

ANNUAL FINANCIAL REPORT

CITY OF LEXINGTON
LEXINGTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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City of Lexington, Minnesota
Annual Financial Report
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For the Year Ended December 31, 2025

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INTRODUCTORY SECTION

CITY OF LEXINGTON
LEXINGTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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City of Lexington, Minnesota
Elected and Appointed Officials
For the Year Ended December 31, 2025

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mike Murphy	Mayor	12/31/26
Kim DeVries	Council Member	12/31/26
Robert Benson	Council Member	12/31/26
Barbara Mahr	Council Member	12/31/28
Jill Hunt	Council Member	12/31/28

APPOINTED

Bill Petracek	City Administrator
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FINANCIAL SECTION
CITY OF LEXINGTON
LEXINGTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Lexington, Minnesota

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lexington, Minnesota (the City), as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2025, and the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 15 and the Schedule of Employer's Share of the Net Pension Liability and the Schedules of Employer's Contributions, the related note disclosures, and the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios, the respective budgetary comparison schedules and related note disclosures starting on page 64 be presented to supplement the basic financial statements. Such information is the responsibility of management, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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



Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.



Abdo
Minneapolis, Minnesota
June 1, 2026



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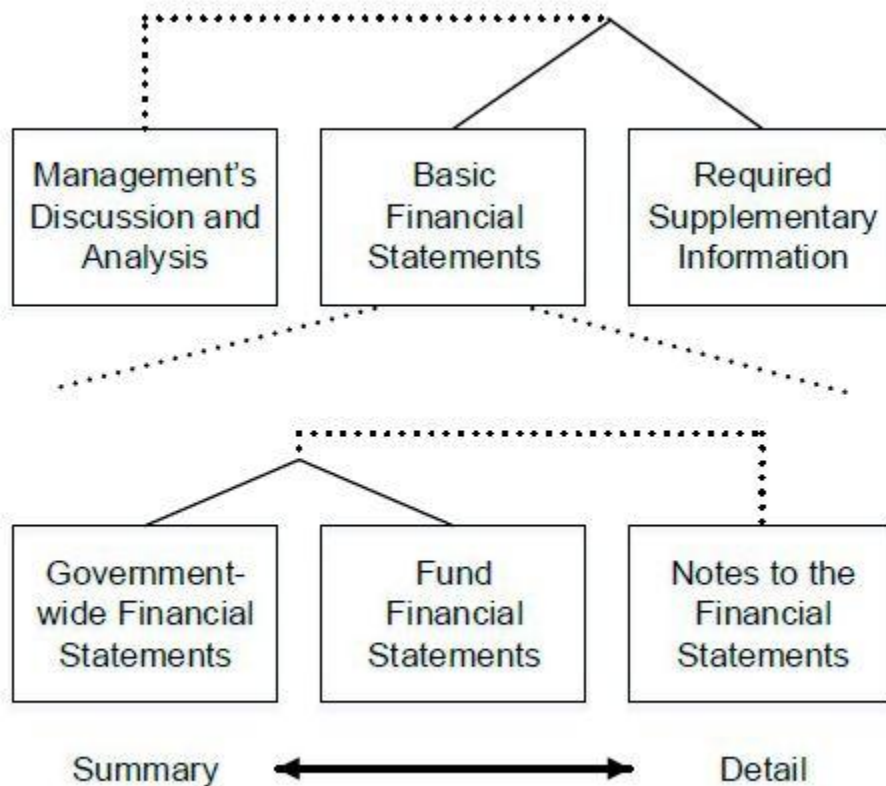
Management's Discussion and Analysis

As management of the City of Lexington, Minnesota, (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2025

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves. The following chart shows how the required parts of this annual report are arranged and relate to one another.

Organization of the City's Annual Financial Report



The following chart summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Major Features of the Government-wide and Fund Financial Statements

	Fund Financial Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government and the City's component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required financial statements	- Statement of Net Position - Statement of Activities	- Balance Sheet - Statement of Revenues, Expenditures, and Changes in Fund Balances	- Statements of Net Position - Statements of Revenues, Expenses and Changes in Net Position - Statements of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

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

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

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, culture and recreation, and interest on long-term debt. The business-type activities of the City include water, sewer, municipal liquor, Lovell building, and storm sewer.

The government-wide financial statements start on page 27 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by 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 maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, Debt Service fund, Capital Projects fund and TIF District #1-3 fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

The City adopts an annual appropriated budget for the General fund. A budgetary comparison schedule has been provided for the General fund to demonstrate compliance with their budget.

The basic governmental fund financial statements start on page 32 of this report.

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 water, sewer, municipal liquor, Lovell building, and storm sewer.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer, municipal liquor, and Lovell building funds, which are considered to be major funds of the City.

The basic proprietary fund financial statements start on page 36 of this report.

Notes to the 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 to the financial statements start on page 39 of this report.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 64 of this report.

Other Information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to the financial statements. Combining and individual fund financial statements and schedules start on page 74 of this report.

Government-wide Financial Analysis

City of Lexington's Summary of Net Position

	Governmental Activities			Business-type Activities		
	2025	2024	Increase (Decrease)	2025	2024	Increase (Decrease)
Assets						
Current and other assets	\$ 4,938,733	\$ 4,379,382	\$ 559,351	\$ 3,870,096	\$ 3,565,102	\$ 304,994
Capital assets, net of depreciation	3,239,530	3,354,336	(114,806)	1,521,296	1,676,797	(155,501)
Total Assets	8,178,263	7,733,718	444,545	5,391,392	5,241,899	149,493
Deferred Outflows of Resources	130,599	162,337	(31,738)	47,070	44,120	2,950
Liabilities						
Noncurrent liabilities outstanding	1,242,054	1,384,801	(142,747)	351,373	473,234	(121,861)
Other liabilities	175,531	142,406	33,125	241,528	149,347	92,181
Total Liabilities	1,417,585	1,527,207	(109,622)	592,901	622,581	(29,680)
Deferred Inflows of Resources	532,369	615,702	(83,333)	116,915	138,748	(21,833)
Net Position						
Net investment in capital assets	2,203,514	2,193,099	10,415	1,372,312	1,433,034	(60,722)
Restricted	1,618,630	1,365,823	252,807	-	-	-
Unrestricted	2,536,764	2,194,224	342,540	3,356,334	3,091,656	264,678
Total Net Position	\$ 6,358,908	\$ 5,753,146	\$ 605,762	\$ 4,728,646	\$ 4,524,690	\$ 203,956
Net Position as a Percent of Total						
Net investment in capital assets	34.6 %	38.2 %		29.0 %	31.7 %	
Restricted	25.5	23.7		-	-	
Unrestricted	39.9	38.1		71.0	68.3	
	100.0 %	100.0 %		100.0 %	100.0 %	

As shown in the table above, as of December 31, 2025, the City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources. The City's total net position increased as a result of the financial performance of the governmental activities. The following sections of the MD&A analyze the finances of the governmental activities and business-type activities separately.

Governmental Activities. Governmental activities increased the City's net position, as shown below.

City of Lexington's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2025	2024	Increase (Decrease)	2025	2024	Increase (Decrease)
Revenues						
Program Revenues						
Charges for services	\$ 286,183	\$ 243,324	\$ 42,859	\$ 4,484,978	\$ 4,328,341	\$ 156,637
Operating grants and contributions	181,381	127,171	54,210	-	171	(171)
Capital grants and contributions	141,084	193,359	(52,275)	4,400	7,600	(3,200)
General Revenues						
Taxes						
Property taxes	1,583,647	1,529,342	54,305	11,202	11,404	(202)
Tax increments	96,087	176,410	(80,323)	-	-	-
Franchise taxes	186,523	186,751	(228)	-	-	-
Grants and contributions not restricted to specific programs	547,724	547,162	562	-	-	-
Unrestricted investment earnings	139,683	161,612	(21,929)	124,546	136,171	(11,625)
Gain on sale of capital assets	15,000	39,300	(24,300)	-	-	-
Total Revenues	<u>3,177,312</u>	<u>3,204,431</u>	<u>(27,119)</u>	<u>4,625,126</u>	<u>4,483,687</u>	<u>141,439</u>
Expenses						
General government	785,851	765,237	20,614	-	-	-
Public safety	1,479,769	1,639,049	(159,280)	-	-	-
Public works	283,215	505,297	(222,082)	-	-	-
Culture and recreation	165,229	175,392	(10,163)	-	-	-
Interest on long-term debt	32,486	36,231	(3,745)	-	-	-
Water	-	-	-	296,144	262,920	33,224
Sewer	-	-	-	374,984	381,535	(6,551)
Municipal liquor	-	-	-	3,519,133	3,445,134	73,999
Storm sewer	-	-	-	55,909	49,910	5,999
Total Expenses	<u>2,746,550</u>	<u>3,121,206</u>	<u>(374,656)</u>	<u>4,246,170</u>	<u>4,139,499</u>	<u>106,671</u>
Change in Net Position Before Transfers	430,762	83,225	347,537	378,956	344,188	34,768
Transfers	<u>175,000</u>	<u>150,000</u>	<u>25,000</u>	<u>(175,000)</u>	<u>(150,000)</u>	<u>(25,000)</u>
Change in Net Position	605,762	233,225	372,537	203,956	194,188	9,768
Net Position, January 1	<u>5,753,146</u>	<u>5,519,921</u>	<u>233,225</u>	<u>4,524,690</u>	<u>4,330,502</u>	<u>194,188</u>
Net Position, December 31	<u>\$ 6,358,908</u>	<u>\$ 5,753,146</u>	<u>\$ 605,762</u>	<u>\$ 4,728,646</u>	<u>\$ 4,524,690</u>	<u>\$ 203,956</u>

Key elements of this increase are as follows:

- Decreases in public safety expenses related to personnel costs.
- Decreases in public work expenses related to capital projects costs

Decrease in public safety expenses

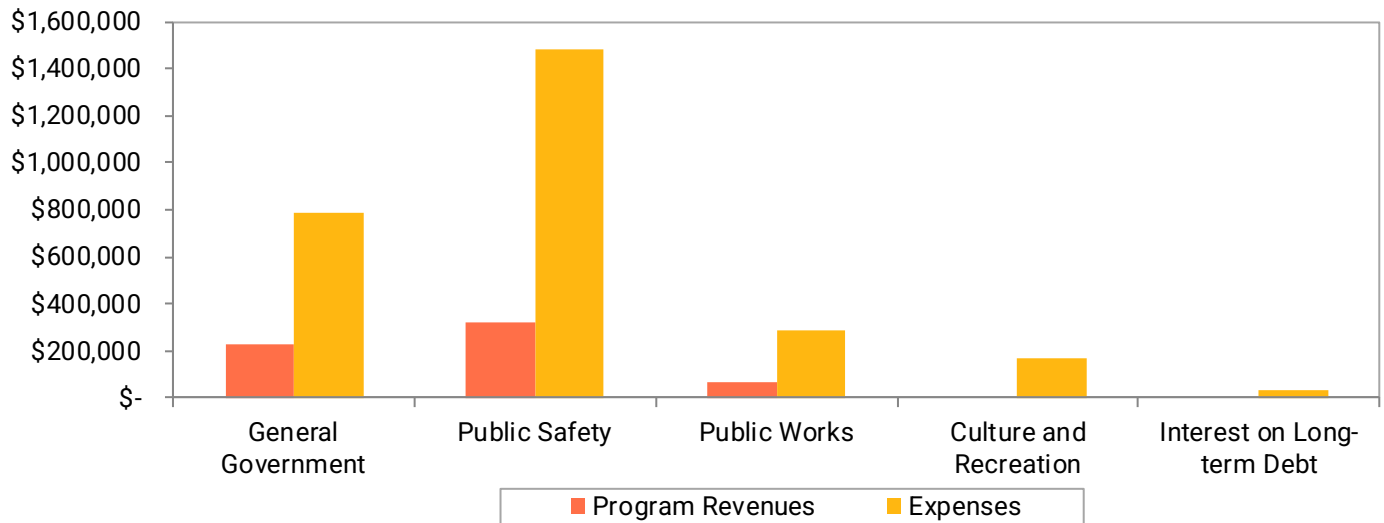
The decrease was mainly due to decreased personnel and lower maintenance costs at the Fire Department.

