixtures	12,733	-	-	12,733
Street and improvements	342,752	-	-	342,752
Total capital assets being depreciated	<u>1,769,517</u>	<u>77,002</u>	<u>-</u>	<u>1,846,519</u>
Less accumulated depreciation				
Buildings	279,838	28,952	-	308,790
Machinery and equipment	502,124	38,991	-	541,115
Furniture and fixtures	12,284	112	-	12,396
Street and improvements	119,380	8,069	-	127,449
Total accumulated depreciation	<u>913,626</u>	<u>76,124</u>	<u>-</u>	<u>989,750</u>
Net capital assets being depreciated	<u>855,891</u>	<u>878</u>	<u>-</u>	<u>856,769</u>
Total Capital Assets	<u><u>\$ 1,202,983</u></u>	<u><u>\$ 878</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,203,861</u></u>

Depreciation was charged to governmental functions as follows:

General government	\$ 22,877
Public works	12,411
Police	28,660
Fire	2,792
Parks	8,897
Welfare	487
Total Governmental Activities Depreciation Expense	<u><u>\$ 76,124</u></u>

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2016

A summary of changes in business-type activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 189,459	\$ -	\$ -	\$ 189,459
Construction in progress	-	516,785	-	516,785
Total capital assets not being depreciated	<u>189,459</u>	<u>516,785</u>	<u>-</u>	<u>706,244</u>
Capital assets, being depreciated:				
Machinery and equipment	253,546	-	-	253,546
Utility plants	7,032,568	63,110	-	7,095,678
Total capital assets being depreciated	<u>7,286,114</u>	<u>63,110</u>	<u>-</u>	<u>7,349,224</u>
Less accumulated depreciation				
Machinery and equipment	225,481	9,391	-	234,872
Utility plants	2,407,312	225,237	-	2,632,549
Total accumulated depreciation	<u>2,632,793</u>	<u>234,628</u>	<u>-</u>	<u>2,867,421</u>
Net capital assets being depreciated	<u>4,653,321</u>	<u>(171,518)</u>	<u>-</u>	<u>4,481,803</u>
Total Capital Assets	<u><u>\$ 4,842,780</u></u>	<u><u>\$ 345,267</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,188,047</u></u>

Depreciation was charged to business-type functions as follows:

Electric	\$ 58,225
Water	53,485
Sewer	122,918
Total Business-Type Activities Depreciation Expense	<u><u>\$ 234,628</u></u>

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2016

D. Long-term Debt

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended. The City uses the general fund to liquidate governmental long-term liabilities.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Notes payable	\$ 57,360	\$ 24,703	\$ (21,850)	\$ 60,213	\$ 47,080
Compensated absences	20,985	10,226	(22,411)	8,800	7,920
Total Governmental Activities	<u>\$ 78,345</u>	<u>\$ 34,929</u>	<u>\$ (44,261)</u>	<u>\$ 69,013</u>	<u>\$ 55,000</u>
Long-term liabilities due in more than one year				<u>\$ 14,013</u>	
Business-Type Activities:					
Certificates of obligation	\$ 2,155,000	\$ -	\$ (190,000)	\$ 1,965,000	\$ 195,000
Compensated absences	9,272	8,035	(8,035)	9,272	8,345
Total Business-Type Activities	<u>\$ 2,164,272</u>	<u>\$ 8,035</u>	<u>\$ (198,035)</u>	<u>\$ 1,974,272</u>	<u>\$ 203,345</u>
Long-term liabilities due in more than one year				<u>\$ 1,770,927</u>	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Long-term bonds at year end were comprised of the following debt issues:

<u>Description</u>	<u>Interest Rates</u>	<u>Original Balance</u>	<u>Current Balance</u>
Business-type Activities:			
Certificate of Obligation, series 2008	4.09%	\$ 1,500,000	\$ 810,000
Certificate of Obligation, series 2012	2.96%	1,500,000	1,155,000
Total Business-Type Activities		<u>\$ 3,000,000</u>	<u>\$ 1,965,000</u>

