

ANNUAL FINANCIAL REPORT

CITY OF LEXINGTON
Lexington, Minnesota

FOR THE YEAR ENDED
DECEMBER 31, 2023

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City of Lexington, Minnesota
Annual Financial Report
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For the Year Ended December 31, 2023

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INTRODUCTORY SECTION

CITY OF LEXINGTON
LEXINGTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2023

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City of Lexington, Minnesota
Elected and Appointed Officials
For the Year Ended December 31, 2023

ELECTED

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|---------------|----------------|---------------------|
| Gary Grote | Mayor | 12/31/24 |
| Kim DeVries | Council Member | 12/31/26 |
| Robert Benson | Council Member | 12/31/26 |
| Brandon Winge | Council Member | 12/31/24 |
| Diane Harris | Council Member | 12/31/24 |

APPOINTED

| | |
|---------------|--------------------|
| Bill Petracek | City Administrator |
|---------------|--------------------|

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FINANCIAL SECTION
CITY OF LEXINGTON
LEXINGTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2023

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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, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2023, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General fund 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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, starting on page 78 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
May 8, 2024



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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, 2023.

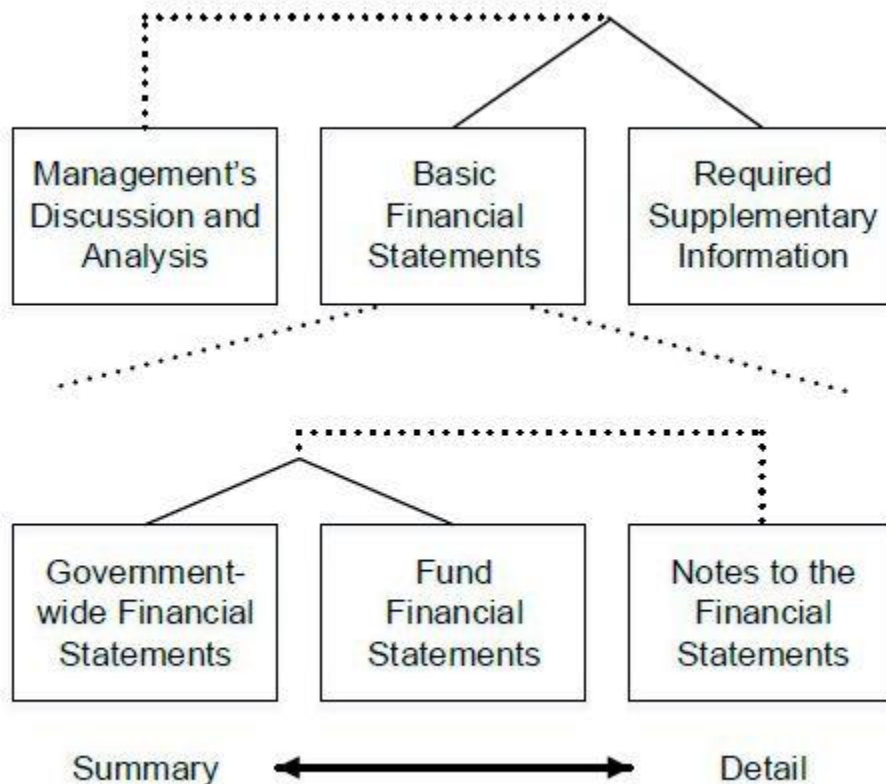
Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year as shown in the summary of net position on the following pages. The unrestricted amount of net position may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased as shown in the summary of changes in net assets table on the following pages. The increase is due to an increase in interest earned on investments and charges for services in the utility funds.
- At the close of the current fiscal year, the City's governmental funds reported an increase to the combined ending fund balances in comparison with the prior year.
- Unassigned fund balance in the General fund as shown in the financial analysis of the city's funds section increased from prior year.
- The City's total bonded debt decreased during the fiscal year. The decrease was a result of scheduled debt service payments as shown on the outstanding debt table.

Overview of the Financial Statements

This discussion and analysis is 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

| | Government-wide Statements | Fund Financial 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 | <ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities | <ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances | <ul style="list-style-type: none"> • 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 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 29 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 government, 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 statement has been provided for the General fund to demonstrate compliance with their budget.

The basic governmental fund financial statements start on page 34 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 40 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 51 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 78 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 84 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at the close of the most recent fiscal year.

A large portion of the City's net position reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Lexington's Summary of Net Position

| | Governmental Activities | | | Business-type Activities | | |
|---|-------------------------|---------------------|------------------------|--------------------------|---------------------|------------------------|
| | 2023 | 2022 | Increase (Decrease) | 2023 | 2022 | Increase (Decrease) |
| Assets | | | | | | |
| Current and other assets | \$ 4,076,095 | \$ 3,972,395 | \$ 103,700 | \$ 3,543,010 | \$ 3,306,600 | \$ 236,410 |
| Capital assets, net of depreciation | 3,476,682 | 3,887,223 | (410,541) | 1,769,512 | 1,529,483 | 240,029 |
| Total Assets | <u>7,552,777</u> | <u>7,859,618</u> | <u>(306,841)</u> | <u>5,312,522</u> | <u>4,836,083</u> | <u>476,439</u> |
| Deferred Outflows of Resources | <u>219,395</u> | <u>135,999</u> | <u>83,396</u> | <u>79,579</u> | <u>136,613</u> | <u>(57,034)</u> |
| Liabilities | | | | | | |
| Noncurrent liabilities outstanding | 1,593,890 | 1,864,427 | (270,537) | 663,227 | 911,348 | (248,121) |
| Other liabilities | <u>173,564</u> | <u>286,046</u> | <u>(112,482)</u> | <u>286,655</u> | <u>113,159</u> | <u>173,496</u> |
| Total Liabilities | <u>1,767,454</u> | <u>2,150,473</u> | <u>(383,019)</u> | <u>949,882</u> | <u>1,024,507</u> | <u>(74,625)</u> |
| Deferred Inflows of Resources | <u>484,797</u> | <u>508,046</u> | <u>(23,249)</u> | <u>111,717</u> | <u>8,984</u> | <u>102,733</u> |
| Net Position | | | | | | |
| Net investment in capital assets | 2,182,264 | 2,459,714 | (277,450) | 1,430,081 | 1,099,384 | 330,697 |
| Restricted | 1,255,312 | 1,248,825 | 6,487 | - | - | - |
| Unrestricted | <u>2,082,345</u> | <u>1,628,559</u> | <u>453,786</u> | <u>2,900,421</u> | <u>2,839,821</u> | <u>60,600</u> |
| Total Net Position | <u>\$ 5,519,921</u> | <u>\$ 5,337,098</u> | <u>\$ 182,823</u> | <u>\$ 4,330,502</u> | <u>\$ 3,939,205</u> | <u>\$ 391,297</u> |
| Net Position as a Percent of Total | | | | | | |
| Net investment in capital assets | 39.6 % | 46.1 % | | 33.0 % | 27.9 % | |
| Restricted | 22.7 | 23.4 | | - | - | |
| Unrestricted | <u>37.7</u> | <u>30.5</u> | | <u>67.0</u> | <u>72.1</u> | |
| | <u>100.0 %</u> | <u>100.0 %</u> | | <u>100.0 %</u> | <u>100.0 %</u> | |

An additional portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the City as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

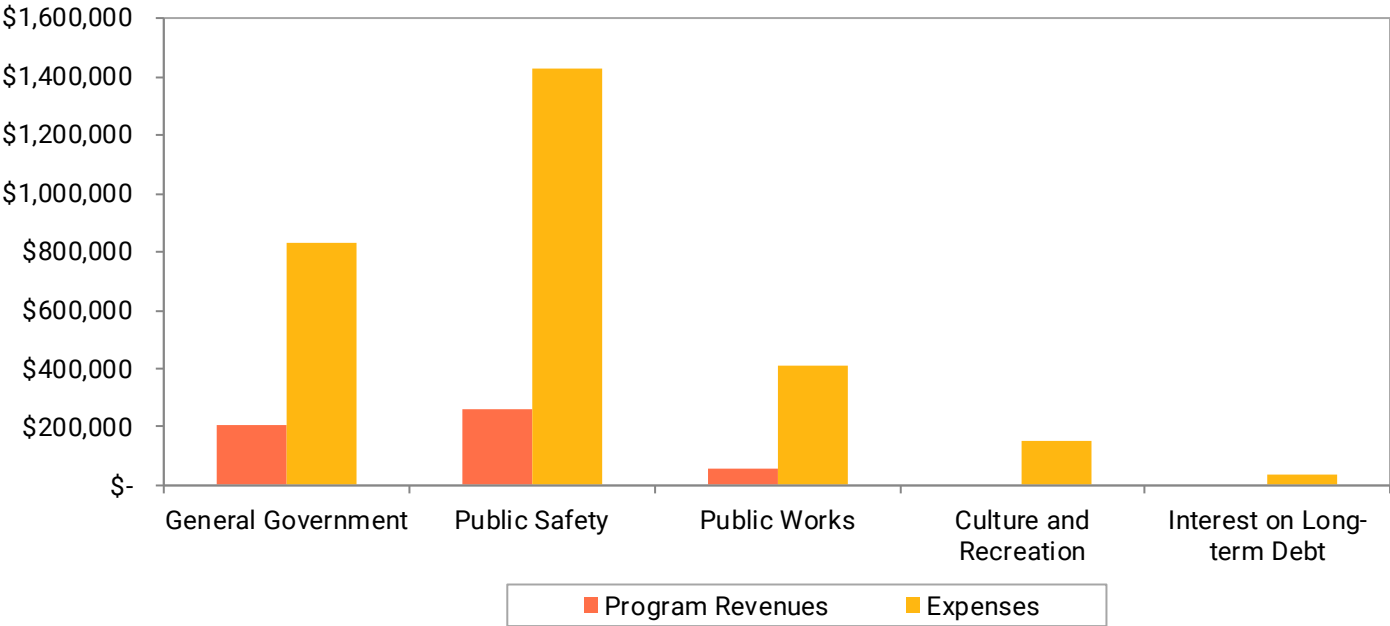
Governmental Activities. Governmental activities increased the City's net position, as shown below. This increase was mainly due to a transfer in from business-type activities.