Decreases in public work expenses

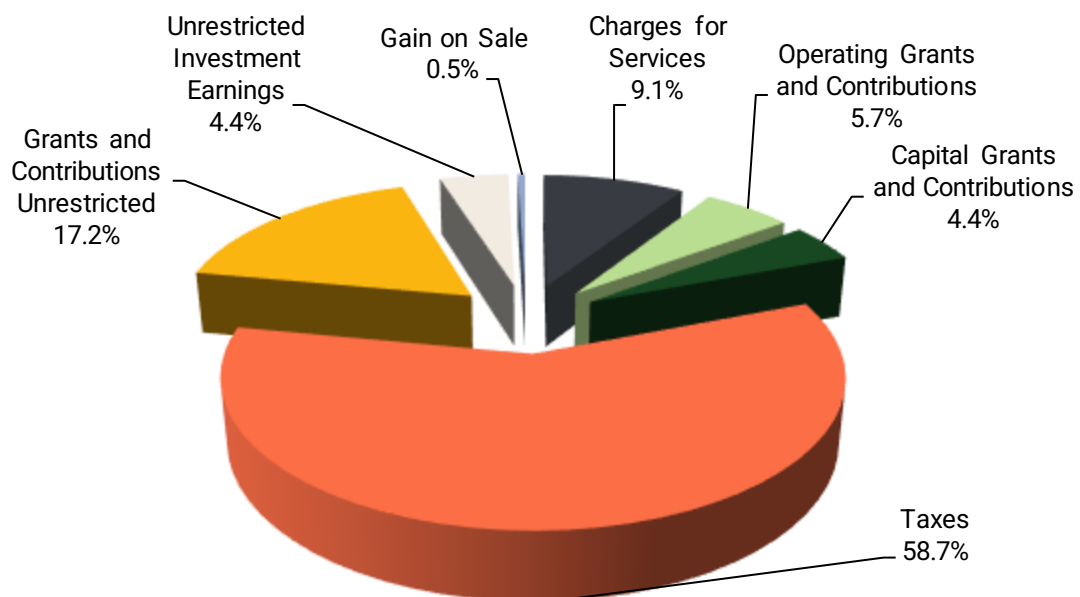
There were no street improvement projects in the current year which reduced the public works capital expenses.

The following graph depicts various governmental activities and shows the program revenues and expenses directly related to those activities.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities

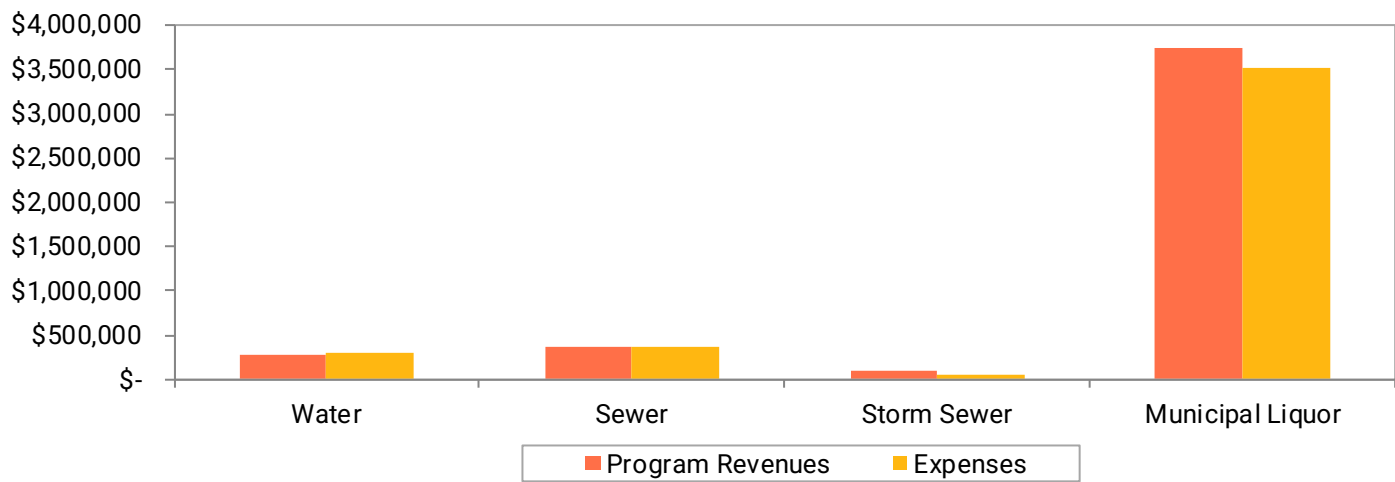


Business-type Activities. Business-type activities increased the City’s net position, as shown in the changes in net position table. Key element of this increase are shown as follows:

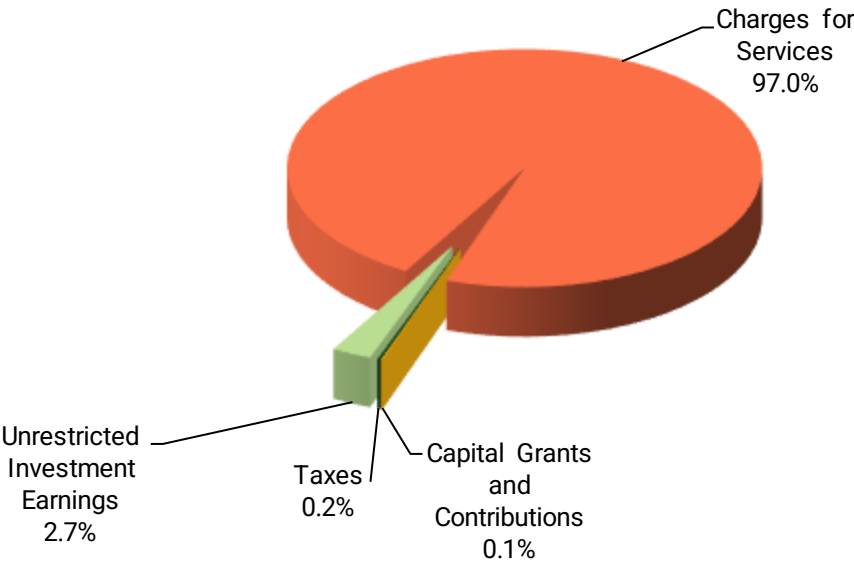
- Charges for services for business-type activities increased due to the increase in municipal liquor sales.

Below are the graphs showing the business-type activities revenue and expense comparisons.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The table below outlines the governmental fund balances for the year ending December 31, 2025

	General Fund	Debt Service Fund	Capital Projects	TIF District #1-3	Other Governmental Funds	Total	Prior Year Total	Increase/ (Decrease)
Fund Balances								
Nonspendable	\$ 1,040	\$ -	\$ -	\$ -	\$ -	\$ 1,040	\$ 1,129	\$ (89)
Restricted for	-	487,270	844,592	-	548	1,332,410	1,118,162	214,248
Assigned for	257,090	-	3,031,684	-	-	3,288,774	3,063,881	224,893
Unassigned	1,704,992	-	-	(2,241,979)	-	(536,987)	(660,172)	123,185
	<u>\$ 1,963,122</u>	<u>\$ 487,270</u>	<u>\$ 3,876,276</u>	<u>\$ (2,241,979)</u>	<u>\$ 548</u>	<u>\$ 4,085,237</u>	<u>\$ 3,523,000</u>	<u>\$ 562,237</u>

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances shown above. Additional information on the City's fund balances can be found in Note 1 starting on page 45 of this report.

The *General fund* is the chief operating fund of the City. At the end of the current year, the fund balance of the General fund is shown in the table above. As a measure of the General fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. The total unassigned fund balance as a percent of total fund expenditures is shown in the chart below along with total fund balance as a percent of total expenditures.

	Current Year Ending Balance	Prior Year Ending Balance	Increase/ (Decrease)
General Fund Fund Balances			
Nonspendable	\$ 1,040	\$ 1,129	\$ (89)
Assigned for	257,090	257,090	-
Unassigned	1,704,992	1,462,191	242,801
	<u>\$ 1,963,122</u>	<u>\$ 1,720,410</u>	<u>\$ 242,712</u>
General Fund expenditures	\$ 2,395,423	\$ 2,285,520	
Unassigned as a percent of expenditures	71.2%	64.0%	
Total Fund Balance as a percent of expenditures	82.0%	75.3%	

The fund balance of the City's General fund increased during the current fiscal year as shown in the table above. The increase in fund balance was due positive budget variances in expenditures.

Other major governmental fund analysis is shown below:

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2025	2024	
General	\$ 1,963,122	\$ 1,720,410	\$ 242,712
The increase can be attributed to positive revenue and expenditure budget variances, specifically among intergovernmental and residential building permit revenues and fire fighting expenditures.			
Debt Service	\$ 487,270	\$ 466,485	\$ 20,785
The fund balance of the Debt Service fund increased due to tax revenue, special assessment revenue, and investment earnings exceeding principal and interest payments.			
Capital Projects	\$ 3,876,276	\$ 3,276,947	\$ 599,329
The increase in the fund balance of the Capital Projects fund was mainly due to a decrease in spending to increase reserves for future projects.			
TIF District #1-3	\$ (2,241,979)	\$ (2,122,363)	\$ (119,616)
This fund is financed with an interfund loan intended to be paid back with future tax increment collections. The decrease was due to interest accrued on the interfund loan.			

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

Major Funds	Net Position December 31,		Increase (Decrease)
	2025	2024	
Water	\$ 1,294,396	\$ 1,287,528	\$ 6,868
The net position of the water fund increased due to an increase in usage among residential and commercial users.			
Sewer	\$ 1,415,955	\$ 1,368,998	\$ 46,957
The net position of the sewer fund increased due to an increase in usage among residential and commercial users.			
Municipal Liquor	\$ 1,340,390	\$ 1,267,027	\$ 73,363
The increase of the municipal liquor fund was due to increase in operating income.			
Lovell Building	\$ 673,447	\$ 645,510	\$ 27,937
Net position increase for the Lovell Building can be attributed to investment earnings for the year.			

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of December 31, 2025, is shown below in the capital asset table (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads and utility infrastructure.

Significant asset additions that occurred during the year are as follows:

- Completion of the following projects:
 - Memorial park concession stand improvement

City of Lexington's Capital Assets (Net of Depreciation)

	Governmental Activities			Business-type Activities			Total		
	2025	2024	Increase (Decrease)	2025	2024	Increase (Decrease)	2025	2024	Increase (Decrease)
Land	\$ 63,403	\$ 63,403	\$ -	\$ 51,950	\$ 51,950	\$ -	\$ 115,353	\$ 115,353	\$ -
Construction in Progress	-	4,681	(4,681)	-	-	-	-	4,681	(4,681)
Buildings and Improvements	1,541,658	1,550,874	(9,216)	236,780	272,118	(35,338)	1,778,438	1,822,992	(44,554)
Infrastructure	1,209,059	1,253,409	(44,350)	1,087,201	1,174,328	(87,127)	2,296,260	2,427,737	(131,477)
Machinery and Equipment	425,410	481,969	(56,559)	145,365	178,401	(33,036)	570,775	660,370	(89,595)
Total	\$ 3,239,530	\$ 3,354,336	\$ (114,806)	\$ 1,521,296	\$ 1,676,797	\$ (155,501)	\$ 4,760,826	\$ 5,031,133	\$ (270,307)
Percent increase (decrease)			-3.4%			-9.3%			-5.4%

Additional information on the City's capital assets can be found in Note 3C starting on page 49 of this report.