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2016

The annual requirements to amortize business-type activities debt issues outstanding at year ending were as follows:

Year ending September 30,	Certificates of Obligation	
	Principal	Interest
2017	\$ 195,000	\$ 57,101
2018	200,000	51,217
2019	205,000	45,260
2020	215,000	39,079
2021	220,000	32,674
After Preceding 5 Years	930,000	72,792
Total	\$ 1,965,000	\$ 298,123

The annual requirements to amortize governmental activities notes payable outstanding at year ending were as follows:

Year ending September 30,	Notes Payable	
	Principal	Interest
2017	\$ 47,080	\$ 2,099
2018	13,133	399
Total	\$ 60,213	\$ 2,498

In 2013 the City purchased three patrol vehicles for the police department through Round Top State Bank with a note payable of \$65,670 and a total loan interest note of 9%. The City's annual principal payments are \$13,134. As of September 30, 2016 the net book value of the asset is \$24,079.

In 2013 the City obtained a note payable through Schertz Bank and Trust for the amount of \$33,971, and interest of 6.045%, in order to purchase a new citation system for the police station. The City's annual principal and interest payments are \$9,802. As of September 30, 2016 the net book value of the asset is \$15,287.

In 2016 the City purchased a public works vehicle through Round Top State Bank with a note payable of \$24,703, and interest of 3. The City is to pay the balance the following year in its entirety. As of September 30, 2016 the net book value of the associated capital asset is \$24,703.

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2016

E. Interfund Transactions

Transfers between the primary government funds during the 2016 year were as follows:

Transfer In	Transfer Out	Amounts
General Fund	Utility Fund	242,315
	Totals	\$ 242,315

Amounts transferred between funds relate to amounts collected by the water & sewer fund for various capital expenditures and transfers between funds for incurred or planned expenses.

F. Restricted Net Position / Fund Balance

The City records fund balance restrictions on the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures.

The following is a list of restricted net position / fund balance of the City:

	Governmental Activities
Restricted for:	
* Municipal court	\$ 22,679
Total	\$ 22,679

*Restricted by enabling legislation

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with over 2,800 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

City of Lexington, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2016

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

C. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed correctly, a substantial liability to the City could result. The City does anticipate that it will have an arbitrage liability and performs annual calculations to estimate this potential liability. The City will also engage an arbitrage consultant to perform the calculations in accordance with Internal Revenue Service's rules and regulations if indicated.

D. Pension Plans

Texas Municipal Retirement System

1. Plan Description

The City of Lexington, Texas participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2016

publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the city are required to participate in TMRS.

2. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<u>Plan Year 2014</u>	<u>Plan Year 2015</u>	<u>Plan Year 2016</u>
Employee deposit rate	6%	6%	6%
Matching ratio (city to employee)	1.5 to 1	1.5 to 1	1.5 to 1
Years required for vesting	5	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/25	60/5, 0/25	60/5, 0/25
Updated service credit	100%	100%	100%
Annuity increase (to retirees)	70% of CPI	70% of CPI	70% of CPI

Employees covered by benefit terms

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	18
Active employees	<u>13</u>
Total	<u>38</u>

City of Lexington, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2016

3. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Lexington, Texas were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City of Lexington, Texas were 8.56% and 8.79% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$46,657, and were equal to the required contributions.

4. Net Pension Liability (Asset)

The City's Net Pension Liability (Asset) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75% net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010

City of Lexington, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2016

through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	<u>5.0%</u>	8.00%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2016

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 429,292	\$ 212,691	\$ 33,909

Changes in the Net Pension Liability (Asset)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/14	\$ 1,640,051	\$ 1,512,452	\$ 127,599
Changes for the year:			
Service cost	57,510	-	57,510
Interest	114,218	-	114,218
Difference between expected and actual experience	(29,913)	-	(29,913)
Changes of assumptions	13,761	-	13,761
Contributions – employer	-	40,972	(40,972)
Contributions – employee	-	28,707	(28,707)
Net investment income	-	2,232	(2,232)
Benefit payments, including refunds of emp. contributions	(74,240)	(74,240)	-
Administrative expense	-	(1,359)	1,359
Other changes	-	(68)	68
Net changes	81,336	(3,756)	85,092
Balance at 12/31/15	\$ 1,721,387	\$ 1,508,696	\$ 212,691

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2016

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the internet at www.tmr.com.

5. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the City recognized pension expense of \$67,325.

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and investment earnings	\$ -	\$ (3,679)
Differences between expected and actual economic experience	94,028	-
Contributions subsequent to the measurement date	36,788	-
Total	\$ 130,816	\$ (3,679)

The City reported \$36,788 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31		
2016	\$	26,314
2017		19,137
2018		24,170
2019		20,728
2020		-
Thereafter		-
Total	\$	90,349

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2016

New Accounting Pronouncement

The GASB has issued Statement No. 72, entitled *Fair Value Measurement and Application*; The provisions of GASB Statement No. 72 are effective for reporting periods beginning after June 15, 2015. GASB Statement No. 72 provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The statement generally requires state and local governments to measure investments at fair value. The statement defines an *investment* as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. *Fair value* is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. The City has adopted this statement during the current fiscal year but had no effect on these accompanying financial statements.

The GASB has issued Statement No. 74 entitled, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; GASB Statement No. 75, entitled, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; GASB Statement No. 77; entitled, *Tax Abatement Disclosures*; GASB Statement No. 78, entitled, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which will require adoption in the future, if applicable. These statements may or will have a material effect on the City's financial statements once implemented. The City will be analyzing the effects of these pronouncements and plans to adopt them as applicable by their effective date.

E. Restatement

The City has restated beginning fund balance/net position within governmental activities, business-type activities, and water and sewer fund due to the correction of an error pertaining to the prior year recorded balance of pension liability accounts as listed below. The restatement of beginning net position/fund balance is as follows:

	Governmental Activities	General
	<hr/>	<hr/>
Prior year ending net position/ fund balance as reported	\$ 1,228,912	\$ 57,108
Correction of pension account balances	10,745	-
Restated beginning net position/fund balance	<u>\$ 1,239,657</u>	<u>\$ 57,108</u>
	 Business-type Activities	 Water & Sewer
	<hr/>	<hr/>
Prior year ending net position as reported	\$ 4,642,347	\$ 4,642,347
Correction of pension account balances	6,044	6,044
Restated beginning net position	<u>\$ 4,648,391</u>	<u>\$ 4,648,391</u>

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2016

F. Subsequent Events

There were no material subsequent events through September 11, 2017, the date the financial statements were issued.

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REQUIRED SUPPLEMENTARY INFORMATION