City of Lexington's Changes in Net Position

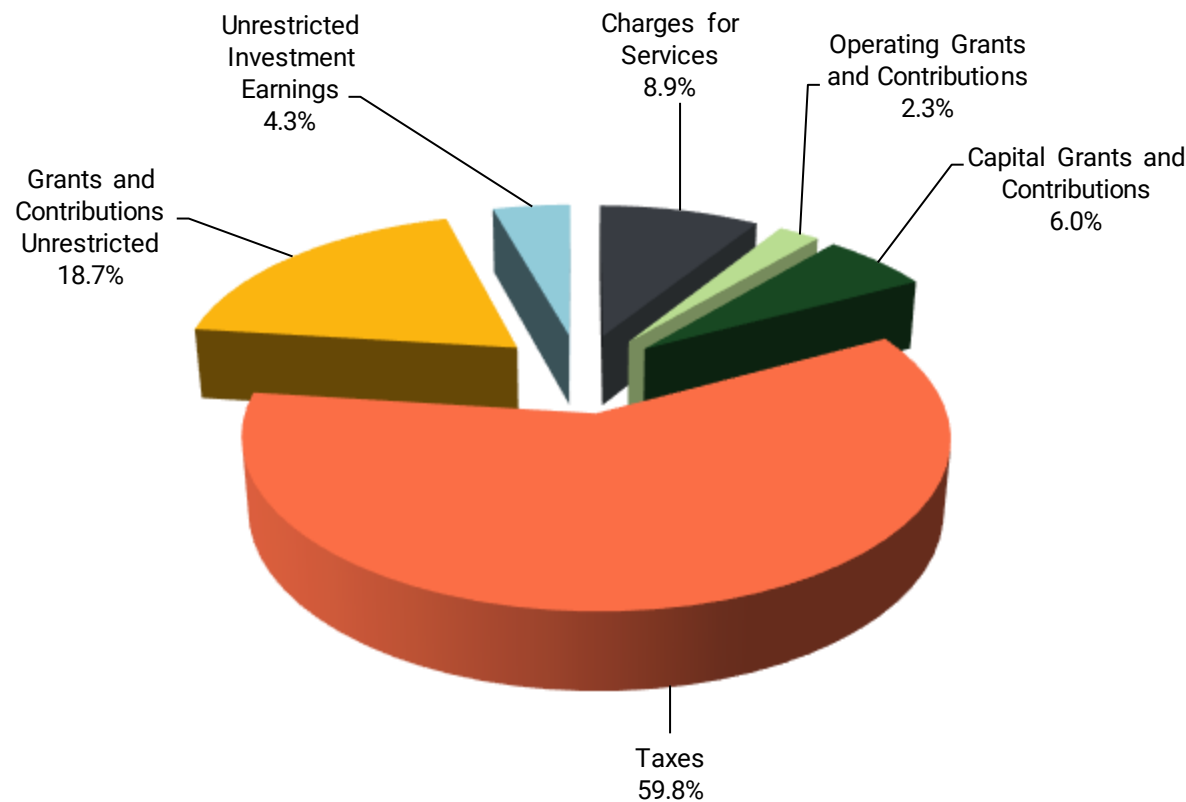
| | Governmental Activities | | | Business-type Activities | | |
|---|-------------------------|---------------------|------------------------|--------------------------|---------------------|------------------------|
| | 2023 | 2022 | Increase (Decrease) | 2023 | 2022 | Increase (Decrease) |
| Revenues | | | | | | |
| Program Revenues | | | | | | |
| Charges for services | \$ 270,953 | \$ 216,201 | \$ 54,752 | \$ 4,290,897 | \$ 4,134,353 | \$ 156,544 |
| Operating grants and contributions | 71,227 | 82,650 | (11,423) | - | 30 | (30) |
| Capital grants and contributions | 181,326 | 206,803 | (25,477) | 300 | 11,092 | (10,792) |
| General Revenues | | | | | | |
| Taxes | | | | | | |
| Property taxes | 1,459,525 | 1,245,922 | 213,603 | 11,789 | 21,069 | (9,280) |
| Tax increments | 169,033 | 279,475 | (110,442) | - | - | - |
| Franchise taxes | 184,285 | 188,290 | (4,005) | - | - | - |
| Grants and contributions not restricted to specific programs | 565,581 | 655,978 | (90,397) | 82,077 | - | 82,077 |
| Unrestricted investment earnings (loss) | 129,804 | 19,457 | 110,347 | 119,860 | 14,017 | 105,843 |
| Gain on sale of capital assets | - | - | - | - | 8,100 | (8,100) |
| Total Revenues | <u>3,031,734</u> | <u>2,894,776</u> | <u>136,958</u> | <u>4,504,923</u> | <u>4,188,661</u> | <u>316,262</u> |
| Expenses | | | | | | |
| General government | 832,247 | 978,953 | (146,706) | - | - | - |
| Public safety | 1,430,461 | 1,257,162 | 173,299 | - | - | - |
| Public works | 409,453 | 473,115 | (63,662) | - | - | - |
| Culture and recreation | 151,053 | 129,925 | 21,128 | - | - | - |
| Interest on long-term debt | 39,713 | 43,254 | (3,541) | - | - | - |
| Water | - | - | - | 245,462 | 213,102 | 32,360 |
| Sewer | - | - | - | 358,092 | 316,708 | 41,384 |
| Municipal liquor | - | - | - | 3,448,278 | 3,326,730 | 121,548 |
| Storm sewer | - | - | - | 47,778 | 74,700 | (26,922) |
| Total Expenses | <u>2,862,927</u> | <u>2,882,409</u> | <u>(19,482)</u> | <u>4,099,610</u> | <u>3,931,240</u> | <u>168,370</u> |
| Change in Net Position Before Transfers | 168,807 | 12,367 | 156,440 | 405,313 | 257,421 | 147,892 |
| Transfers | <u>14,016</u> | <u>275,000</u> | <u>(260,984)</u> | <u>(14,016)</u> | <u>(275,000)</u> | <u>260,984</u> |
| Change in Net Position | 182,823 | 287,367 | (104,544) | 391,297 | (17,579) | 408,876 |
| Net Position, January 1 | <u>5,337,098</u> | <u>5,049,731</u> | <u>287,367</u> | <u>3,939,205</u> | <u>3,956,784</u> | <u>(17,579)</u> |
| Net Position, December 31 | <u>\$ 5,519,921</u> | <u>\$ 5,337,098</u> | <u>\$ 182,823</u> | <u>\$ 4,330,502</u> | <u>\$ 3,939,205</u> | <u>\$ 391,297</u> |

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



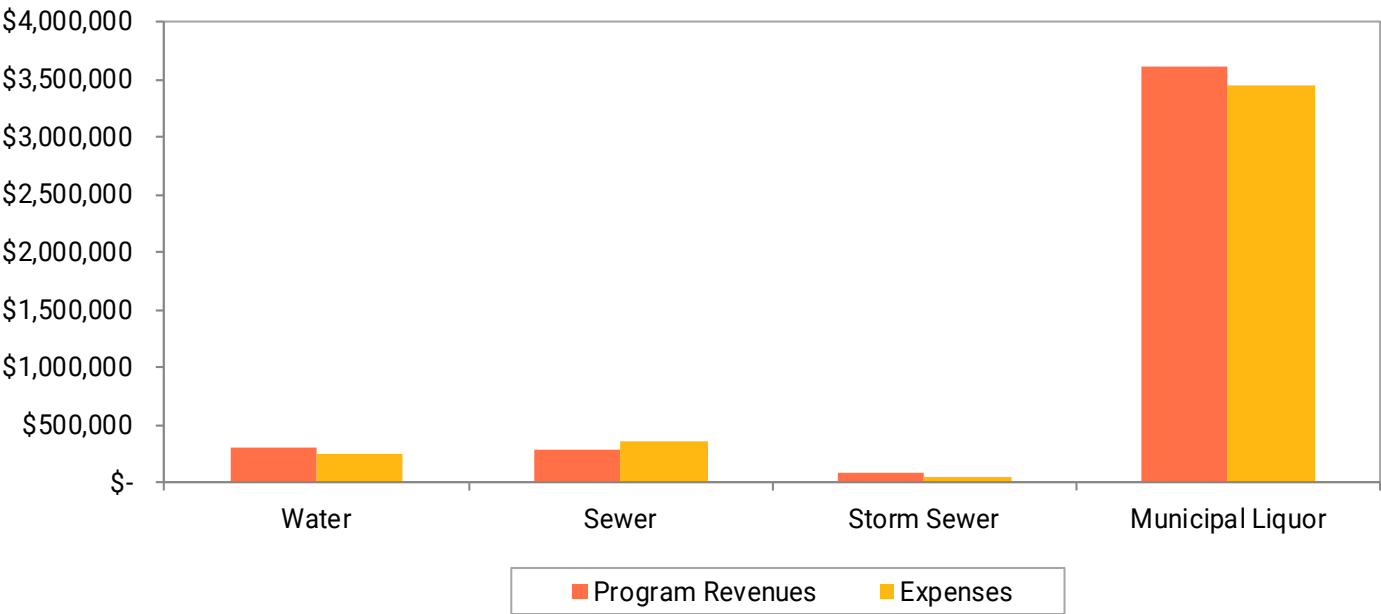
Revenues by Source - Governmental Activities