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding consisting of special assessment debt, revenue related debt and general obligation debt as noted in the table below. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

	Governmental Activities			Business-type Activities			Total		
	2025	2024	Increase (Decrease)	2025	2024	Increase (Decrease)	2025	2024	Increase (Decrease)
G.O. Improvement Bonds	\$ 1,036,016	\$ 1,161,237	\$ (125,221)	\$ 63,984	\$ 73,763	\$ (9,779)	\$ 1,100,000	\$ 1,235,000	\$ (135,000)
G.O. Utility Revenue Bonds	-	-	-	85,000	170,000	(85,000)	85,000	170,000	(85,000)
Total	\$ 1,036,016	\$ 1,161,237	\$ (125,221)	\$ 148,984	\$ 243,763	\$ (94,779)	\$ 1,185,000	\$ 1,405,000	\$ (220,000)
Percent increase (decrease)			-10.8%			-38.9%			

The City's total noncurrent liabilities decreased during the current fiscal year, due to regularly scheduled bond payments.

The City maintains an "AA" rating from Standard and Poor's for general obligation debt. In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of 3 percent of the market value of taxable property within the City. Net debt is payable solely from ad valorem taxes and therefore, excludes debt financed partially or entirely by special assessments, enterprise fund revenues or tax increments. The City currently has no debt subject to the limit.

Additional information on the City's long-term debt can be found in Note 3E starting on page 51 of this report.

Currently Known Facts, Decisions, or Conditions

Economic factors affect the preparation of annual budgets. Properties, and their taxable market value, continued to increase in 2025 and are predicted to increase in 2026. The City adjusts their tax rate for inflation to stay ahead of the cost of providing services to the citizens.

Inflation and low unemployment continues to affect city's workforce and our ability to recruit and retain quality staff. Increasing salaries will be a major factor for retaining and recruiting employees, which will affect future budgets. The General Levy and utility rates will need to be adjusted to offset these increased costs.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed by writing to the City of Lexington, 9180 Lexington Avenue, Lexington, Minnesota 55014 or by calling (763) 784-2792.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF LEXINGTON
LEXINGTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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City of Lexington, Minnesota

Statement of Net Position

December 31, 2025

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and temporary investments	\$ 4,093,845	\$ 2,973,664	\$ 7,067,509
Receivables			
Accounts	61,581	236,282	297,863
Accrued interest	28,448	-	28,448
Taxes	24,789	-	24,789
Special assessments	219,859	36,105	255,964
Lease	292,904	-	292,904
Due from other governments	35,322	196	35,518
Inventories	-	622,499	622,499
Prepaid items	1,040	1,350	2,390
Net pension asset	180,945	-	180,945
Capital assets			
Land and construction in progress	63,403	51,950	115,353
Depreciable assets (net of accumulated depreciation)	3,176,127	1,469,346	4,645,473
Total Assets	8,178,263	5,391,392	13,569,655
Deferred Outflows of Resources			
Deferred pension resources	130,599	47,070	177,669
Liabilities			
Accounts payable	142,330	124,211	266,541
Accrued salaries payable	20,154	4,660	24,814
Due to other governments	-	110,601	110,601
Accrued interest payable	13,047	2,056	15,103
Noncurrent liabilities			
Due within one year			
Long-term liabilities	182,841	111,631	294,472
Due in more than one year			
Long-term liabilities	910,795	54,205	965,000
Net pension liability	148,418	185,537	333,955
Total Liabilities	1,417,585	592,901	2,010,486
Deferred Inflows of Resources			
Deferred pension resources	266,950	116,915	383,865
Deferred lease resources	265,419	-	265,419
Total Deferred Inflows of Resources	532,369	116,915	649,284
Net investment in capital assets	2,203,514	1,372,312	3,575,826
Restricted for			
Debt service	592,545	-	592,545
Fire relief pension	180,945	-	180,945
Gambling proceeds - Capital	102,851	-	102,851
Fire equipment	704,634	-	704,634
Cable TV equipment	11,858	-	11,858
Parks	548	-	548
Small cities assistance	25,249	-	25,249
Unrestricted	2,536,764	3,356,334	5,893,098
Total Net Position	\$ 6,358,908	\$ 4,728,646	\$ 11,087,554

The notes to the financial statements are an integral part of this statement.

City of Lexington, Minnesota
Statement of Activities
For the Year Ended December 31, 2025

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General government	\$ 785,851	\$ 225,051	\$ -	\$ -
Public safety	1,479,769	61,132	124,958	135,000
Public works	283,215	-	56,423	6,084
Culture and recreation	165,229	-	-	-
Interest on long-term debt	32,486	-	-	-
Total Governmental Activities	2,746,550	286,183	181,381	141,084
Business-type Activities				
Water	296,144	280,141	-	2,800
Sewer	374,984	376,009	-	1,600
Municipal liquor	3,519,133	3,735,290	-	-
Storm sewer	55,909	93,538	-	-
Total Business-type Activities	4,246,170	4,484,978	-	4,400
Total	\$ 6,992,720	\$ 4,771,161	\$ 181,381	\$ 145,484

General Revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for debt service

Tax increments

Franchise fees

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on sale of capital assets

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position, January 1

Net Position, December 31

The notes to the financial statements are an integral part of this statement.

Net (Expenses) Revenues and
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (560,800)	\$ -	\$ (560,800)
(1,158,679)	-	(1,158,679)
(220,708)	-	(220,708)
(165,229)	-	(165,229)
(32,486)	-	(32,486)
<u>(2,137,902)</u>	<u>-</u>	<u>(2,137,902)</u>
-	(13,203)	(13,203)
-	2,625	2,625
-	216,157	216,157
-	37,629	37,629
<u>-</u>	<u>243,208</u>	<u>243,208</u>
<u>(2,137,902)</u>	<u>243,208</u>	<u>(1,894,694)</u>
1,446,246	11,202	1,457,448
137,401	-	137,401
96,087	-	96,087
186,523	-	186,523
547,724	-	547,724
139,683	124,546	264,229
15,000	-	15,000
175,000	(175,000)	-
<u>2,743,664</u>	<u>(39,252)</u>	<u>2,704,412</u>
605,762	203,956	809,718
<u>5,753,146</u>	<u>4,524,690</u>	<u>10,277,836</u>
<u>\$ 6,358,908</u>	<u>\$ 4,728,646</u>	<u>\$ 11,087,554</u>

The notes to the financial statements are an integral part of this statement.

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FUND FINANCIAL STATEMENTS

CITY OF LEXINGTON
LEXINGTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

City of Lexington, Minnesota

Balance Sheet
Governmental Funds
December 31, 2025

	101	500's	310	320		
	General	Debt Service	Capital Projects	TIF District #1-3	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and temporary investments	\$ 2,029,339	\$ 484,867	\$ 1,535,469	\$ 43,622	\$ 548	\$ 4,093,845
Receivables						
Accounts	7,093	-	54,488	-	-	61,581
Accrued interest	28,448	-	-	-	-	28,448
Taxes	24,789	-	-	-	-	24,789
Special assessments	-	118,322	101,537	-	-	219,859
Lease	292,904	-	-	-	-	292,904
Due from other governments	30,824	2,403	2,095	-	-	35,322
Advance to other funds	-	-	2,285,218	-	-	2,285,218
Prepaid items	1,040	-	-	-	-	1,040
Total Assets	\$ 2,414,437	\$ 605,592	\$ 3,978,807	\$ 43,622	\$ 548	\$ 7,043,006
Liabilities						
Accounts payable	\$ 140,953	\$ -	\$ 994	\$ 383	\$ -	\$ 142,330
Accrued salaries payable	20,154	-	-	-	-	20,154
Advance from other funds	-	-	-	2,285,218	-	2,285,218
Total Liabilities	161,107	-	994	2,285,601	-	2,447,702
Deferred Inflows of Resources						
Unavailable revenue - delinquent taxes	24,789	-	-	-	-	24,789
Unavailable revenue - special assessments	-	118,322	101,537	-	-	219,859
Deferred lease resources	265,419	-	-	-	-	265,419
Total Deferred Inflows of Resources	290,208	118,322	101,537	-	-	510,067
Fund Balances						
Nonspendable						
Prepaid items	1,040	-	-	-	-	1,040
Restricted for						
Debt service	-	487,270	-	-	-	487,270
Gambling proceeds - Capital	-	-	102,851	-	-	102,851
Fire equipment	-	-	704,634	-	-	704,634
Cable TV equipment	-	-	11,858	-	-	11,858
Parks	-	-	-	-	548	548
Small cities assistance	-	-	25,249	-	-	25,249
Assigned to						
Future capital	257,090	-	3,031,684	-	-	3,288,774
Unassigned	1,704,992	-	-	(2,241,979)	-	(536,987)
Total Fund Balances	1,963,122	487,270	3,876,276	(2,241,979)	548	4,085,237
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 2,414,437	\$ 605,592	\$ 3,978,807	\$ 43,622	\$ 548	\$ 7,043,006

The notes to the financial statements are an integral part of this statement.

City of Lexington, Minnesota
Reconciliation of the Balance Sheet
to the Statement of Net Position
Governmental Funds
December 31, 2025

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

Total Fund Balances - Governmental Funds	\$ 4,085,237
Capital assets used in governmental activities are not financial resources, and therefore are not reported as assets in governmental funds.	
Cost of capital assets	7,552,997
Less accumulated depreciation	(4,313,467)
Long-term assets from pensions reported in governmental activities are not current financial resources and therefore are not reported as assets in the funds.	
Net pension asset	180,945
Noncurrent liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Noncurrent liabilities at year-end consist of	
Compensated absences payable	(57,620)
Net pension liability	(148,418)
Bonds payable	(1,036,016)
Some receivables are not available soon enough to pay for the current period's expenditures, and therefore are unavailable in the funds.	
Delinquent taxes receivable	24,789
Special assessments receivable	219,859
Governmental funds do not report a liability for accrued interest until due and payable.	(13,047)
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	130,599
Deferred inflows of pension resources	(266,950)
Total Net Position - Governmental Activities	<u>\$ 6,358,908</u>

The notes to the financial statements are an integral part of this statement.

City of Lexington, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2025

	101	500's	310	320	Other	Total
	General	Debt Service	Capital Projects	TIF District #1-3	Governmental Funds	Governmental Funds
Revenues						
Taxes						
Property taxes	\$ 1,446,246	\$ 137,401	\$ -	\$ -	\$ -	\$ 1,583,647
Tax increments	-	-	-	96,087	-	96,087
Franchise fees	-	-	186,523	-	-	186,523
Licenses and permits	127,815	-	-	-	-	127,815
Intergovernmental	690,876	-	22,190	-	-	713,066
Charges for services	77,792	-	-	-	-	77,792
Fines and forfeitures	22,000	-	-	-	-	22,000
Special assessments	8,600	26,774	14,555	-	10,652	60,581
Investment earnings	45,412	15,729	165,451	599	548	227,739
Miscellaneous	44,394	-	157,082	-	-	201,476
Total Revenues	<u>2,463,135</u>	<u>179,904</u>	<u>545,801</u>	<u>96,686</u>	<u>11,200</u>	<u>3,296,726</u>
Expenditures						
Current						
General government	628,636	-	-	128,246	-	756,882
Public safety	1,441,056	-	-	-	-	1,441,056
Public works	202,662	-	-	-	-	202,662
Culture and recreation	123,069	-	-	-	-	123,069
Capital outlay						
General government	-	-	3,503	-	-	3,503
Public safety	-	-	26,151	-	-	26,151
Public works	-	-	-	-	1,268	1,268
Culture and recreation	-	-	72,672	-	50,051	122,723
Debt service						
Principal	-	125,221	-	-	-	125,221
Interest and other	-	33,898	-	88,056	-	121,954
Total Expenditures	<u>2,395,423</u>	<u>159,119</u>	<u>102,326</u>	<u>216,302</u>	<u>51,319</u>	<u>2,924,489</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>67,712</u>	<u>20,785</u>	<u>443,475</u>	<u>(119,616)</u>	<u>(40,119)</u>	<u>372,237</u>
Other Financing Sources (Uses)						
Transfers in	175,000	-	140,854	-	-	315,854
Sale of capital assets	-	-	15,000	-	-	15,000
Transfers out	-	-	-	-	(140,854)	(140,854)
Total Other Financing Sources (Uses)	<u>175,000</u>	<u>-</u>	<u>155,854</u>	<u>-</u>	<u>(140,854)</u>	<u>190,000</u>
Net Change in Fund Balances	242,712	20,785	599,329	(119,616)	(180,973)	562,237
Fund Balances, January 1	<u>1,720,410</u>	<u>466,485</u>	<u>3,276,947</u>	<u>(2,122,363)</u>	<u>181,521</u>	<u>3,523,000</u>
Fund Balances, December 31	<u>\$ 1,963,122</u>	<u>\$ 487,270</u>	<u>\$ 3,876,276</u>	<u>\$ (2,241,979)</u>	<u>\$ 548</u>	<u>\$ 4,085,237</u>

The notes to the financial statements are an integral part of this statement.