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City of Lexington, Texas

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

For the Year Ended September 30, 2016

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>				
Property tax	\$ 214,500	\$ 216,900	\$ 216,919	\$ 19
Sales tax	153,333	147,100	142,970	(4,130)
Franchise and local taxes	26,600	18,100	24,282	6,182
Intergovernmental	12,000	12,000	11,002	(998)
Sanitation services	235,000	232,400	231,498	(902)
Fines and forfeitures	160,000	121,200	105,731	(15,469)
Other revenue	2,941	4,890	6,626	1,736
Total Revenues	<u>804,374</u>	<u>752,590</u>	<u>739,028</u>	<u>(13,562)</u>
<u>Expenditures</u>				
Current:				
General government	131,608	127,221	135,295	(8,074) *
Police department	403,435	448,588	448,545	43
Fire services	15,500	13,499	15,454	(1,955) *
Sanitation services	204,450	202,201	202,153	48
Parks and recreation	12,365	12,365	14,534	(2,169) *
Public works	68,337	81,358	84,411	(3,053) *
Welfare	15,000	15,000	15,000	-
Debt service:				
Principal	21,850	21,903	21,850	53
Interest	2,684	2,631	2,284	347
Capital outlay	54,500	46,006	75,124	(29,118) *
Total Expenditures	<u>929,729</u>	<u>970,772</u>	<u>1,014,650</u>	<u>(43,878)</u>
Revenues Over (Under) Expenditures	<u>(125,355)</u>	<u>(218,182)</u>	<u>(275,622)</u>	<u>(57,440)</u>
<u>Other Financing Sources (Uses)</u>				
Note payable issue	-	-	24,703	24,703
Sale of capital asset	-	1,500	1,575	75
Transfers	125,355	237,577	242,315	4,738
Total Other Financing Sources (Uses)	<u>125,355</u>	<u>239,077</u>	<u>268,593</u>	<u>29,516</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ 20,895</u>	<u>(7,029)</u>	<u>\$ (27,924)</u>
Beginning fund balance			57,108	
Ending Fund Balance			<u>\$ 50,079</u>	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- * 2. Expenditures exceeded appropriations at the legal level of control.

City of Lexington, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

September 30, 2016

	12/31/2015	12/31/2014 ¹
Total pension liability		
Service cost	\$ 57,510	\$ 40,266
Interest	114,218	106,668
Changes in benefit terms	-	-
Differences between expected and actual experience	(29,913)	26,401
Changes of assumptions	13,761	-
Benefit payments, including refunds of participant contributions	(74,240)	(73,959)
Net change in total pension liability	81,336	99,376
Total pension liability - beginning	1,640,051	1,540,675
Total pension liability - ending (a)	1,721,387	1,640,051
Plan fiduciary net position		
Contributions - employer	\$ 40,972	\$ 33,402
Contributions - members	28,707	23,830
Net investment income	2,232	82,787
Benefit payments, including refunds of participant contributions	(74,240)	(73,959)
Administrative expenses	(1,359)	(864)
Other	(68)	(71)
Net change in plan fiduciary net position	(3,756)	65,125
Plan fiduciary net position - beginning	1,512,452	1,447,327
Plan fiduciary net position - ending (b)	\$ 1,508,696	\$ 1,512,452
Fund's net pension liability (asset) - ending (a) - (b)	\$ 212,691	\$ 127,599
Plan fiduciary net position as a percentage of the total pension	87.64%	92.22%
Covered employee payroll	\$ 478,452	\$ 397,161
Fund's net position as a percentage of covered employee	44.45%	32.13%

Notes to schedule:

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

City of Lexington, Texas
SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN
September 30, 2016

	9/30/16	9/30/15	1
Actuarially determined employer contributions	\$ 46,657	\$ 39,624	
Contributions in relation to the actuarially determined contribution	\$ 46,657	\$ 39,624	
Contribution deficiency (excess)	\$ -	\$ -	
Annual covered employee payroll	\$ 533,816	\$ 464,677	
Employer contributions as a percentage of covered employee payroll	8.79%	8.41%	

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year.

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OTHER SUPPLEMENTARY INFORMATION

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City of Lexington, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
LEXINGTON ECONOMIC DEVELOPMENT CORPORATION
For the Year Ended September 30, 2016

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>			
Sales tax	\$ 70,000	\$ 71,635	\$ 1,635
Investment income	-	902	902
Other revenue	-	175	175
Total Revenues	<u>70,000</u>	<u>72,712</u>	<u>2,712</u>
<u>Expenditures</u>			
Current:			
General government	61,000	39,738	21,262
Total Expenditures	<u>61,000</u>	<u>39,738</u>	<u>21,262</u>
Revenues Over (Under) Expenditures	<u>9,000</u>	<u>32,974</u>	<u>23,974</u>
Net Change in Fund Balances	<u>\$ 9,000</u>	<u>32,974</u>	<u>\$ 23,974</u>
Beginning fund balance		279,315	
Ending Fund Balance		<u>\$ 312,289</u>	

Notes to Other Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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