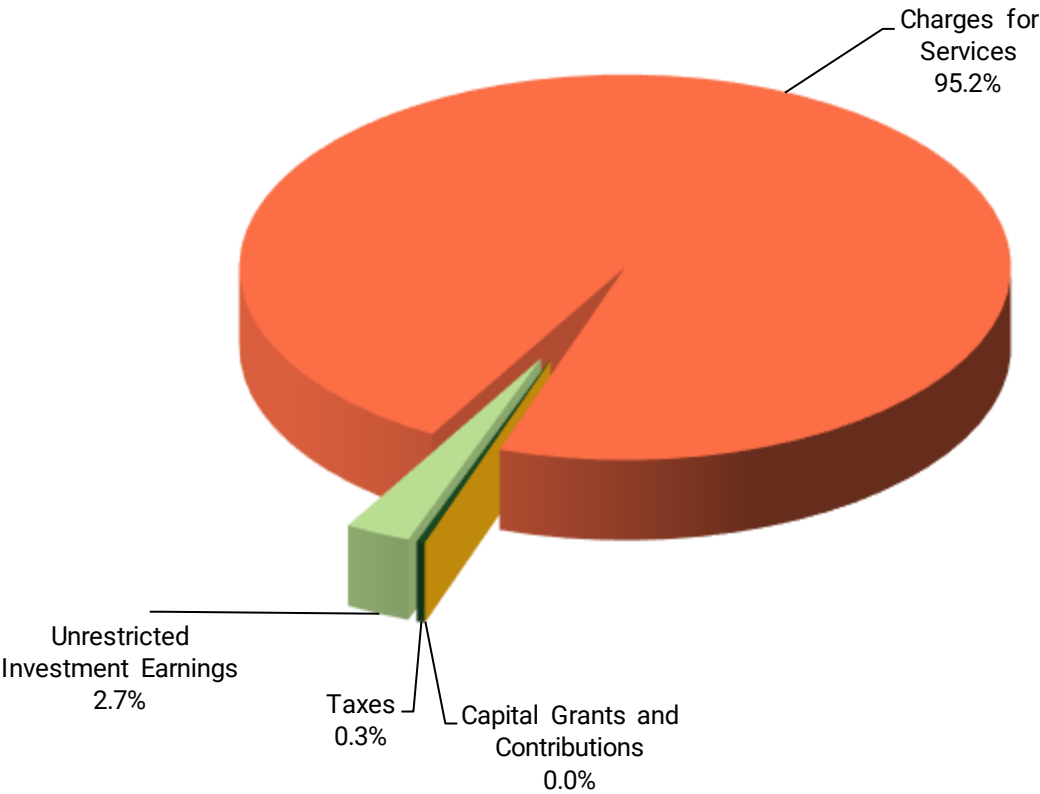
Business-type Activities. Business-type activities decreased the City’s net position, as shown in the changes in net position table.

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, 2023

| | General Fund | Debt Service Fund | Capital Projects | TIF District #1-3 | Other Governmental Funds | Total | Prior Year Total | Increase/ (Decrease) |
|----------------|---------------------|-------------------|---------------------|-----------------------|--------------------------|---------------------|---------------------|----------------------|
| Fund Balances | | | | | | | | |
| Nonspendable | \$ 3,372 | \$ - | \$ 2,132,015 | \$ - | \$ - | \$ 2,135,387 | \$ 2,065,205 | \$ 70,182 |
| Restricted for | - | 453,852 | 546,252 | - | 59,787 | 1,059,891 | 937,985 | 121,906 |
| Assigned for | 257,090 | - | 455,050 | - | 73,354 | 785,494 | 668,137 | 117,357 |
| Unassigned | 1,304,915 | - | - | (2,056,224) | - | (751,309) | (894,644) | 143,335 |
| | <u>\$ 1,565,377</u> | <u>\$ 453,852</u> | <u>\$ 3,133,317</u> | <u>\$ (2,056,224)</u> | <u>\$ 133,141</u> | <u>\$ 3,229,463</u> | <u>\$ 2,776,683</u> | <u>\$ 452,780</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 57 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 | \$ 3,372 | \$ 3,152 | \$ 220 |
| Restricted for | - | 38,741 | (38,741) |
| Assigned for | 257,090 | 257,090 | - |
| Unassigned | <u>1,304,915</u> | <u>1,044,670</u> | <u>260,245</u> |
| | <u>\$ 1,565,377</u> | <u>\$ 1,343,653</u> | <u>\$ 221,724</u> |
| General Fund expenditures | \$ 2,222,284 | \$ 2,047,948 | |
| Unassigned as a percent of expenditures | 58.7% | 51.0% | |
| Total Fund Balance as a percent of expenditures | 70.4% | 65.6% | |

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.

Other major governmental fund analysis is shown below:

| Major Funds | Fund Balance December 31, | | Increase (Decrease) |
|--|----------------------------------|----------------|--------------------------------|
| | 2023 | 2022 | |
| General | \$ 1,565,377 | \$ 1,343,653 | \$ 221,724 |
| The City had a balanced budget. The increase can be attributed to positive budget variances. | | | |
| Debt Service | \$ 453,852 | \$ 422,229 | \$ 31,623 |
| 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 | \$ 3,133,317 | \$ 2,815,235 | \$ 318,082 |
| The increase in the fund balance of the Capital Projects fund was mainly due to franchise fees, intergovernmental revenues, and investment earnings. | | | |
| TIF District #1-3 | \$ (2,056,224) | \$ (1,936,289) | \$ (119,935) |
| This fund is financed with an interfund loan intended to be paid back with future tax increment collections. The decrease is due to interest 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 decreased as follows:

| Major Funds | Net Position December 31, | | Increase (Decrease) |
|--|----------------------------------|--------------|--------------------------------|
| | 2023 | 2022 | |
| Water | \$ 1,248,629 | \$ 915,494 | \$ 333,135 |
| The net position of the water fund increased due to operating revenues exceeding expenses and capital contributions. | | | |
| Sewer | \$ 1,359,165 | \$ 1,379,146 | \$ (19,981) |
| The net position of the Sewer fund decreased due to operating revenues less than expenses. | | | |
| Municipal Liquor | \$ 1,208,542 | \$ 1,212,845 | \$ (4,303) |
| The decrease is due to transfers out. | | | |
| Lovell Building | \$ 612,667 | \$ 584,657 | \$ 28,010 |
| Net position increase for the Lovell Building can be attributed to investment earnings for the year. | | | |

General Fund Budgetary Highlights

| | Original and Final Budgeted Amounts | Actual Amounts | Variance with Final Budget |
|---|---|---------------------|-------------------------------|
| Revenues | \$ 2,109,980 | \$ 2,282,749 | \$ 172,769 |
| Expenditures | <u>2,309,980</u> | <u>2,222,284</u> | <u>87,696</u> |
| Excess of Revenues Over Expenditures | <u>(200,000)</u> | <u>60,465</u> | <u>260,465</u> |
| Other Financing Sources (Uses) | | | |
| Transfers in | 200,000 | 200,000 | - |
| Transfers out | - | (38,741) | (38,741) |
| Total Other Financing Sources (Uses) | <u>200,000</u> | <u>161,259</u> | <u>(38,741)</u> |
| Net Change in Fund Balances | - | 221,724 | 221,724 |
| Fund Balances, January 1 | <u>1,343,653</u> | <u>1,343,653</u> | |
| Fund Balances, December 31 | <u>\$ 1,343,653</u> | <u>\$ 1,565,377</u> | <u>\$ 221,724</u> |

The City's General fund budget was not amended during the year as shown above. Actual revenues were over the final budget and expenditures were under the final budget amounts as shown above.

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, 2023, 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.