City of Lexington, Minnesota
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
Governmental Funds
For the Year Ended December 31, 2025

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

Total Net Change in Fund Balances - Governmental Funds	\$ 562,237
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	141,500
Depreciation expense	(256,306)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.	
Principal repayments	125,221
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	1,412
Long-term pension activity is not reported in governmental funds.	
Pension expense	77,551
Pension revenue from state contributions	(461)
Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.	
Special assessments	(45,897)
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 the governmental funds.	
Compensated absences	<u>505</u>
Change in Net Position - Governmental Activities	<u>\$ 605,762</u>

The notes to the financial statements are an integral part of this statement.

City of Lexington, Minnesota
Statement of Net Position
Proprietary Funds
December 31, 2025

Business-type Activities - Enterprise Funds

	Water	Sewer	Municipal Liquor	Lovell Building	Nonmajor Storm Sewer	Total
Assets						
Current Assets						
Cash and temporary investments	\$ 521,417	\$ 1,102,443	\$ 692,683	\$ 673,447	\$ (16,326)	\$ 2,973,664
Receivables						
Accounts	78,474	87,735	42,779	-	27,294	236,282
Special assessments	15,381	15,114	-	-	5,610	36,105
Due from other governments	-	-	-	-	196	196
Inventories	-	-	622,499	-	-	622,499
Prepaid items	-	-	1,350	-	-	1,350
Total Current Assets	<u>615,272</u>	<u>1,205,292</u>	<u>1,359,311</u>	<u>673,447</u>	<u>16,774</u>	<u>3,870,096</u>
Noncurrent Assets						
Capital assets						
Land	-	-	51,950	-	-	51,950
Buildings and improvements	-	-	998,271	-	-	998,271
Infrastructure	1,729,917	1,391,550	-	-	98,871	3,220,338
Machinery and equipment	79,283	136,498	246,796	-	-	462,577
Less accumulated depreciation	(996,217)	(1,229,029)	(951,987)	-	(34,607)	(3,211,840)
Total Capital Assets (Net of Accumulated Depreciation)	<u>812,983</u>	<u>299,019</u>	<u>345,030</u>	<u>-</u>	<u>64,264</u>	<u>1,521,296</u>
Total Assets	<u>1,428,255</u>	<u>1,504,311</u>	<u>1,704,341</u>	<u>673,447</u>	<u>81,038</u>	<u>5,391,392</u>
Deferred Outflows of Resources						
Deferred pension resources	<u>5,213</u>	<u>4,704</u>	<u>35,917</u>	<u>-</u>	<u>1,236</u>	<u>47,070</u>
Liabilities						
Current Liabilities						
Accounts payable	5,790	3,942	109,347	-	5,132	124,211
Accrued salaries payable	-	-	4,660	-	-	4,660
Due to other governments	65,308	-	45,293	-	-	110,601
Accrued interest payable	468	859	-	-	729	2,056
Compensated absences payable - current	-	-	16,852	-	-	16,852
Bonds payable - current	30,000	55,000	-	-	9,779	94,779
Total Current Liabilities	<u>101,566</u>	<u>59,801</u>	<u>176,152</u>	<u>-</u>	<u>15,640</u>	<u>353,159</u>
Noncurrent Liabilities						
Bonds payable	-	-	-	-	54,205	54,205
Net pension liability	23,202	20,425	137,305	-	4,605	185,537
Total Noncurrent Liabilities	<u>23,202</u>	<u>20,425</u>	<u>137,305</u>	<u>-</u>	<u>58,810</u>	<u>239,742</u>
Total Liabilities	<u>124,768</u>	<u>80,226</u>	<u>313,457</u>	<u>-</u>	<u>74,450</u>	<u>592,901</u>
Deferred Inflows of Resources						
Deferred pension resources	<u>14,304</u>	<u>12,834</u>	<u>86,411</u>	<u>-</u>	<u>3,366</u>	<u>116,915</u>
Net Position						
Net investment in capital assets	782,983	244,019	345,030	-	280	1,372,312
Unrestricted	<u>511,413</u>	<u>1,171,936</u>	<u>995,360</u>	<u>673,447</u>	<u>4,178</u>	<u>3,356,334</u>
Total Net Position	<u>\$ 1,294,396</u>	<u>\$ 1,415,955</u>	<u>\$ 1,340,390</u>	<u>\$ 673,447</u>	<u>\$ 4,458</u>	<u>\$ 4,728,646</u>

The notes to the financial statements are an integral part of this statement.

City of Lexington, Minnesota
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2025

	Business-type Activities - Enterprise Funds					
	Water	Sewer	Municipal Liquor	Lovell Building	Nonmajor Storm Sewer	Total
Operating Revenues						
Sales	\$ -	\$ -	\$ 3,735,290	\$ -	\$ -	\$ 3,735,290
Cost of sales	-	-	(2,719,304)	-	-	(2,719,304)
Gross Profit	-	-	1,015,986	-	-	1,015,986
Charges for services	280,141	375,835	-	-	93,538	749,514
Total Operating Revenues	280,141	375,835	1,015,986	-	93,538	1,765,500
Operating Expenses						
Personnel services	92,949	83,865	550,647	-	21,466	748,927
Supplies	10,464	2,613	8,794	-	707	22,578
Other services and charges	139,909	232,805	191,854	-	29,184	593,752
Depreciation	51,373	53,121	48,534	-	2,473	155,501
Total Operating Expenses	294,695	372,404	799,829	-	53,830	1,520,758
Operating Income (Loss)	(14,554)	3,431	216,157	-	39,708	244,742
Nonoperating Revenues (Expenses)						
Investment earnings	20,071	44,332	32,206	27,937	-	124,546
Miscellaneous revenue	-	174	-	-	-	174
Property taxes	-	-	-	-	11,202	11,202
Interest expense	(1,449)	(2,580)	-	-	(2,079)	(6,108)
Total Nonoperating Revenues (Expenses)	18,622	41,926	32,206	27,937	9,123	129,814
Income (Loss) Before Contributions and Transfers	4,068	45,357	248,363	27,937	48,831	374,556
Capital Contributions	2,800	1,600	-	-	-	4,400
Transfers Out	-	-	(175,000)	-	-	(175,000)
Change in Net Position	6,868	46,957	73,363	27,937	48,831	203,956
Net Position, January 1	1,287,528	1,368,998	1,267,027	645,510	(44,373)	4,524,690
Net Position, December 31	\$ 1,294,396	\$ 1,415,955	\$ 1,340,390	\$ 673,447	\$ 4,458	\$ 4,728,646

The notes to the financial statements are an integral part of this statement.

City of Lexington, Minnesota
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2025

	Business-type Activities - Enterprise Funds					
	Water	Sewer	Municipal Liquor	Lovell Building	Nonmajor Storm Sewer	Total
Cash Flows from Operating Activities						
Receipts from customers and users	\$ 275,758	\$ 369,082	\$ 3,732,627	\$ -	\$ 91,767	\$ 4,469,234
Other operating receipts	-	174	-	-	-	174
Payments to suppliers	(95,690)	(234,468)	(2,893,361)	-	(32,082)	(3,255,601)
Payments to employees	(100,402)	(90,613)	(587,133)	-	(23,182)	(801,330)
Net Cash Provided (Used) by Operating Activities	79,666	44,175	252,133	-	36,503	412,477
Cash Flows from Noncapital Financing Activities						
Transfers to other funds	-	-	(175,000)	-	-	(175,000)
Cash Flows from Capital and Related Financing Activities						
Property taxes	-	-	-	-	11,202	11,202
Capital contributions	2,800	1,600	-	-	-	4,400
Principal paid on long-term debt	(30,000)	(55,000)	-	-	(9,779)	(94,779)
Interest paid on long-term debt	(1,918)	(3,439)	-	-	(2,168)	(7,525)
Net Cash Provided (Used) by Capital and Related Financing Activities	(29,118)	(56,839)	-	-	(745)	(86,702)
Cash Flows from Investing Activities						
Interest received on investments	20,071	44,332	32,206	27,937	-	124,546
Net Increase (Decrease) in Cash and Cash Equivalents	70,619	31,668	109,339	27,937	35,758	275,321
Cash and Cash Equivalents, January 1	450,798	1,070,775	583,344	645,510	(52,084)	2,698,343
Cash and Cash Equivalents, December 31	<u>\$ 521,417</u>	<u>\$ 1,102,443</u>	<u>\$ 692,683</u>	<u>\$ 673,447</u>	<u>\$ (16,326)</u>	<u>\$ 2,973,664</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities						
Operating income (loss)	\$ (14,554)	\$ 3,431	\$ 216,157	\$ -	\$ 39,708	\$ 244,742
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities						
Depreciation	51,373	53,121	48,534	-	2,473	155,501
Other income	-	174	-	-	-	174
(Increase) decrease in assets						
Accounts receivable	(8,503)	(8,819)	(2,663)	-	(2,237)	(22,222)
Special assessments receivable	4,120	2,066	-	-	606	6,792
Due from other governments	-	-	-	-	(140)	(140)
Inventories	-	-	(14,123)	-	-	(14,123)
Prepaid items	-	-	20	-	-	20
(Increase) decrease in deferred outflows of resources						
Deferred pension resources	(410)	(364)	(2,078)	-	(98)	(2,950)
Increase (decrease) in liabilities						
Accounts payable	(8,558)	950	37,038	-	(2,191)	27,239
Due to other governments	63,241	-	3,656	-	-	66,897
Accrued salaries payable	-	-	(538)	-	-	(538)
Compensated absences payable	-	-	64	-	-	64
Net pension liability	(3,906)	(3,542)	(18,801)	-	(897)	(27,146)
Decrease in deferred inflows of resources						
Deferred pension resources	(3,137)	(2,842)	(15,133)	-	(721)	(21,833)
Net Cash Provided (Used) By Operating Activities	<u>\$ 79,666</u>	<u>\$ 44,175</u>	<u>\$ 252,133</u>	<u>\$ -</u>	<u>\$ 36,503</u>	<u>\$ 412,477</u>

The notes to the financial statements are an integral part of this statement.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The City of Lexington, Minnesota (the City) operates under "Optional Plan A" as defined in the State of Minnesota statutes. The City is governed by an elected Mayor and four-member City Council. The City Council exercises legislative authority and determines all matters of policy. The City Council appoints personnel responsible for the proper administration of all affairs relating to the City.

The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The City does not have any component units.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. 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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. 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.

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 City 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.

Property 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 1: Summary of Significant Accounting Policies (Continued)

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The City reports the following major governmental funds:

The *General fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Debt Service fund* accounts for the servicing of general long-term debt not being financed by proprietary funds.

The *Capital Projects fund* accounts for the financial resources to be used for capital equipment acquisitions of the City's governmental activities.

The *TIF District #1-3 fund* accounts for the activity of the TIF district.

The City reports the following major proprietary funds:

The *Water fund* accounts for the activities of the water distribution system the City maintains.

The *Sewer fund* accounts for the activities of the City's sewage collection operations.

The *Municipal Liquor fund* accounts for the costs associated with the City's off-sale liquor store operation.

The *Lovell Building fund* accounts for the remaining sales proceeds of the building.

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

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 City enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Note 1: Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments. The proprietary funds' portion in the government-wide cash and temporary investments pool is considered to be cash and cash equivalents for purposes of the Statement of Cash Flows.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The City may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Broker money market funds operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the shares.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City's recurring fair value measurements are listed in detail on page 60 and are valued using quoted market prices (Level 2 inputs).

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 1: Summary of Significant Accounting Policies (Continued)

The City has the following recurring fair value measurements as of December 31, 2025:

- Negotiable certificates of deposits of \$5,172,806 are valued using a matrix pricing model (Level 2 inputs).

The Minnesota Municipal Money Market Fund is regulated by Minnesota statutes and the Board of Directors of the League of Minnesota Cities and is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the regulatory rules of the SEC. In accordance with GASB Statement No. 79, the City's investment in this pool is valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the 4M Liquid Asset Fund. Investments in the 4M Plus must be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period will be subject to a penalty equal to seven days interest on the amount withdrawn. Seven days' notice of redemption is required for withdrawals of investments in the 4M Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption. Financial statements of the 4M Fund can be obtained by contacting the League of Minnesota Cities Finance Department at 145 University Avenue West, St. Paul, Minnesota, 55103-2044 or call (651) 281-1200.

Property Taxes

The City Council annually adopts a tax levy and certifies it to the County in December for collection in the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County and tax settlements are made to the City during January, June and December each year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for taxes not received within 60 days after year end in the governmental fund financial statements.

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2025. The City annually certifies delinquent water, sewer and storm sewer accounts to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established.

Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivable upon certification to the County. Special assessments are recognized as revenue when they are received in cash or within 60 days after year end. All governmental special assessments receivable are offset by a deferred inflow of resources in the fund financial statements.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items of the City are accounted for using the consumption method.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 1: Summary of Significant Accounting Policies (Continued)

Lease Receivable

The City's lease receivable is measured at the present value of lease payments expected to be received during the lease term.

A deferred inflow of resources is recorded for the lease. The deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

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 or business-type activities columns in the government-wide financial statements.

Capital assets are defined by the City as assets with an initial, individual cost of more than the amounts defined below (amount not rounded) and an estimated useful life in excess of one year. For financial statement purposes only, a capitalization threshold is established for each capital asset category as follows:

Land/Land Improvements	\$ 10,000
Other Improvements	25,000
Buildings	25,000
Building Improvements	25,000
Machinery and Equipment	5,000
Vehicles	5,000
Infrastructure	100,000
Other Assets	5,000

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City has elected not to retroactively capitalize the general infrastructure acquired prior to January 1, 2004. As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. Capital asset improvement costs are capitalized if the costs exceed the capitalization threshold and either the value of the asset or estimated life is increased by 25 percent of the original cost, or the cost results in an increase in the capacity of the asset, or the efficiency of the asset is increased by more than 10 percent. Donated capital assets are recorded at acquisition value at the date of donation.

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

Assets	Useful Lives in Years
Buildings and Improvements	15 to 50
Machinery and Equipment	5 to 10
Infrastructure	20 to 50

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 1: Summary of Significant Accounting Policies (Continued)

Deferred Outflows 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 assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statements of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For purposes of measuring the net pension liability (asset), deferred outflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit plan administered by PERA through the Statewide Volunteer Firefighter Retirement Plan (SVF) for the Lexington Firefighter's Relief Association and additions to and deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. Investments are reported at fair value. The General fund is typically used to liquidate the governmental net pension liability.

The total pension expense for the General Employees Retirement Plan and the Lexington Fire Relief Association is as follows :

	GERF	FRA	Total
City's proportionate share	\$ (13,297)	\$ (19,625)	\$ (32,922)
Proportionate share of State's contribution	(1,236)	-	(1,236)
Total pension expense	<u>\$ (14,533)</u>	<u>\$ (19,625)</u>	<u>\$ (34,158)</u>

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused paid time off benefits to a maximum of 400 hours. All paid time off is accrued when incurred in the government-wide and proprietary funds. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Union employees are allowed severance equal to their unused compensatory time. In governmental fund types the cost of these benefits is recognized when payments are made to the employees. The General fund is typically used to liquidate governmental compensated absences.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. The recognition of bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 1: Summary of Significant Accounting Policies (Continued)

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and fund financial statements 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 assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has three types of items, unavailable revenue, deferred lease resources and deferred pension resources.

Unavailable revenue arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The item, deferred pension resources, is reported only in the statements of net position and results from actuarial calculations. The item, deferred lease resources is reported in both the statements of net position and balance sheet.

Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council, which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the City Council modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the City Council itself or by an official to which the governing body delegates the authority. The City Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the City Administrator.

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unassigned fund balance of 45 percent of budgeted expenditures for cash-flow timing needs.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 1: Summary of Significant Accounting Policies (Continued)

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Note 2: Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General fund. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. There were no budget amendments in 2025.

B. Deficit Fund Equity

The following funds had a net position deficit at December 31, 2025:

Fund	Amount
Major	
TIF District #1-3	\$ 2,241,979

This deficits will be eliminated with future charges for services, tax increment collections, special assessment collections, future bond proceeds or transfers in.

Note 3: Detailed Notes on All Funds

A. Deposits and Investments

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the City Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 3: Detailed Notes on All Funds (Continued)

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The fair value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds, with the exception of irrevocable standby letters of credit issued by Federal Home Loan Banks as this type of collateral only requires collateral pledged equal to 100 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the City.

Investments

At year end, the City's investment balances were as follows:

Investment Type	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount	Fair Value Measurement Using	
				Level 1	Level 2
Pooled Investments at Amortized Costs					
4M fund	N/A	less than 6 months	\$ 1,865,138	\$ -	\$ -
Broker money market	N/A	less than 6 months	26,765	-	-
Non-pooled Investments at Fair Value					
Negotiable certificates of deposit	N/A	less than 1 year	2,462,090	-	2,462,090
Negotiable certificates of deposit	N/A	1 to 3 years	2,710,716	-	2,710,716
Total Investments			<u>\$ 7,064,709</u>	<u>\$ -</u>	<u>\$ 5,172,806</u>

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A indicates not applicable or available.

(1) Ratings are provided by various rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk in disclosed using the segmented time distribution method.

N/A Indicates not applicable or available.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 3: Detailed Notes on All Funds (Continued)

The investments of the City are subject to the following risks:

- *Credit Risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes limit the City's investments to the list on page 53 of the notes.
- *Custodial Credit Risk* for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party. The City's investment policy limits its exposure by obtaining collateral or bond for all uninsured amounts on deposit and by obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law.
- *Interest Rate Risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair values by disallowing purchases of investments that, at the time of investment, cannot be held to maturity. The City's investment policy states the City's investment portfolio, as much as possible, will contain both short-term and long-term investments. The City attempts to match its investments with anticipated cash flow requirements. Extended maturities may be utilized to take advantage of higher yields.
- *Concentration of Credit Risk* is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's investment policy does not address concentration of credit risk, placing no limit on the amount that may be invested in any one issuer.

A reconciliation of cash and temporary investments as shown on the statement of net position for the City follows:

Investments	\$ 7,064,709
Cash on Hand	<u>2,800</u>
Total	<u><u>\$ 7,067,509</u></u>

B. Lease Receivable

As of December 31, 2025, the City had the following lease receivable:

Description	Issue Date	Maturity Date	Discount Rate		Current Year Inflow of Resources	Balance at Year End
Verizon Cell Tower	05/01/16	04/30/31	1.16	%	\$ 25,371	\$ 140,548
American Tower Cell Tower	01/01/19	04/30/31	1.16		24,396	<u>152,356</u>
Total						<u><u>\$ 292,904</u></u>

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 3: Detailed Notes on All Funds (Continued)

C. Capital Assets

Capital asset activity for the year ended December 31, 2025 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets not Being Depreciated				
Land	\$ 63,403	\$ -	\$ -	\$ 63,403
Construction in progress	4,681	-	(4,681)	-
	<u>68,084</u>	<u>-</u>	<u>(4,681)</u>	<u>63,403</u>
Total Capital Assets not Being Depreciated	<u>68,084</u>	<u>-</u>	<u>(4,681)</u>	<u>63,403</u>
Capital Assets Being Depreciated				
Buildings and improvements	3,036,923	84,121	-	3,121,044
Infrastructure	2,226,338	-	-	2,226,338
Machinery and equipment	2,114,426	62,060	(34,274)	2,142,212
Total Capital Assets being depreciated	<u>7,377,687</u>	<u>146,181</u>	<u>(34,274)</u>	<u>7,489,594</u>
Less Accumulated Depreciation for				
Buildings and improvements	(1,486,049)	(93,337)	-	(1,579,386)
Infrastructure	(972,929)	(44,350)	-	(1,017,279)
Machinery and equipment	(1,632,457)	(118,619)	34,274	(1,716,802)
Total Accumulated Depreciation	<u>(4,091,435)</u>	<u>(256,306)</u>	<u>34,274</u>	<u>(4,313,467)</u>
Total Capital Assets Being Depreciated, Net	<u>3,286,252</u>	<u>(110,125)</u>	<u>-</u>	<u>3,176,127</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,354,336</u>	<u>\$ (110,125)</u>	<u>\$ (4,681)</u>	<u>\$ 3,239,530</u>

Depreciation expense was charged to functions of the governmental activities as follows:

Function/Program	Amount
Governmental Activities	
General Government	\$ 46,836
Public Safety	86,567
Public Works	98,480
Culture and Recreation	24,423
	<u>256,306</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 256,306</u>

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 3: Detailed Notes on All Funds (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital Assets not Being Depreciated				
Land	\$ 51,950	\$ -	\$ -	\$ 51,950
Capital Assets Being Depreciated				
Buildings and improvements	998,271	-	-	998,271
Infrastructure	3,220,338	-	-	3,220,338
Machinery and equipment	514,065	-	(51,488)	462,577
Total Capital Assets Being Depreciated	4,732,674	-	(51,488)	4,681,186
Less Accumulated Depreciation for				
Buildings and improvements	(726,153)	(35,338)	-	(761,491)
Infrastructure	(2,046,010)	(87,127)	-	(2,133,137)
Machinery and equipment	(335,664)	(33,036)	51,488	(317,212)
Total Accumulated Depreciation	(3,107,827)	(155,501)	51,488	(3,211,840)
Total Capital Assets Being Depreciated, Net	1,624,847	(155,501)	-	1,469,346
Business-type Activities Capital Assets, Net	\$ 1,676,797	\$ (155,501)	\$ -	\$ 1,521,296

Depreciation expense was charged to programs of the business-type activities as follows:

Business-type Activities	
Water	\$ 51,373
Sewer	53,121
Municipal Liquor	48,534
Storm Sewer	2,473
Total Depreciation Expense - Business-type Activities	\$ 155,501

D. Interfund Receivables, Payable and Transfers

The composition of interfund transfers for the year ended December 31, 2025 is as follows:

Fund	General	Transfer in Capital Projects	Total
Transfer Out			
Nonmajor Governmental	\$ -	\$ 140,854	\$ 140,854
Municipal Liquor	175,000	-	175,000
Total Transfers In	\$ 175,000	\$ 140,854	\$ 315,854

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 3: Detailed Notes on All Funds (Continued)

The City annually budgets transfers for specific purposes. Annual transfers include transfers made to cover annual operations and part of capital improvement plans. The City also approved to close multiple completed nonmajor capital funds.

An interfund loan was set up between the Capital Projects Fund and TIF District #1-3 for the establishment of the TIF District. The amount of the loan is \$2,285,218 including unpaid interest, expected to be refunded from the future tax increment at a 4 percent interest rate.

E. Long-term Debt

General Obligation (G.O.) Bonds

The City issues G.O. bonds to provide funds for the acquisition and construction of major capital facilities. G.O. bonds have been issued for both governmental and business-type activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, G.O. bonds have been issued to refund bond issues.