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

| | Governmental Activities | | | Business-type Activities | | |
|-----------------------------|-------------------------|---------------------|------------------------|--------------------------|---------------------|------------------------|
| | 2023 | 2022 | Increase (Decrease) | 2023 | 2022 | Increase (Decrease) |
| Land | \$ 63,403 | \$ 63,403 | \$ - | \$ 51,950 | \$ 51,950 | \$ - |
| Construction in Progress | - | 185,984 | (185,984) | - | 6,644 | (6,644) |
| Buildings and Improvements | 1,583,389 | 1,669,689 | (86,300) | 307,455 | 306,608 | 847 |
| Infrastructure | 1,323,415 | 1,393,421 | (70,006) | 1,265,175 | 999,974 | 265,201 |
| Machinery and Equipment | <u>506,475</u> | <u>574,726</u> | <u>(68,251)</u> | <u>144,932</u> | <u>164,307</u> | <u>(19,375)</u> |
| Total | <u>\$ 3,476,682</u> | <u>\$ 3,887,223</u> | <u>\$ (410,541)</u> | <u>\$ 1,769,512</u> | <u>\$ 1,529,483</u> | <u>\$ 240,029</u> |
| Percent increase (decrease) | | | -10.6% | | | 15.7% |

Additional information on the City's capital assets can be found in Note 3C starting on page 61 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 | | |
|-----------------------------|-------------------------|---------------------|------------------------|--------------------------|-------------------|------------------------|
| | 2023 | 2022 | Increase (Decrease) | 2023 | 2022 | Increase (Decrease) |
| G.O. Improvement Bonds | \$ 1,294,418 | \$ 1,427,509 | \$ (133,091) | \$ 84,431 | \$ 95,099 | \$ (10,668) |
| G.O. Utility Revenue Bonds | - | - | - | 255,000 | 335,000 | (80,000) |
| Total | <u>\$ 1,294,418</u> | <u>\$ 1,427,509</u> | <u>\$ (133,091)</u> | <u>\$ 339,431</u> | <u>\$ 430,099</u> | <u>\$ (90,668)</u> |
| Percent increase (decrease) | | | -9.3% | | | -21.1% |

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 63 of this report.

Economic Factors and Next Year's Budgets and Rates

Economic factors affect the preparation of annual budgets. Properties, and their taxable market value, continued to increase in 2023 and are predicted to increase in 2024. 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 our 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, 2023

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City of Lexington, Minnesota

Statement of Net Position

December 31, 2023

| | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|---------------------|
| Assets | | | |
| Cash and temporary investments | \$ 3,273,316 | \$ 2,669,533 | \$ 5,942,849 |
| Receivables | | | |
| Accounts | 61,986 | 225,928 | 287,914 |
| Accrued interest | 8,168 | - | 8,168 |
| Taxes | 15,424 | - | 15,424 |
| Special assessments | 252,282 | 32,075 | 284,357 |
| Lease | 379,539 | - | 379,539 |
| Due from other governments | 25,676 | - | 25,676 |
| Inventories | - | 614,104 | 614,104 |
| Prepaid items | 3,372 | 1,370 | 4,742 |
| Net pension asset | 56,332 | - | 56,332 |
| Capital assets | | | |
| Land and construction in progress | 63,403 | 51,950 | 115,353 |
| Depreciable assets (net of accumulated depreciation) | 3,413,279 | 1,717,562 | 5,130,841 |
| Total Assets | <u>7,552,777</u> | <u>5,312,522</u> | <u>12,865,299</u> |
| Deferred Outflows of Resources | | | |
| Deferred pension resources | <u>219,395</u> | <u>79,579</u> | <u>298,974</u> |
| Liabilities | | | |
| Accounts payable | 120,673 | 223,284 | 343,957 |
| Accrued salaries payable | 36,968 | 15,397 | 52,365 |
| Due to other governments | - | 43,164 | 43,164 |
| Accrued interest payable | 15,923 | 4,810 | 20,733 |
| Noncurrent liabilities | | | |
| Due within one year | | | |
| Long-term liabilities | 181,364 | 111,563 | 292,927 |
| Due in more than one year | | | |
| Long-term liabilities | 1,161,237 | 243,763 | 1,405,000 |
| Net pension liability | 251,289 | 307,901 | 559,190 |
| Total Liabilities | <u>1,767,454</u> | <u>949,882</u> | <u>2,717,336</u> |
| Deferred Inflows of Resources | | | |
| Deferred pension resources | 119,844 | 111,717 | 231,561 |
| Deferred lease resources | 364,953 | - | 364,953 |
| Total Deferred Inflows of Resources | <u>484,797</u> | <u>111,717</u> | <u>596,514</u> |
| Net investment in capital assets | 2,182,264 | 1,430,081 | 3,612,345 |
| Restricted for | | | |
| Debt service | 592,941 | - | 592,941 |
| Fire relief pension | 56,332 | - | 56,332 |
| Fire equipment | 483,137 | - | 483,137 |
| Cable TV equipment | 24,374 | - | 24,374 |
| Parks | 59,787 | - | 59,787 |
| Small cities assistance | 38,741 | - | 38,741 |
| Unrestricted | <u>2,082,345</u> | <u>2,900,421</u> | <u>4,982,766</u> |
| Total Net Position | <u>\$ 5,519,921</u> | <u>\$ 4,330,502</u> | <u>\$ 9,850,423</u> |

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, 2023

| Functions/Programs | Expenses | Program Revenues | | |
|---------------------------------|---------------------|-------------------------|--|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental Activities | | | | |
| General government | \$ 832,247 | \$ 207,363 | \$ - | \$ - |
| Public safety | 1,430,461 | 63,590 | 56,672 | 141,102 |
| Public works | 409,453 | - | 14,555 | 40,224 |
| Culture and recreation | 151,053 | - | - | - |
| Interest on long-term debt | 39,713 | - | - | - |
| Total Governmental Activities | <u>2,862,927</u> | <u>270,953</u> | <u>71,227</u> | <u>181,326</u> |
| Business-type Activities | | | | |
| Water | 245,462 | 293,082 | - | 300 |
| Sewer | 358,092 | 288,003 | - | - |
| Municipal liquor | 3,448,278 | 3,619,387 | - | - |
| Storm sewer | 47,778 | 90,425 | - | - |
| Total Business-type Activities | <u>4,099,610</u> | <u>4,290,897</u> | <u>-</u> | <u>300</u> |
| Total | <u>\$ 6,962,537</u> | <u>\$ 4,561,850</u> | <u>\$ 71,227</u> | <u>\$ 181,626</u> |

General Revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for debt service

Tax increments

Franchise taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Transfers

Transfers - contribution of capital assets

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 |
|----------------------------|-----------------------------|---------------------|
| \$ (624,884) | \$ - | \$ (624,884) |
| (1,169,097) | - | (1,169,097) |
| (354,674) | - | (354,674) |
| (151,053) | - | (151,053) |
| (39,713) | - | (39,713) |
| <u>(2,339,421)</u> | <u>-</u> | <u>(2,339,421)</u> |
| - | 47,920 | 47,920 |
| - | (70,089) | (70,089) |
| - | 171,109 | 171,109 |
| - | 42,647 | 42,647 |
| <u>-</u> | <u>191,587</u> | <u>191,587</u> |
| <u>(2,339,421)</u> | <u>191,587</u> | <u>(2,147,834)</u> |
| 1,323,939 | 11,789 | 1,335,728 |
| 135,586 | - | 135,586 |
| 169,033 | - | 169,033 |
| 184,285 | - | 184,285 |
| 565,581 | 82,077 | 647,658 |
| 129,804 | 119,860 | 249,664 |
| 200,000 | (200,000) | - |
| (185,984) | 185,984 | - |
| <u>2,522,244</u> | <u>199,710</u> | <u>2,721,954</u> |
| 182,823 | 391,297 | 574,120 |
| <u>5,337,098</u> | <u>3,939,205</u> | <u>9,276,303</u> |
| <u>\$ 5,519,921</u> | <u>\$ 4,330,502</u> | <u>\$ 9,850,423</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, 2023

City of Lexington, Minnesota

Balance Sheet
Governmental Funds
December 31, 2023

| | 101 | 500's | 310 | 320 | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|-------------------|---------------------|----------------------|--------------------------------|--------------------------------|
| | General | Debt Service | Capital Projects | TIF District #1-3 | | |
| Assets | | | | | | |
| Cash and temporary investments | \$ 1,638,424 | \$ 452,469 | \$ 956,203 | \$ 75,791 | \$ 150,429 | \$ 3,273,316 |
| Receivables | | | | | | |
| Accounts | 4,611 | - | 57,375 | - | - | 61,986 |
| Accrued interest | 8,168 | - | - | - | - | 8,168 |
| Taxes | 15,424 | - | - | - | - | 15,424 |
| Special assessments | - | 155,012 | 49,587 | - | 47,683 | 252,282 |
| Lease | 379,539 | - | - | - | - | 379,539 |
| Due from other governments | 24,293 | 1,383 | - | - | - | 25,676 |
| Advance to other funds | - | - | 2,132,015 | - | - | 2,132,015 |
| Prepaid items | 3,372 | - | - | - | - | 3,372 |
| Total Assets | \$ 2,073,831 | \$ 608,864 | \$ 3,195,180 | \$ 75,791 | \$ 198,112 | \$ 6,151,778 |
| Liabilities | | | | | | |
| Accounts payable | \$ 91,109 | \$ - | \$ 12,276 | \$ - | \$ 17,288 | \$ 120,673 |
| Accrued salaries payable | 36,968 | - | - | - | - | 36,968 |
| Advance from other funds | - | - | - | 2,132,015 | - | 2,132,015 |
| Total Liabilities | 128,077 | - | 12,276 | 2,132,015 | 17,288 | 2,289,656 |
| Deferred Inflows of Resources | | | | | | |
| Unavailable revenue - delinquent taxes | 15,424 | - | - | - | - | 15,424 |
| Unavailable revenue - special assessments | - | 155,012 | 49,587 | - | 47,683 | 252,282 |
| Deferred lease resources | 364,953 | - | - | - | - | 364,953 |
| Total Deferred Inflows of Resources | 380,377 | 155,012 | 49,587 | - | 47,683 | 632,659 |
| Fund Balances | | | | | | |
| Nonspendable | | | | | | |
| Advance to other funds | - | - | 2,132,015 | - | - | 2,132,015 |
| Prepaid items | 3,372 | - | - | - | - | 3,372 |
| Restricted for | | | | | | |
| Debt service | - | 453,852 | - | - | - | 453,852 |
| Fire equipment | - | - | 483,137 | - | - | 483,137 |
| Cable TV equipment | - | - | 24,374 | - | - | 24,374 |
| Parks | - | - | - | - | 59,787 | 59,787 |
| Small cities assistance | - | - | 38,741 | - | - | 38,741 |
| Assigned to | | | | | | |
| Future capital | 257,090 | - | 455,050 | - | 73,354 | 785,494 |
| Unassigned | 1,304,915 | - | - | (2,056,224) | - | (751,309) |
| Total Fund Balances | 1,565,377 | 453,852 | 3,133,317 | (2,056,224) | 133,141 | 3,229,463 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | \$ 2,073,831 | \$ 608,864 | \$ 3,195,180 | \$ 75,791 | \$ 198,112 | \$ 6,151,778 |