G.O. Improvement Bonds

The following bonds were used to finance improvements and buildings. They will be repaid with ad valorem taxes and special assessments levied against the properties. The bonds are backed by the full faith and credit of the City. Each year the combined assessment and tax levy equals 105 percent of the amount required for debt service. The excess of 5 percent is to cover any delinquencies in tax or assessment payments.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Improvement Bonds of 2014A	\$ 655,000	1.3 - 3.25 %	05/28/14	02/01/31	\$ 360,000
G.O. Improvement Bonds, Series 2017A	1,260,000	3.00	08/24/17	02/01/38	740,000
Total G.O. Improvement Bonds					<u>\$ 1,100,000</u>

Annual debt service requirements to maturity for G.O. improvement bonds are as follows:

Year Ending December 31,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2026	\$ 125,221	\$ 29,458	\$ 154,679	\$ 9,779	\$ 1,829	\$ 11,608
2027	129,332	25,640	154,972	10,668	1,522	12,190
2028	134,332	21,685	156,017	10,668	1,204	11,872
2029	134,332	17,655	151,987	10,668	882	11,550
2030	139,332	13,489	152,821	10,668	549	11,217
2031 - 2035	313,467	23,818	337,285	11,533	188	11,721
2036 - 2038	60,000	2,700	62,700	-	-	-
Total	<u>\$ 1,036,016</u>	<u>\$ 134,445</u>	<u>\$ 1,170,461</u>	<u>\$ 63,984</u>	<u>\$ 6,174</u>	<u>\$ 70,158</u>

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 3: Detailed Notes on All Funds (Continued)

G.O. Utility Revenue Bonds

The following bonds were issued to finance capital improvements in the enterprise funds. They will be repaid from future operating revenues pledged from the Water and Sewer fund and are backed by the taxing power of the City. Annual principal and interest payments on the G.O. utility revenue bonds are expected to require less than 25 and 30 percent of operating revenues from the Water and Sewer funds, respectively.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Utility Revenue Bonds, Series 2010A	\$ 1,040,000	1.85 - 3.75 %	07/14/10	02/01/26	<u>\$ 85,000</u>

Annual debt service requirements to maturity for G.O. utility revenue bonds are as follows:

Year Ending December 31,	Business-type Activities		
	Principal	Interest	Total
2026	<u>\$ 85,000</u>	<u>\$ 1,594</u>	<u>\$ 86,594</u>

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2025 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
G.O. Improvement Bonds	\$ 1,161,237	\$ -	\$ (125,221)	\$ 1,036,016	\$ 125,221
Compensated Absences Payable*	<u>58,125</u>	<u>-</u>	<u>(505)</u>	<u>57,620</u>	<u>57,620</u>
Governmental Activities Long-term Liabilities	<u>\$ 1,219,362</u>	<u>\$ -</u>	<u>\$ (125,726)</u>	<u>\$ 1,093,636</u>	<u>\$ 182,841</u>
Business-type Activities					
G.O. Improvement Bonds	\$ 73,763	\$ -	\$ (9,779)	\$ 63,984	\$ 9,779
G.O. Utility Revenue Bonds	<u>170,000</u>	<u>-</u>	<u>(85,000)</u>	<u>85,000</u>	<u>85,000</u>
Total Bonds Payable	<u>243,763</u>	<u>-</u>	<u>(94,779)</u>	<u>148,984</u>	<u>94,779</u>
Compensated Absences Payable*	<u>16,788</u>	<u>64</u>	<u>-</u>	<u>16,852</u>	<u>16,852</u>
Business-type Activities Long-term Liabilities	<u>\$ 260,551</u>	<u>\$ 64</u>	<u>\$ (94,779)</u>	<u>\$ 165,836</u>	<u>\$ 111,631</u>

*The City is presenting the change in compensated absences as a net increase/(decrease).

Note 4: Defined Benefit Pension Plans - Statewide

A. Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). These plan provisions are established and administered according to Minnesota Statutes chapters 353, 353D, 353E, 353G, and 356. Minnesota Statutes chapter 356 defines each plan's financial reporting requirements. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan (General Plan)

Membership in the General Plan includes employees of counties, cities, townships, schools in non-certified positions, and other governmental entities whose revenues are derived from taxation, fees, or assessments. Plan membership is required for any employee who is expected to earn more than \$425 in a month, unless the employee meets exclusion criteria.

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service. When a member is "vested," they have earned enough service credit to receive a lifetime monthly benefit after leaving public service and reaching an eligible retirement age. Members who retire at or over their Social Security full retirement age with at least one year of service qualify for a retirement benefit.

General Employees Plan Benefits

General Employees Plan requires three years of service to vest. Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Plan members. Members hired prior to July 1, 1989, receive the higher of the Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, General Plan members receive 1.2% of the highest average salary for each of the first 10 years of service and 1.7% for each additional year. Under the Level formula, General Plan members receive 1.7% of highest average salary for all years of service. For members hired prior to July 1, 1989 a full retirement benefit is available when age plus years of service equal 90 and normal retirement age is 65. Members can receive a reduced retirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by .25% for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of .25% for each month the member is younger than age 62. The Level formula allows General Plan members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989 or at age 66 if they were hired on or after July 1, 1989. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. The 2025 annual increase was 1.25%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a prorated increase.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

C. Contributions

Minnesota Statutes chapters 353, 353E, 353G, and 356 set the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Employees Fund Contributions

General Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2025 and the City was required to contribute 7.50% for General Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2025, were \$70,767. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2025, the City reported a liability of \$333,955 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$8,056.

City's proportionate share of the net pension liability	\$ 333,955
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>8,056</u>
Total	<u><u>\$ 342,011</u></u>

The net pension liability was measured as of June 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2024 through June 30, 2025, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0101% at the end of the measurement period and 0.0102% for the beginning of the period.

For the year ended December 31, 2025, the City recognized pension expense of negative \$13,297 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional negative \$1,236 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

At December 31, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 31,819	\$ -
Changes in actuarial assumptions	8,046	76,842
Net difference between projected and actual investment earnings	-	132,884
Changes in proportion	6,129	19,584
Employer contributions subsequent to the measurement date	38,571	-
	<u>\$ 84,565</u>	<u>\$ 229,310</u>
Total		

The \$38,571 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2026. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2026	\$ (49,589)
2027	(62,009)
2028	(47,980)
2029	(23,738)

E. Long-term Expected Return on Investment

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Return on Investment
Domestic Equity	33.5 %	5.10 %
International Equity	16.5	5.30
Fixed Income	25.0	0.75
Private Markets	25.0	5.90
	<u>100.0 %</u>	
Total		

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

F. Actuarial Methods and Assumptions

The total pension liability for each of the cost-sharing defined benefit plans was determined by an actuarial valuation as of June 30, 2025, using the entry age normal actuarial cost method. The long-term rate of return on pension plan investments used to determine the total liability is 7%. The 7% assumption is based on a review of inflation and investment return assumptions from a number of national investment consulting firms. The review provided a range of investment return rates considered reasonable by the actuary. An investment return of 7% is within that range.

- Inflation is assumed to be 2.25% for the General Employees Plan.
- Benefit increases after retirement are assumed to be 1.50% for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 11.5% after one year of service to 3% after 27 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The General Employees Plan was last reviewed in 2022. The assumption changes were adopted by the board and became effective with the July 1, 2023 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2025:

General Employees Fund

Changes in Actuarial Assumptions:

- The combined service annuity loading factors increased from 15% to 19% for vested, terminated members and from 3% to 44% for non-vested, terminated members.
- The assumed post-retirement benefit increase changed from 1.25% to 1.5%.

Changes in Plan Provisions:

- The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1% and 1.75%, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.5%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1% and 1.5%.
- The 1% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

G. Discount Rate

The discount rate used to measure the total pension liability in 2025 was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Plan was projected to be available to make all projected future benefit payments of current plan members. 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, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

H. Pension Liability Sensitivity

The following presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	<u>1 Percent Decrease (6.00%)</u>	<u>Current (7.00%)</u>	<u>1 Percent Increase (8.00%)</u>
General Employees Fund	\$ 811,125	\$ 333,955	\$ (53,137)

I. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 5: Defined Benefit Pension Plans - Fire Relief Association

A. Plan Description

The Lexington Fire Department participates in the Statewide Volunteer Firefighter Retirement Plan (SVF), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The SVF plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2024, the plan covered 15 active firefighters and 13 vested terminated fire fighters whose pension benefits are deferred. The plan is established and administered in accordance with Minnesota statutes, chapter 353 G.

B. Benefits Provided

The SVF provides lump-sum retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level per year of service approved by the City. The benefit is selected from 71 possible levels in \$100 increments ranging from \$500 to \$7,500 per year of service. Members are eligible for a lump-sum retirement benefit at 50 years of age with five years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40 percent through 20 years at 100 percent.

C. Contributions

The Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota statutes and voluntary City contributions. The State of Minnesota contributed \$25,329 in fire state aid to the fund for the year ended December 31, 2025. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the Volunteer Firefighter Fund for the year ended December 31, 2025 were \$25,329. The City's contributions were equal to the required contributions as set by state statute, if applicable. The City made no voluntary contributions to the plan.

D. Pension Costs

At December 31, 2025, the City reported a net pension asset of \$180,945 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2024. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the Department. The following table presents the changes in net pension asset during the year:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance January 1, 2025	\$ 543,882	\$ 666,586	\$ (122,704)
Changes for the Year			
Service cost	\$ 38,091	\$ -	\$ 38,091
Interest on pension liability (asset)	30,262	-	30,262
Actuarial experience (gains)/losses	(13,320)	-	(13,320)
Projected investment earnings	-	36,663	(36,663)
Contributions (employer)	-	25,323	(25,323)
Contributions (State)	-	21,337	(21,337)
Asset (gain)/loss	-	32,471	(32,471)
Benefit payouts	(155,216)	(155,216)	-
Administrative costs	-	(2,520)	2,520
Total Net Changes	(100,183)	(41,942)	(58,241)
Ending Balance December 31, 2025	\$ 443,699	\$ 624,644	\$ (180,945)

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 5: Defined Benefit Pension Plans - Fire Relief Association (Continued)

For the year ended December 31, 2025, the City recognized a negative pension expense of \$19,625

At December 31, 2025, the City reported its deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, to the plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ -	\$ 92,043
Net Difference between Projected and Actual Earnings on Plan Investments	67,775	62,512
Contributions to Plan Subsequent to the Measurement Date	25,329	-
Total	<u>\$ 93,104</u>	<u>\$ 154,555</u>

Deferred outflows of resources totaling \$25,329 related to pensions resulting from the City's contributions to the plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2026. Other amounts reported as deferred outflows of resources related to the plan will be recognized in pension expense as follows:

2026	\$ (18,508)
2027	3,397
2028	(25,930)
2029	(15,935)
Thereafter	(29,804)

E. Actuarial Assumptions

The total pension liability at December 31, 2024 was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Retirement Eligibility at the Later of Age 50 or 20 Years of Service	
Inflation	3% per year
Investment Rate of Return	7.50%

There were no changes in actuarial assumptions in 2024.

F. Discount Rate

The discount rate used to measure the total pension liability was 6.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions to the SVF plan will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 5: Defined Benefit Pension Plans - Fire Relief Association (Continued)

G. Pension Liability Sensitivity

The following presents the City's net pension liability (asset) for the SVF plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate 1 percent lower or 1 percent higher than the current discount rate:

	1 Percent Decrease (5.00%)	Current (6.00%)	1 Percent Increase (7.00%)
SVF	\$ (156,264)	\$ (180,945)	\$ (23,955)

H. Investment Policy

The Minnesota State Board of Investment (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the Governor (who is designated as chair of the Board), State Auditor, Secretary of State and State Attorney General.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in Minnesota statutes, chapter 11A and chapter 353G.

Within the requirements defined by state law, the SBI, with assistance of the SBI staff and the Investment Advisory Council, establishes investment policy for all funds under its control. These investments policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. Studies guide the on-going management of the funds and are updated periodically.

The SBI made no significant changes to their investment policy during fiscal year 2024 for the SVF plan.

I. Asset Allocation

The long-term expected rate of return on pension plan investments was set based on the plan's target investment allocation along with long-term return expectations by asset class. All economic assumptions were based on input from various published sources and projected future financial data available.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	33.50 %	5.10 %
International Equity	16.50	5.30
Fixed Income	25.00	5.90
Private Markets	25.00	0.75
Total	<u>100.00 %</u>	

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 5: Defined Benefit Pension Plans - Fire Relief Association (Continued)

The 6.0 percent long-term expected rate of return on pension plan investments was determined using a building-block method. Best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations from a number of investment management and consulting organizations. The asset class estimates and the target allocations were then combined to produce a geometric, long-term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

The SBI made no significant changes to their investment policy during fiscal year 2025 for the Volunteer Firefighter Fund.

J. Pension Plan Fiduciary Net Position

Detailed information about the Volunteer Firefighter Fund's fiduciary net position as of December 31, 2024 is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at www.mnpera.org.

Note 6: Other Information

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT), which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

Note 7: Joint Ventures

Centennial Lake Police Department

The Centennial Lakes Police Department (the Department) was formed under the authority of Minnesota statutes 436.06 in 2005 by agreement of the member cities of Centerville, Circle Pines and Lexington. The Department was created to provide police protection services to its member cities. The Department is managed through a three tier system consisting of a Governing Board, an Operations Committee, and a Chief of Police. The Governing Board consists of six members, two elected officials appointed by each member city. The Operations Committee is made up of the City administrators from each member city and the Chief of Police. The Chief of Police is appointed by mutual agreement of the City Councils of all member cities. Annual contributions required by each member city are calculated based on complaint history, population, and staffing formulas. The City's equity interest and its share of the net income (loss) of the Department is not measurable; therefore, no equity interest is reported in the government-wide financial statements. Contributions made by member cities for 2025 were as follows:

City of Circle Pines	\$ 1,273,448	37.68 %
City of Lexington	987,193	29.21
City of Centerville	<u>1,118,999</u>	<u>33.11</u>
Total	<u>\$ 3,379,640</u>	<u>100.00 %</u>

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 7: Joint Ventures (Continued)

The following information is from the financial statements of the Department as of December 31, 2025. The amounts reported for the Department are those presented in its government-wide financial statements. These financial statements are available for viewing at the Lexington City hall.

	<u>Centennial Lakes Police Department</u>
Total Assets and Deferred Outflows of Resources	\$ 3,307,923
Total Liabilities and Deferred Inflows of Resources	4,251,583
Total Net Position	(943,660)
Total Revenue	3,493,017
Total Expenses	3,471,297

North Metro Telecommunications Commission (the Commission)

The purpose of the Commission is to monitor the operations and activities of the cable commissions of the member cities. The member cities include the City of Blaine, Centerville, Circle Pines, Ham Lake, Lexington, Lino Lakes, and Spring Lake Park. Each member has a representative on the Commissions Board. The Commission also provides coordination, administration and enforcement of the franchises for the cable communication system. The City's equity interest and its share of the net income (loss) of the Commission are not explicit; therefore, no equity interest is reported in the government-wide financial statements.

Financial statements for the Commission can be obtained by writing to: North Metro Telecommunications Commission at 12520 Polk Street NE, Blaine, Minnesota 55434.

Anoka County Fire Protection Council (ACFPC)

The purpose of the ACFPC is to improve the efficiency and effectiveness of fire and emergency services to the public and address the Members' long term needs for fire-fighting and emergency equipment, fire records data systems, fire-fighter and EMS training, fire prevention, fire inspection, fire-related public education, and other fire- and emergency-related essentials. The member cities include the City of Andover, Anoka, Bethel, Blaine, Centerville, Champlin, Circle Pines, Columbia Heights, Coon Rapids, East Bethel, Fridley, Ham Lake, Hilltop, Lexington, Lino Lakes, Mounds View, Nowthen, Oak Grove, Ramsey, Spring Lake Park, St. Francis, and the Township of Linwood. Each member has a representative on the ACFPC Board. The City's equity interest and its share of the net income (loss) of the Commission are not explicit; therefore, no equity interest is reported in the government-wide financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LEXINGTON
LEXINGTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

City of Lexington, Minnesota
Required Supplementary Information
For the Year Ended December 31, 2025

Schedule of Employer's Share of PERA Net Pension Liability - General Employees Fund

Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2025	0.0101 %	\$ 333,955	\$ 8,056	\$ 342,011	\$ 912,692	36.6 %	90.8 %
6/30/2024	0.0102	378,122	9,777	387,899	834,205	45.3	89.1
6/30/2023	0.0100	559,189	15,451	574,640	829,183	67.4	83.1
6/30/2022	0.0109	863,284	25,265	888,549	803,274	107.5	76.7
6/30/2021	0.0109	465,479	14,300	479,779	786,037	59.2	87.0
6/30/2020	0.0104	623,528	19,190	642,718	740,027	84.3	79.1
6/30/2019	0.0101	558,406	17,333	575,739	713,371	78.3	80.2
6/30/2018	0.0104	576,949	18,852	595,801	698,367	82.6	79.5
6/30/2017	0.0106	676,697	8,547	685,244	686,204	98.6	75.9
6/30/2016	0.0109	885,026	-	885,026	656,576	134.8	68.9

Schedule of Employer's PERA Contributions - General Employees Fund

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/2025	\$ 70,767	\$ 70,767	\$ -	\$ 943,564	7.50 %
12/31/2024	68,734	68,734	-	916,457	7.50
12/31/2023	62,657	62,657	-	835,425	7.50
12/31/2022	59,504	59,504	-	793,383	7.50
12/31/2021	60,151	60,151	-	802,018	7.50
12/31/2020	57,739	57,739	-	769,853	7.50
12/31/2019	53,272	53,272	-	710,297	7.50
12/31/2018	53,678	53,678	-	715,712	7.50
12/31/2017	51,556	51,556	-	687,409	7.50
12/31/2016	50,089	50,089	-	667,856	7.50

City of Lexington, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2025

Notes to the Required Supplementary Information - General Employee Retirement Fund

Changes in Actuarial Assumptions

2025 - The combined service annuity loading factors increased from 15% to 19% for vested, terminated members and from 3% to 44% for non-vested, terminated members. The assumed post-retirement benefit increase changed from 1.25% to 1.5%.

2024 - The following changes in assumptions are effective with the July 1, 2024 valuation, as recommended in the most recent experience study (dated June 29, 2023): Rates of merit and seniority were adjusted, resulting in slightly higher rates. Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members. Minor increase in assumed withdrawals for males and females. Lower rates of disability. Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study. Minor changes to form of payment assumptions for male and female retirees. Minor changes to assumptions made with respect to missing participant data.

2023 - The investment return and single discount rates were changed from 6.5 percent to 7.0 percent.

2022 - The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

2021 - The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes. The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2020 - The price inflation assumption was decreased from 2.50% to 2.25%. The payroll growth assumption was decreased from 3.25% to 3.00%. Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates. Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements. Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter. Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females. The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments. The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019. The assumed spouse age difference was changed from two years older for females to one year older. The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

2019 - The mortality projection scale was changed from MP-2017 to MP-2018.

2018 - The mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

2017 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth

City of Lexington, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2025

Notes to the Required Supplementary Information - General Employee Retirement Fund (Continued)

Changes in Plan Provisions

2025 - The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1% and 1.75%, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.5%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1% and 1.5%. The 1% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

2024 - The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

2023 - An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023. The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service. The benefit increase delay for early retirements on or after January 1, 2024 was eliminated. A one-time non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2022 - There were no changes in plan provisions since the previous valuation.

2021 - There were no changes in plan provisions since the previous valuation.

2020 - Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 - The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The state's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 - The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024. Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.0 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Postretirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90.0 percent funding ratio to 50.0 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 - The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter. The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016 - There were no changes in plan provisions since the previous valuation.

City of Lexington, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2025

Schedule of Employer's Fire Relief Association Contributions

Year Ending	Actuarial Determined Contribution (a)	Actual Contributions Paid (b)	Contribution Deficiency (Excess) (a-b)
12/31/25	\$ 25,323	\$ 25,323	\$ -
12/31/24	21,337	21,337	-
12/31/23	15,904	15,904	-
12/31/22	14,805	14,805	-
12/31/21	12,575	12,575	-
12/31/20	11,445	11,445	-
12/31/19	11,095	11,095	-
12/31/18	12,071	12,071	(11,664)
12/31/17	27,487	27,487	(7,241)
12/31/16	18,507	18,507	(7,241)

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

City of Lexington, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2025

Schedule of Changes in the Fire Relief Association's Net Pension Liability (Asset) and Related Ratios

	2025 (Fire Relief Report Date 2023)	2024 (Fire Relief Report Date 2022)	2023 (Fire Relief Report Date 2021)	2022 (Fire Relief Report Date 2020)
Total Pension Liability				
Service cost	\$ 38,091	\$ 33,871	\$ 33,871	\$ 29,895
Interest on pension liability (asset)	30,262	32,452	33,336	37,110
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(13,320)	(71,644)	(22,792)	(76,809)
Changes in benefit level	-	42,200	-	107,066
Benefit payments	(155,216)	-	(118,274)	(210,000)
Net Change in Total Pension Liability	(100,183)	36,879	(73,859)	(112,738)
Total Pension Liability - January 1	543,882	507,003	580,862	693,600
 Total Pension Liability - December 31	 \$ 443,699	 \$ 543,882	 \$ 507,003	 \$ 580,862
 Plan Fiduciary Net Position				
Contributions - State	\$ 18,430	\$ 13,457	\$ 11,487	\$ 10,392
Fire supplemental aid	2,907	2,447	2,318	2,183
Employer contributions	-	3,000	1,000	-
Net investment income	69,134	84,347	(122,058)	86,819
Required municipal contribution	25,323	-	-	-
Administrative expense	(2,520)	-	(780)	(900)
Benefit Payments	(155,216)	-	(118,274)	(210,000)
Other	-	-	(48)	(52)
Net Change in Plan Fiduciary Net Position	(41,942)	103,251	(226,355)	(111,558)
 Plan Fiduciary Net Position - January 1	 666,586	 563,335	 789,690	 901,248
 Plan Fiduciary Net Position - December 31	 \$ 624,644	 \$ 666,586	 \$ 563,335	 \$ 789,690
 Fire Relief's Net Pension Liability (Asset) - December 31 (a-b)	 \$ (180,945)	 \$ (122,704)	 \$ (56,332)	 \$ (208,828)
 Plan fiduciary net position as a percentage of the total pension liability (b/a)	 140.78%	 122.56%	 111.11%	 135.95%
 Covered-employee Payroll	 N/A	 N/A	 N/A	 N/A
 Fire Relief's Net Pension Liability (Asset) as a Percentage of Covered-employee Payroll	 N/A	 N/A	 N/A	 N/A

2021 (Fire Relief Report Date 2019)	2020 (Fire Relief Report Date 2018)	2019 (Fire Relief Report Date 2017)	2018 (Fire Relief Report Date 2016)	2017 (Fire Relief Report Date 2015)	2016 (Fire Relief Report Date 2014)
\$ 28,344	\$ 29,396	\$ 28,566	\$ 25,411	\$ 21,664	\$ 24,730
38,307	36,118	30,743	26,951	27,113	22,496
-	-	51,173	(11,812)	(55,777)	55,778
16,846	(27,980)	(21,726)	60,249	(14,480)	(9,892)
-	-	-	-	-	-
-	-	-	(81,500)	-	-
83,497	37,534	88,756	19,299	(21,480)	93,112
610,103	572,569	483,813	464,514	485,994	392,882
<u>\$ 693,600</u>	<u>\$ 610,103</u>	<u>\$ 572,569</u>	<u>\$ 483,813</u>	<u>\$ 464,514</u>	<u>\$ 485,994</u>