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, 2023

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

| | |
|--|----------------------------|
| Total Fund Balances - Governmental Funds | \$ 3,229,463 |
| Capital assets used in governmental activities are not financial resources, and therefore are not reported as assets in governmental funds. | |
| Cost of capital assets | 7,431,430 |
| Less accumulated depreciation | (3,954,748) |
| 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 | 56,332 |
| 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 | (48,183) |
| Net pension liability | (251,289) |
| Bonds payable | (1,294,418) |
| 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 | 15,424 |
| Special assessments receivable | 252,282 |
| Governmental funds do not report a liability for accrued interest until due and payable. | (15,923) |
| Governmental funds do not report long-term amounts related to pensions. | |
| Deferred outflows of pension resources | 219,395 |
| Deferred inflows of pension resources | (119,844) |
| Total Net Position - Governmental Activities | <u><u>\$ 5,519,921</u></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, 2023

| | 101 | 500's | 310 | 320 | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|-------------------|---------------------|-----------------------|--------------------------------|--------------------------------|
| | General | Debt Service | Capital Projects | TIF District #1-3 | | |
| Revenues | | | | | | |
| Taxes | | | | | | |
| Property taxes | \$ 1,329,500 | \$ 135,586 | \$ - | \$ - | \$ - | \$ 1,465,086 |
| Tax increments | - | - | - | 169,033 | - | 169,033 |
| Franchise taxes | - | 4,107 | 180,178 | - | - | 184,285 |
| Licenses and permits | 110,057 | - | - | - | - | 110,057 |
| Intergovernmental | 636,775 | - | 130,000 | - | - | 766,775 |
| Charges for services | 74,405 | - | 2,217 | - | - | 76,622 |
| Fines and forfeitures | 26,671 | - | - | - | - | 26,671 |
| Special assessments | - | 50,436 | 11,102 | - | 19,973 | 81,511 |
| Investment earnings | 57,787 | 15,709 | 129,659 | 436 | 8,695 | 212,286 |
| Miscellaneous | 47,554 | - | 10,049 | - | - | 57,603 |
| Total Revenues | <u>2,282,749</u> | <u>205,838</u> | <u>463,205</u> | <u>169,469</u> | <u>28,668</u> | <u>3,149,929</u> |
| Expenditures | | | | | | |
| Current | | | | | | |
| General government | 564,223 | - | - | 206,922 | - | 771,145 |
| Public safety | 1,346,820 | - | - | - | - | 1,346,820 |
| Public works | 207,077 | - | - | - | - | 207,077 |
| Culture and recreation | 104,164 | - | - | - | - | 104,164 |
| Capital outlay | | | | | | |
| General government | - | - | 14,778 | - | - | 14,778 |
| Public safety | - | - | 12,276 | - | - | 12,276 |
| Public works | - | - | 26,570 | - | 109,113 | 135,683 |
| Culture and recreation | - | - | 26,240 | - | 22,269 | 48,509 |
| Debt service | | | | | | |
| Principal | - | 133,091 | - | - | - | 133,091 |
| Interest and other | - | 41,124 | - | 82,482 | - | 123,606 |
| Total Expenditures | <u>2,222,284</u> | <u>174,215</u> | <u>79,864</u> | <u>289,404</u> | <u>131,382</u> | <u>2,897,149</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>60,465</u> | <u>31,623</u> | <u>383,341</u> | <u>(119,935)</u> | <u>(102,714)</u> | <u>252,780</u> |
| Other Financing Sources (Uses) | | | | | | |
| Transfers in | 200,000 | - | 38,741 | - | 104,000 | 342,741 |
| Transfers out | (38,741) | - | (104,000) | - | - | (142,741) |
| Total Other Financing Sources (Uses) | <u>161,259</u> | <u>-</u> | <u>(65,259)</u> | <u>-</u> | <u>104,000</u> | <u>200,000</u> |
| Net Change in Fund Balances | 221,724 | 31,623 | 318,082 | (119,935) | 1,286 | 452,780 |
| Fund Balances, January 1 | <u>1,343,653</u> | <u>422,229</u> | <u>2,815,235</u> | <u>(1,936,289)</u> | <u>131,855</u> | <u>2,776,683</u> |
| Fund Balances, December 31 | <u>\$ 1,565,377</u> | <u>\$ 453,852</u> | <u>\$ 3,133,317</u> | <u>\$ (2,056,224)</u> | <u>\$ 133,141</u> | <u>\$ 3,229,463</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, 2023

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

| | |
|---|-------------------|
| Total Net Change in Fund Balances - Governmental Funds | \$ 452,780 |
| 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 | 85,391 |
| Capital assets contributed to other funds | (185,984) |
| Depreciation expense | (309,949) |
| 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 | 133,091 |
| 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. | 1,411 |
| Long-term pension activity is not reported in governmental funds. | |
| Pension expense | 51,184 |
| Pension revenue from state contributions | 33 |
| 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 | (30,185) |
| Property taxes | (5,561) |
| 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 | (9,388) |
| Change in Net Position - Governmental Activities | <u>\$ 182,823</u> |

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

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City of Lexington, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
General Fund
For the Year Ended December 31, 2023

| | Budgeted Amounts | | Actual | Variance with |
|--|---------------------|---------------------|---------------------|-------------------|
| | Original | Final | Amounts | Final Budget |
| Revenues | | | | |
| Taxes | \$ 1,323,157 | \$ 1,323,157 | \$ 1,329,500 | \$ 6,343 |
| Licenses and permits | 89,200 | 89,200 | 110,057 | 20,857 |
| Intergovernmental | 548,367 | 548,367 | 636,775 | 88,408 |
| Charges for services | 79,150 | 79,150 | 74,405 | (4,745) |
| Fines and forfeitures | 18,000 | 18,000 | 26,671 | 8,671 |
| Interest on investments | 5,106 | 5,106 | 57,787 | 52,681 |
| Miscellaneous | 47,000 | 47,000 | 47,554 | 554 |
| Total Revenues | <u>2,109,980</u> | <u>2,109,980</u> | <u>2,282,749</u> | <u>172,769</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | 567,292 | 567,292 | 564,223 | 3,069 |
| Public safety | 1,397,677 | 1,397,677 | 1,346,820 | 50,857 |
| Public works | 230,435 | 230,435 | 207,077 | 23,358 |
| Culture and recreation | 114,576 | 114,576 | 104,164 | 10,412 |
| Total Expenditures | <u>2,309,980</u> | <u>2,309,980</u> | <u>2,222,284</u> | <u>87,696</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(200,000)</u> | <u>(200,000)</u> | <u>60,465</u> | <u>260,465</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 200,000 | 200,000 | 200,000 | - |
| Transfers out | - | - | (38,741) | (38,741) |
| Total Other Financing Sources (Uses) | <u>200,000</u> | <u>200,000</u> | <u>161,259</u> | <u>(38,741)</u> |
| Net Change in Fund Balances | - | - | 221,724 | 221,724 |
| Fund Balances, January 1 | <u>1,343,653</u> | <u>1,343,653</u> | <u>1,343,653</u> | <u>-</u> |
| Fund Balances, December 31 | <u>\$ 1,343,653</u> | <u>\$ 1,343,653</u> | <u>\$ 1,565,377</u> | <u>\$ 221,724</u> |

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

City of Lexington, Minnesota
Statement of Net Position (Continued on the Following Pages)
Proprietary Funds
December 31, 2023

| | Business-type Activities - Enterprise Funds | | |
|--|---|------------------|---------------------|
| | Water | Sewer | Municipal Liquor |
| Assets | | | |
| Current Assets | | | |
| Cash and temporary investments | \$ 420,648 | \$ 1,096,294 | \$ 635,588 |
| Receivables | | | |
| Accounts | 70,829 | 73,124 | 56,533 |
| Special assessments | 15,484 | 12,760 | - |
| Inventories | - | - | 614,104 |
| Prepaid items | - | - | 1,370 |
| Total Current Assets | <u>506,961</u> | <u>1,182,178</u> | <u>1,307,595</u> |
| Noncurrent Assets | | | |
| Capital assets | | | |
| Land | - | - | 51,950 |
| Buildings and improvements | - | - | 998,271 |
| Infrastructure | 1,729,916 | 1,391,550 | - |
| Machinery and equipment | 85,196 | 143,960 | 213,207 |
| Less accumulated depreciation | (914,200) | (1,144,627) | (854,918) |
| Total Capital Assets (Net of Accumulated Depreciation) | <u>900,912</u> | <u>390,883</u> | <u>408,510</u> |
| Total Assets | <u>1,407,873</u> | <u>1,573,061</u> | <u>1,716,105</u> |
| Deferred Outflows of Resources | | | |
| Deferred pension resources | <u>9,380</u> | <u>8,466</u> | <u>59,531</u> |
| Liabilities | | | |
| Current Liabilities | | | |
| Accounts payable | 19,799 | 7,267 | 189,680 |
| Accrued salaries payable | - | - | 15,397 |
| Due to other governments | 4,101 | - | 39,063 |
| Accrued interest payable | 1,375 | 2,520 | - |
| Compensated absences payable - current | - | - | 15,895 |
| Bonds payable - current | 30,000 | 55,000 | - |
| Total Current Liabilities | <u>55,275</u> | <u>64,787</u> | <u>260,035</u> |

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

Business-type Activities - Enterprise Funds

| <u>Lovell Building</u> | <u>Nonmajor Storm Sewer</u> | <u>Total</u> |
|------------------------|---------------------------------|------------------|
| \$ 612,667 | \$ (95,664) | \$ 2,669,533 |
| - | 25,442 | 225,928 |
| - | 3,831 | 32,075 |
| - | - | 614,104 |
| - | - | 1,370 |
| <u>612,667</u> | <u>(66,391)</u> | <u>3,543,010</u> |
| - | - | 51,950 |
| - | - | 998,271 |
| - | 98,871 | 3,220,337 |
| - | - | 442,363 |
| - | (29,664) | (2,943,409) |
| <u>-</u> | <u>69,207</u> | <u>1,769,512</u> |
| <u>612,667</u> | <u>2,816</u> | <u>5,312,522</u> |
| - | 2,202 | 79,579 |
| - | 6,538 | 223,284 |
| - | - | 15,397 |
| - | - | 43,164 |
| - | 915 | 4,810 |
| - | - | 15,895 |
| - | 10,668 | 95,668 |
| <u>-</u> | <u>18,121</u> | <u>398,218</u> |

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

City of Lexington, Minnesota
Statement of Net Position (Continued)
Proprietary Funds
December 31, 2023

| | Business-type Activities - Enterprise Funds | | |
|----------------------------------|---|--------------------------------|--------------------------------|
| | Water | Sewer | Municipal Liquor |
| Noncurrent Liabilities | | | |
| Bonds payable | \$ 60,000 | \$ 110,000 | \$ - |
| Net pension liability | 39,396 | 35,044 | 225,103 |
| Total Noncurrent Liabilities | <u>99,396</u> | <u>145,044</u> | <u>225,103</u> |
| Total Liabilities | <u>154,671</u> | <u>209,831</u> | <u>485,138</u> |
| Deferred Inflows of Resources | | | |
| Deferred pension resources | <u>13,953</u> | <u>12,531</u> | <u>81,956</u> |
| Net Position | | | |
| Net investment in capital assets | 810,912 | 225,883 | 408,510 |
| Unrestricted | <u>437,717</u> | <u>1,133,282</u> | <u>800,032</u> |
| Total Net Position | <u><u>\$ 1,248,629</u></u> | <u><u>\$ 1,359,165</u></u> | <u><u>\$ 1,208,542</u></u> |

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

Business-type Activities - Enterprise Funds

| <u>Lovell Building</u> | <u>Nonmajor Storm Sewer</u> | <u>Total</u> |
|------------------------|---------------------------------|---------------------|
| \$ - | \$ 73,763 | \$ 243,763 |
| - | 8,358 | 307,901 |
| - | 82,121 | 551,664 |
| - | 100,242 | 949,882 |
| - | 3,277 | 111,717 |
| - | (15,224) | 1,430,081 |
| 612,667 | (83,277) | 2,900,421 |
| <u>\$ 612,667</u> | <u>\$ (98,501)</u> | <u>\$ 4,330,502</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, 2023

| | Business-type Activities - Enterprise Funds | | |
|--|---|--------------|---------------------|
| | Water | Sewer | Municipal Liquor |
| Operating Revenues | | | |
| Sales | \$ - | \$ - | \$ 3,619,387 |
| Cost of sales | - | - | (2,701,973) |
| Gross Profit | - | - | 917,414 |
| Charges for services | 293,082 | 288,003 | - |
| Total Operating Revenues | 293,082 | 288,003 | 917,414 |
| Operating Expenses | | | |
| Personnel services | 90,920 | 82,117 | 535,059 |
| Supplies | 7,675 | 2,799 | 4,685 |
| Other services and charges | 89,396 | 210,594 | 152,618 |
| Depreciation | 53,854 | 56,041 | 51,313 |
| Total Operating Expenses | 241,845 | 351,551 | 743,675 |
| Operating Income (Loss) | 51,237 | (63,548) | 173,739 |
| Nonoperating Revenues (Expenses) | | | |
| Investment earnings | 17,154 | 50,108 | 24,588 |
| Intergovernmental | 82,077 | - | - |
| Loss on sale of capital assets | - | - | (2,630) |
| Property taxes | - | - | - |
| Interest expense | (3,617) | (6,541) | - |
| Total Nonoperating Revenues (Expenses) | 95,614 | 43,567 | 21,958 |
| Income (Loss) Before Contributions and Transfers | 146,851 | (19,981) | 195,697 |
| Capital Contributions From Other Funds | 185,984 | - | - |
| Capital Contributions | 300 | - | - |
| Transfers Out | - | - | (200,000) |
| Change in Net Position | 333,135 | (19,981) | (4,303) |
| Net Position, January 1 | 915,494 | 1,379,146 | 1,212,845 |
| Net Position, December 31 | \$ 1,248,629 | \$ 1,359,165 | \$ 1,208,542 |

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

Business-type Activities - Enterprise Funds

| <u>Lovell Building</u> | <u>Nonmajor Storm Sewer</u> | <u>Total</u> |
|------------------------|---------------------------------|---------------------|
| \$ - | \$ - | \$ 3,619,387 |
| - | - | (2,701,973) |
| - | - | 917,414 |
| - | 90,425 | 671,510 |
| - | 90,425 | 1,588,924 |
| - | 20,960 | 729,056 |
| - | 1,170 | 16,329 |
| - | 20,746 | 473,354 |
| - | 2,472 | 163,680 |
| - | 45,348 | 1,382,419 |
| - | 45,077 | 206,505 |
| 28,010 | - | 119,860 |
| - | - | 82,077 |
| - | - | (2,630) |
| - | 11,789 | 11,789 |
| - | (2,430) | (12,588) |
| 28,010 | 9,359 | 198,508 |
| 28,010 | 54,436 | 405,013 |
| - | - | 185,984 |
| - | - | 300 |
| - | - | (200,000) |
| 28,010 | 54,436 | 391,297 |
| 584,657 | (152,937) | 3,939,205 |
| <u>\$ 612,667</u> | <u>\$ (98,501)</u> | <u>\$ 4,330,502</u> |

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

City of Lexington, Minnesota
Statement of Cash Flows (Continued on the Following Pages)
Proprietary Funds
For the Year Ended December 31, 2023

| | Business-type Activities - Enterprise Funds | | |
|---|---|--------------|---------------------|
| | Water | Sewer | Municipal Liquor |
| Cash Flows from Operating Activities | | | |
| Receipts from customers and users | \$ 290,994 | \$ 284,879 | \$ 3,605,851 |
| Payments to suppliers | (81,302) | (209,951) | (2,802,049) |
| Payments to employees | (90,604) | (81,830) | (532,507) |
| Net Cash Provided (Used) by Operating Activities | 119,088 | (6,902) | 271,295 |
| Cash Flows from Noncapital Financing Activities | | | |
| Intergovernmental receipts | 82,077 | - | - |
| Transfers to other funds | - | - | (200,000) |
| Net Cash Used by Noncapital Financing Activities | 82,077 | - | (200,000) |
| Cash Flows from Capital and Related Financing Activities | | | |
| Acquisition of capital assets | (115,378) | (68,793) | (36,184) |
| Property taxes | - | - | - |
| Capital contributions | 300 | - | - |
| Principal paid on long-term debt | (30,000) | (50,000) | - |
| Interest paid on long-term debt | (4,055) | (7,270) | - |
| Net Cash Provided (Used) by Capital and Related Financing Activities | (149,133) | (126,063) | (36,184) |
| Cash Flows from Investing Activities | | | |
| Interest received on investments | 17,154 | 50,108 | 24,588 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 69,186 | (82,857) | 59,699 |
| Cash and Cash Equivalents, January 1 | 351,462 | 1,179,151 | 575,889 |
| Cash and Cash Equivalents, December 31 | \$ 420,648 | \$ 1,096,294 | \$ 635,588 |