\$ 9,376	\$ 11,095	\$ 12,071	\$ 8,909	\$ 9,066	\$ 9,084
2,070	-	-	2,156	2,199	2,223
20,646	29,453	-	-	-	11,666
112,320	113,020	(23,586)	78,295	37,687	418
-	-	-	16,422	7,241	-
(900)	(849)	(846)	(810)	(690)	(690)
-	-	-	(81,500)	-	-
(45)	-	-	(37)	(41)	(17)
143,467	152,719	(12,361)	23,435	55,462	22,684
757,781	605,062	617,423	593,988	538,526	515,842
<u>\$ 901,248</u>	<u>\$ 757,781</u>	<u>\$ 605,062</u>	<u>\$ 617,423</u>	<u>\$ 593,988</u>	<u>\$ 538,526</u>
<u>\$ (207,648)</u>	<u>\$ (147,678)</u>	<u>\$ (32,493)</u>	<u>\$ (133,610)</u>	<u>\$ (129,474)</u>	<u>\$ (52,532)</u>

109.25% 124.21% 105.67% 127.62% 127.87% 110.81%

N/A N/A N/A N/A N/A N/A

N/A N/A N/A N/A N/A N/A

City of Lexington, Minnesota
 Budgetary Comparison Schedule
 Budget and Actual
 General Fund
 For the Year Ended December 31, 2025

	Budgeted Amounts Original and Final	Actual Amounts	Variance with Final Budget
Revenues			
Taxes	\$ 1,430,913	\$ 1,446,246	\$ 15,333
Licenses and permits	69,000	127,815	58,815
Intergovernmental	619,724	690,876	71,152
Charges for services	79,600	77,792	(1,808)
Fines and forfeitures	28,000	22,000	(6,000)
Special assessments	-	8,600	8,600
Interest on investments	42,638	45,412	2,774
Miscellaneous	47,000	44,394	(2,606)
Total Revenues	<u>2,316,875</u>	<u>2,463,135</u>	<u>146,260</u>
Expenditures			
Current			
General government	621,273	628,636	(7,363)
Public safety	1,502,372	1,441,056	61,316
Public works	254,713	202,662	52,051
Culture and recreation	133,517	123,069	10,448
Total Expenditures	<u>2,511,875</u>	<u>2,395,423</u>	<u>116,452</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(195,000)	67,712	262,712
Other Financing Sources (Uses)			
Transfers in	<u>175,000</u>	<u>175,000</u>	<u>-</u>
Net Change in Fund Balances	(20,000)	242,712	262,712
Fund Balances, January 1	<u>1,720,410</u>	<u>1,720,410</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 1,700,410</u>	<u>\$ 1,963,122</u>	<u>\$ 262,712</u>

The notes to the financial statements are an integral part of this statement.

City of Lexington, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2025

Notes to the Required Supplemental Information - Budgetary Reporting

A. Budgetary Comparison Schedule

The budgetary comparison schedule presents the comparison of the original and legally amended budget with actual amounts on a departmental level for the General and Special Revenue funds. The departmental level budgets are adopted on a basis consistent with generally accepted accounting principles. The fund balance reports revenue in the period in which they become measurable and available.

B. Summary of Significant Budget Variances

The General fund revenues and expenditures varied significantly from final budget amounts as noted below:

Revenues

- Licenses and permits revenue exceeded final budgeted amounts due to more non-business permit revenue than anticipated at time of final budget approval.
- Intergovernmental state revenues exceeded final budgeted amounts due to more fire and class 4D1 transition aid than anticipated at time of final budget approval.

Expenditures

- Public safety expenditures were under final budgeted amounts due to lower fire costs than anticipated.
- Public works expenditures were under final budgeted amounts due to reduction in snow removal, street sweep and equipment repair & maintenance.

C. Budgetary Compliance

There were no budgetary compliance violations for the fiscal year ending December 31, 2025.

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COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES

CITY OF LEXINGTON
LEXINGTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

City of Lexington, Minnesota
Nonmajor Capital Projects Funds
Combining Balance Sheet
December 31, 2025

	422 2022 Street Improvements	423 2023 Street Improvements	424 2024 Street Improvements	405 Park Dedication Fees	Total Capital Projects Funds
Assets					
Cash and temporary investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 548</u>	<u>\$ 548</u>
Fund Balances					
Restricted for parks	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 548</u>	<u>\$ 548</u>

City of Lexington, Minnesota
Nonmajor Capital Projects Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
For the Year Ended December 31, 2025

	422 2022 Street Improvements	423 2023 Street Improvements	424 2024 Street Improvements	405 Park Dedication Fees	Total Capital Projects Funds
Revenues					
Special assessments	\$ 1,967	\$ 1,434	\$ 7,251	\$ -	\$ 10,652
Investment earnings	-	-	-	548	548
Total Revenues	<u>1,967</u>	<u>1,434</u>	<u>7,251</u>	<u>548</u>	<u>11,200</u>
Expenditures					
Capital outlay					
Public works	-	-	1,268	-	1,268
Culture and recreation	-	-	-	50,051	50,051
Total Expenditures	<u>-</u>	<u>-</u>	<u>1,268</u>	<u>50,051</u>	<u>51,319</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,967	1,434	5,983	(49,503)	(40,119)
Other Financing Sources (Uses)					
Transfers out	<u>(80,687)</u>	<u>(14,925)</u>	<u>(45,242)</u>	<u>-</u>	<u>(140,854)</u>
Net Change in Fund Balances	(78,720)	(13,491)	(39,259)	(49,503)	(180,973)
Fund Balances, January 1	<u>78,720</u>	<u>13,491</u>	<u>39,259</u>	<u>50,051</u>	<u>181,521</u>
Fund Balances, December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 548</u>	<u>\$ 548</u>

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City of Lexington, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Continued on the Following Pages)
For the Year Ended December 31, 2025

	Budgeted Amounts Original and Final	Actual Amounts	Variance with Final Budget
Revenues			
Taxes			
Property taxes	\$ 1,430,913	\$ 1,446,246	\$ 15,333
Licenses and permits			
Business	42,200	44,650	2,450
Nonbusiness	26,800	83,165	56,365
Total licenses and permits	69,000	127,815	58,815
Intergovernmental			
Federal			
Other	-	2,896	2,896
State			
Local government aid	547,724	547,724	-
Fire aid	-	25,329	25,329
Police aid	45,000	63,146	18,146
Other	12,000	34,048	22,048
County			
Recycling grant	15,000	17,733	2,733
Total intergovernmental	619,724	690,876	71,152
Charges for services			
General government	79,600	77,792	(1,808)
Fines and forfeitures	28,000	22,000	(6,000)
Special assessments	-	8,600	8,600
Investment earnings	42,638	45,412	2,774
Miscellaneous			
Other	47,000	44,394	(2,606)
Total Revenues	2,316,875	2,463,135	146,260

City of Lexington, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Continued)
For the Year Ended December 31, 2025

	Budgeted Amounts Original and Final	Actual Amounts	Variance With Final Budget
Expenditures			
Current			
General government			
Mayor and city council			
Personnel services	\$ 42,415	\$ 42,307	\$ 108
Other services and charges	1,780	30	1,750
Total mayor and city council	<u>44,195</u>	<u>42,337</u>	<u>1,858</u>
Administration			
Personnel services	323,738	319,572	4,166
Supplies	4,500	3,496	1,004
Other services and charges	241,161	251,411	(10,250)
Total administration	<u>569,399</u>	<u>574,479</u>	<u>(5,080)</u>
Elections			
Personnel services	7,079	11,820	(4,741)
Other services and charges	600	-	600
Total elections	<u>7,679</u>	<u>11,820</u>	<u>(4,141)</u>
Total general government	<u>621,273</u>	<u>628,636</u>	<u>(7,363)</u>
Public safety			
Police protection and administration			
Other services and charges	<u>1,107,193</u>	<u>1,082,098</u>	<u>25,095</u>
Fire fighting and administration			
Personnel services	212,757	201,151	11,606
Supplies	26,697	21,130	5,567
Other services and charges	80,225	54,370	25,855
Total fire fighting and administration	<u>319,679</u>	<u>276,651</u>	<u>43,028</u>
Building inspection			
Other services and charges	<u>75,000</u>	<u>82,307</u>	<u>(7,307)</u>
Animal control			
Other services and charges	<u>500</u>	<u>-</u>	<u>500</u>
Total public safety	<u>1,502,372</u>	<u>1,441,056</u>	<u>61,316</u>

City of Lexington, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Continued)
For the Year Ended December 31, 2025

	Budgeted Amounts Original and Final	Actual Amounts	Variance With Final Budget
Expenditures (Continued)			
Current (continued)			
Public works			
General public works			
Personnel services	\$ 120,571	\$ 115,503	\$ 5,068
Supplies	56,565	32,894	23,671
Other services and charges	45,543	28,520	17,023
Total general public works	<u>222,679</u>	<u>176,917</u>	<u>45,762</u>
Recycling			
Personnel services	12,859	12,816	43
Supplies	3,500	3,493	7
Other services and charges	15,675	9,436	6,239
Total recycling	<u>32,034</u>	<u>25,745</u>	<u>6,289</u>
Total public works	<u>254,713</u>	<u>202,662</u>	<u>52,051</u>
Culture and recreation			
Parks			
Personnel services	79,539	75,645	3,894
Supplies	12,315	12,042	273
Other services and charges	41,663	35,382	6,281
Total culture and recreation	<u>133,517</u>	<u>123,069</u>	<u>10,448</u>
Total Expenditures	<u>2,511,875</u>	<u>2,395,423</u>	<u>116,452</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(195,000)	67,712	262,712
Other Financing Sources (Uses)			
Transfers in	<u>175,000</u>	<u>175,000</u>	<u>-</u>
Net Change in Fund Balances	(20,000)	242,712	262,712
Fund Balances, January 1	<u>1,720,410</u>	<u>1,720,410</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 1,700,410</u>	<u>\$ 1,963,122</u>	<u>\$ 262,712</u>

City of Lexington, Minnesota

Debt Service Funds

Combining Balance Sheet

December 31, 2025

	591 Improvement Bonds of 2014	592 Improvement Bonds of 2017	Total
Assets			
Cash and temporary investments	\$ 132,171	\$ 352,696	\$ 484,867
Special assessments receivable	17	118,305	118,322
Due from other governments	902	1,501	2,403
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 133,090</u>	<u>\$ 472,502</u>	<u>\$ 605,592</u>
Deferred Inflows of Resources			
Unavailable revenue - special assessments	\$ 17	\$ 118,305	\$ 118,322
	<u> </u>	<u> </u>	<u> </u>
Fund Balances			
Restricted for debt service	133,073	354,197	487,270
	<u> </u>	<u> </u>	<u> </u>
Total Deferred Inflows of Resources and Fund Balances	<u>\$ 133,090</u>	<u>\$ 472,502</u>	<u>\$ 605,592</u>

City of Lexington, Minnesota
Debt Service Funds
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
For the Year Ended December 31, 2025

	591 <u>Improvement</u> <u>Bonds of 2014</u>	592 <u>Improvement</u> <u>Bonds of 2017</u>	<u>Total</u>
Revenues			
Taxes			
Property	\$ 51,800	\$ 85,601	\$ 137,401
Special assessments	10	26,764	26,774
Investment earnings	4,068	11,661	15,729
Total Revenues	<u>55,878</u>	<u>124,026</u>	<u>179,904</u>
Expenditures			
Debt service			
Principal	45,221	80,000	125,221
Interest and other	10,023	23,875	33,898
Total Expenditures	<u>55,244</u>	<u>103,875</u>	<u>159,119</u>
Net Change in Fund Balances	634	20,151	20,785
Fund Balances, January 1	<u>132,439</u>	<u>334,046</u>	<u>466,485</u>
Fund Balances, December 31	<u><u>\$ 133,073</u></u>	<u><u>\$ 354,197</u></u>	<u><u>\$ 487,270</u></u>

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OTHER REQUIRED REPORT

CITY OF LEXINGTON
LEXINGTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council
City of Lexington, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lexington, Minnesota (the City) as of and for the year ended December 31, 2025, and the related notes to the financial statements which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 1, 2026.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

This report is intended solely for the information and use those charged with governance and management of the City and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



Abdo
Minneapolis, Minnesota
June 1, 2026