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

Business-type Activities - Enterprise Funds

| <u>Lovell Building</u> | <u>Nonmajor Storm Sewer</u> | <u>Total</u> |
|------------------------|---------------------------------|---------------------|
| \$ 3,788 | \$ 78,105 | \$ 4,263,617 |
| - | (15,917) | (3,109,219) |
| - | (20,886) | (725,827) |
| <u>3,788</u> | <u>41,302</u> | <u>428,571</u> |
| - | - | 82,077 |
| - | - | (200,000) |
| - | - | (117,923) |
| - | - | (220,355) |
| - | 11,789 | 11,789 |
| - | - | 300 |
| - | (10,668) | (90,668) |
| - | (2,616) | (13,941) |
| - | (1,495) | (312,875) |
| <u>28,010</u> | <u>-</u> | <u>119,860</u> |
| 31,798 | 39,807 | 117,633 |
| <u>580,869</u> | <u>(135,471)</u> | <u>2,551,900</u> |
| <u>\$ 612,667</u> | <u>\$ (95,664)</u> | <u>\$ 2,669,533</u> |

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

City of Lexington, Minnesota
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended December 31, 2023

| | Business-type Activities - Enterprise Funds | | |
|---|---|-------------------|---------------------|
| | Water | Sewer | Municipal Liquor |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | | | |
| Operating income (loss) | \$ 51,237 | \$ (63,548) | \$ 173,739 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities | | | |
| Depreciation | 53,854 | 56,041 | 51,313 |
| (Increase) decrease in assets | | | |
| Accounts receivable | (2,526) | (2,793) | (13,536) |
| Special assessments receivable | 438 | (331) | - |
| Inventories | - | - | (87,709) |
| (Increase) decrease in deferred outflows of resources | | | |
| Deferred pension resources | 7,222 | 6,515 | 41,615 |
| Increase (decrease) in liabilities | | | |
| Accounts payable | 12,993 | 3,442 | 143,102 |
| Due to other governments | 2,776 | - | 1,834 |
| Accrued salaries payable | - | - | 915 |
| Deposits payable | - | - | - |
| Compensated absences payable | - | - | (193) |
| Net pension liability | (19,915) | (17,963) | (114,745) |
| Decrease in deferred inflows of resources | | | |
| Deferred pension resources | 13,009 | 11,735 | 74,960 |
| Net Cash Provided (Used) By Operating Activities | <u>\$ 119,088</u> | <u>\$ (6,902)</u> | <u>\$ 271,295</u> |
| Schedule of Noncash Capital and Related Financing Activities | | | |
| Capital assets contributed by other funds | <u>\$ 185,984</u> | <u>\$ -</u> | <u>\$ -</u> |
| Net book value on disposal of capital assets | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (2,630)</u> |

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

Business-type Activities - Enterprise Funds

| <u>Lovell Building</u> | <u>Nonmajor Storm Sewer</u> | <u>Total</u> |
|------------------------|---------------------------------|-------------------|
| \$ - | \$ 45,077 | \$ 206,505 |
| - | 2,472 | 163,680 |
| - | (12,518) | (31,373) |
| - | 198 | 305 |
| - | - | (87,709) |
| - | 1,682 | 57,034 |
| - | 5,999 | 165,536 |
| - | - | 4,610 |
| - | - | 915 |
| 3,788 | - | 3,788 |
| - | - | (193) |
| - | (4,637) | (157,260) |
| <u>-</u> | <u>3,029</u> | <u>102,733</u> |
| <u>\$ 3,788</u> | <u>\$ 41,302</u> | <u>\$ 428,571</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 185,984</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ (2,630)</u> |

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

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City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2023

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, 2023

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, entitlement 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, 2023

Note 1: Summary of Significant Accounting Policies (Continued)

The City has the following recurring fair value measurements as of December 31, 2023:

- Negotiable certificates of deposits of \$1,445,000 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 contracting RBC Global Management at 100 South Fifth Street, Suite 2300, Minneapolis, MN 55402-1240.

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 2023. 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, 2023

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, 2023

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 | \$ 67,506 | \$ (37,657) | \$ 29,849 |
| Proportionate share of State's contribution | 69 | - | 69 |
| Total pension expense | <u>\$ 67,575</u> | <u>\$ (37,657)</u> | <u>\$ 29,918</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 pay 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.

Note 1: Summary of Significant Accounting Policies (Continued)

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 straight-line 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.

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.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2023

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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 2023.

B. Deficit Fund Equity

The following funds had a net position deficit at December 31, 2023:

| Fund | Amount |
|--------------------------|--------------|
| Major | |
| TIF District #1-3 | \$ 2,056,224 |
| Nonmajor Enterprise Fund | |
| Storm Sewer | 98,501 |

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

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2023

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.

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.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2023

Note 3: Detailed Notes on All Funds (Continued)

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 | \$ 4,495,049 | | |
| Non-pooled Investments at Fair Value | | | | | |
| Negotiable certificates of deposit | N/A | less than 1 year | 1,445,000 | \$ - | \$ 1,445,000 |
| Total Investments | | | <u>\$ 5,940,049</u> | <u>\$ -</u> | <u>\$ 1,445,000</u> |

(1) Ratings are provided by various 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.

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 | \$ 5,940,049 |
| Cash on Hand | <u>2,800</u> |
| Total | <u>\$ 5,942,849</u> |

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2023

Note 3: Detailed Notes on All Funds (Continued)

B. Lease Receivable

As of December 31, 2023, 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 | \$ 195,025 |
| American Tower Cell Tower | 01/01/19 | 04/30/31 | 1.16 | | 24,396 | 184,514 |
| Total | | | | | | <u>\$ 379,539</u> |

C. Capital Assets

Capital asset activity for the year ended December 31, 2023 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---------------------|---------------------|---------------------|---------------------|
| Governmental Activities | | | | |
| Capital Assets not Being Depreciated | | | | |
| Land | \$ 63,403 | \$ - | \$ - | \$ 63,403 |
| Construction in progress | 185,984 | - | (185,984) | - |
| Total Capital Assets not Being Depreciated | <u>249,387</u> | <u>-</u> | <u>(185,984)</u> | <u>63,403</u> |
| Capital Assets Being Depreciated | | | | |
| Buildings and improvements | 2,980,307 | - | - | 2,980,307 |
| Infrastructure | 2,226,338 | - | - | 2,226,338 |
| Machinery and equipment | 2,085,930 | 85,391 | (9,940) | 2,161,382 |
| Total Capital Assets being depreciated | <u>7,292,575</u> | <u>85,391</u> | <u>(9,940)</u> | <u>7,368,027</u> |
| Less Accumulated Depreciation for | | | | |
| Buildings and improvements | (1,310,618) | (86,300) | - | (1,396,918) |
| Infrastructure | (832,917) | (70,006) | - | (902,923) |
| Machinery and equipment | (1,511,204) | (153,643) | 9,940 | (1,654,907) |
| Total Accumulated Depreciation | <u>(3,654,739)</u> | <u>(309,949)</u> | <u>9,940</u> | <u>(3,954,748)</u> |
| Total Capital Assets Being Depreciated, Net | <u>3,637,836</u> | <u>(224,558)</u> | <u>-</u> | <u>3,413,279</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 3,887,223</u> | <u>\$ (224,558)</u> | <u>\$ (185,984)</u> | <u>\$ 3,476,682</u> |

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2023

Note 3: Detailed Notes on All Funds (Continued)

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

| Function/Program | | | | | Amount |
|--|----------------------|-------------------|-------------------|---------------------|-------------------|
| Governmental Activities | | | | | |
| General Government | | | | | \$ 46,065 |
| Public Safety | | | | | 124,347 |
| Public Works | | | | | 119,110 |
| Culture and Recreation | | | | | 20,427 |
| | | | | | <u>309,949</u> |
| Total Depreciation Expense - Governmental Activities | | | | | <u>\$ 309,949</u> |
| | Beginning Balance | Increases | Decreases | Ending Balance | |
| Business-type Activities | | | | | |
| Capital Assets not Being Depreciated | | | | | |
| Land | \$ 51,950 | \$ - | \$ - | \$ 51,950 | |
| Construction in progress | 6,644 | - | (6,644) | - | |
| Total Capital Assets not Being Depreciated | <u>58,594</u> | <u>-</u> | <u>(6,644)</u> | <u>51,950</u> | |
| Capital Assets Being Depreciated | | | | | |
| Buildings and improvements | 963,691 | 36,185 | (1,605) | 998,271 | |
| Infrastructure | 2,864,285 | 356,052 | - | 3,220,337 | |
| Machinery and equipment | 553,647 | 20,746 | (132,030) | 442,363 | |
| Total Capital Assets Being Depreciated | <u>4,381,623</u> | <u>412,983</u> | <u>(133,635)</u> | <u>4,660,971</u> | |
| Less Accumulated Depreciation for | | | | | |
| Buildings and improvements | (657,083) | (35,338) | 1,605 | (690,816) | |
| Infrastructure | (1,864,311) | (90,851) | - | (1,955,162) | |
| Machinery and equipment | (389,340) | (37,491) | 129,400 | (297,431) | |
| Total Accumulated Depreciation | <u>(2,910,734)</u> | <u>(163,680)</u> | <u>131,005</u> | <u>(2,943,409)</u> | |
| Total Capital Assets Being Depreciated, Net | <u>1,470,889</u> | <u>249,303</u> | <u>(2,630)</u> | <u>1,717,562</u> | |
| Business-type Activities Capital Assets, Net | <u>\$ 1,529,483</u> | <u>\$ 249,303</u> | <u>\$ (9,274)</u> | <u>\$ 1,769,512</u> | |

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

| | |
|---|-------------------|
| Business-type Activities | |
| Water | \$ 53,854 |
| Sewer | 56,041 |
| Municipal Liquor | 51,313 |
| Storm Sewer | 2,472 |
| | <u>163,680</u> |
| Total Depreciation Expense - Business-type Activities | <u>\$ 163,680</u> |

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2023

Note 3: Detailed Notes on All Funds (Continued)

D. Interfund Receivables, Payable and Transfers

The composition of interfund transfers for the year ended December 31, 2023 is as follows:

| Fund | Transfer in | | | |
|--------------------|-------------------|------------------|-----------------------|-------------------|
| | General | Capital Projects | Nonmajor Governmental | Total |
| Transfer Out | | | | |
| General | \$ - | \$ 38,741 | \$ - | \$ 38,741 |
| Capital Projects | - | - | 104,000 | 104,000 |
| Municipal Liquor | 200,000 | - | - | 200,000 |
| Total Transfers In | <u>\$ 200,000</u> | <u>\$ 38,741</u> | <u>\$ 104,000</u> | <u>\$ 342,741</u> |

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 made one unbudgeted transfer of \$38,741 to the Capital Projects fund from the General fund for future street projects.

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 \$2,132,015 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 | \$ 475,000 |
| G.O. Capital Notes, Series 2016A | 31,952 | 2.00 | 4/14/16 | 02/01/24 | 3,849 |
| G.O. Improvement Bonds, Series 2017A | 1,260,000 | 3.00 | 08/24/17 | 02/01/38 | 900,000 |
| Total G.O. Improvement Bonds | | | | | <u>\$ 1,378,849</u> |

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2023

Note 3: Detailed Notes on All Funds (Continued)

The G.O. Capital Note, Series 2016A were issued by the City of Circle Pines. The 2016A was issued for the purpose to finance capital equipment purchases per the joint powers agreement in Note 7.

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 |
| 2024 | \$ 133,181 | \$ 36,474 | \$ 169,655 | \$ 10,668 | \$ 2,308 | \$ 12,976 |
| 2025 | 125,221 | 33,034 | 158,255 | 9,779 | 2,083 | 11,862 |
| 2026 | 125,221 | 29,458 | 154,679 | 9,779 | 1,829 | 11,608 |
| 2027 | 129,332 | 25,640 | 154,972 | 10,668 | 1,552 | 12,220 |
| 2028 | 134,332 | 21,685 | 156,017 | 10,668 | 1,202 | 11,870 |
| 2029 - 2033 | 547,131 | 50,162 | 597,293 | 32,869 | 1,619 | 34,488 |
| 2034 - 2038 | 100,000 | 7,500 | 107,500 | - | - | - |
| Total | <u>\$ 1,294,418</u> | <u>\$ 203,953</u> | <u>\$ 1,498,371</u> | <u>\$ 84,431</u> | <u>\$ 10,593</u> | <u>\$ 95,024</u> |

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>\$ 255,000</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 |
| 2024 | \$ 85,000 | \$ 7,863 | \$ 92,863 |
| 2025 | 85,000 | 4,781 | 89,781 |
| 2026 | 85,000 | 1,594 | 86,594 |
| Total | <u>\$ 255,000</u> | <u>\$ 14,238</u> | <u>\$ 269,238</u> |

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2023

Note 3: Detailed Notes on All Funds (Continued)

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2023 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance | Due Within One Year |
|--|----------------------|------------------|---------------------|---------------------|------------------------|
| Governmental Activities | | | | | |
| G.O. Improvement Bonds | \$ 1,427,509 | \$ - | \$ (133,091) | \$ 1,294,418 | \$ 133,181 |
| Compensated Absences Payable | 38,795 | 65,682 | (56,294) | 48,183 | 48,183 |
| Governmental Activities Long-term Liabilities | <u>\$ 1,466,304</u> | <u>\$ 65,682</u> | <u>\$ (189,385)</u> | <u>\$ 1,342,601</u> | <u>\$ 181,364</u> |
| Business-type Activities | | | | | |
| G.O. Improvement Bonds | \$ 95,099 | \$ - | \$ (10,668) | \$ 84,431 | \$ 10,668 |
| G.O. Utility Revenue Bonds | 335,000 | | (80,000) | 255,000 | 85,000 |
| Total Bonds Payable | 430,099 | - | (90,668) | 339,431 | 95,668 |
| Compensated Absences Payable | 16,088 | 32,852 | (33,046) | 15,894 | 15,895 |
| Business-type Activities Long-term Liabilities | <u>\$ 446,187</u> | <u>\$ 32,852</u> | <u>\$ (123,714)</u> | <u>\$ 355,325</u> | <u>\$ 111,563</u> |

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2023

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). PERA's defined benefit pension plans are established and administered in accordance with Minnesota statutes, chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

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.

General Employees Plan Benefits

General Employees Plan 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 PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for average salary for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. 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 reduced prorated increase. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2023

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

C. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2023 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the years ending December 31, 2023, 2022 and 2021 were \$62,657, \$59,504 and \$60,151, respectively. The City's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2023, the City reported a liability of \$559,190 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 \$15,451. The net pension liability was measured as of June 30, 2023, 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 proportionate share 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, 2022 through June 30, 2023 relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.01 percent at the end of the measurement period and 0.0109 percent for the beginning of the period.

| | |
|--|--------------------------|
| City Proportionate Share of the Net Pension Liability | \$ 559,190 |
| State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City | <u>15,451</u> |
| Total | <u><u>\$ 574,640</u></u> |

For the year ended December 31, 2023, the City recognized pension expense of \$67,506 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized \$69 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, 2023

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

At December 31, 2023, the City reported its proportionate share of the General Employees Plan's 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 | \$ 18,761 | \$ 4,199 |
| Changes in Actuarial Assumptions | 98,672 | 153,269 |
| Net Difference Between Projected and Actual Investment Earnings | - | 19,151 |
| Changes in Proportion | - | 36,708 |
| Contributions Paid to PERA Subsequent to the Measurement Date | 30,086 | - |
| | <u>\$ 147,519</u> | <u>\$ 213,327</u> |
| Total | | |

The \$30,086 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| | |
|------|-----------|
| 2024 | \$ 635 |
| 2025 | (103,900) |
| 2026 | 19,502 |
| 2027 | (12,131) |

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 Real Rate of Return |
|----------------------|----------------------|--|
| Domestic Equity | 33.5 % | 5.10 % |
| International Equity | 16.5 | 5.30 |
| Fixed Income | 25.0 | 0.75 |
| Private Markets | 25.0 | 5.90 |
| Total | <u>100.0 %</u> | |

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2023

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

F. Actuarial Assumptions

The total pension liability in the June 30, 2023, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 7.0 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 7.0 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent 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 most recent four-year experience study for the General Employees Plan was completed 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 2023:

General Employees Fund

Changes in Actuarial Assumptions

- The investment return assumption and single discount rate were changed from 6.5 percent to 7.0 percent.

Changes in Plan Provisions

- 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.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2023

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

G. Discount Rate

The discount rate used to measure the total pension liability in 2023 was 7.0 percent. 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 were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 (6.0%)</u> | <u>Current (7.0%)</u> | <u>1 Percent Increase (8.0%)</u> |
|------------------------|--------------------------------------|-----------------------|--------------------------------------|
| General Employees Fund | \$ 989,250 | \$ 559,190 | \$ 205,447 |

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, 2023

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, 2022, 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 \$15,904 in fire state aid to the fund for the year ended December 31, 2023. 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, 2023 were \$15,904. 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.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2023

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

D. Pension Costs

At December 31, 2023, the City reported a net pension asset of \$56,332 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2022. 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, 2023 | \$ 580,862 | \$ 789,690 | \$ (208,828) |
| Changes for the Year | | | |
| Service cost | 33,871 | - | 33,871 |
| Interest on pension liability (asset) | 33,336 | - | 33,336 |
| Actuarial experience (gains)/losses | (22,792) | - | (22,792) |
| Projected investment earnings | - | 47,381 | (47,381) |
| Contributions (State) | - | 14,805 | (14,805) |
| Asset (gain)/loss | - | (169,439) | 169,439 |
| Benefit payouts | (118,274) | (118,274) | - |
| Administrative costs | - | (828) | 828 |
| Total Net Changes | <u>(73,859)</u> | <u>(226,355)</u> | <u>152,496</u> |
| Ending Balance December 31, 2023 | <u>\$ 507,003</u> | <u>\$ 563,335</u> | <u>\$ (56,332)</u> |

For the year ended December 31, 2023, the City recognized negative pension expense of \$37,657

At December 31, 2023, 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 | \$ - | \$ 18,234 |
| Asset (Gain)/Loss | 135,551 | - |
| Contributions to Plan Subsequent to the Measurement Date | <u>15,904</u> | <u>-</u> |
| Total | <u>\$ 151,455</u> | <u>\$ 18,234</u> |

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2023

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

Deferred outflows of resources totaling \$15,904 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, 2024. Other amounts reported as deferred outflows of resources related to the plan will be recognized in pension expense as follows:

| | |
|------------|-------------|
| 2024 | \$ (15,741) |
| 2025 | (23,522) |
| 2026 | (2,583) |
| 2027 | 7,419 |
| 2028 | 29,327 |
| Thereafter | 122,417 |

E. Actuarial Assumptions

The total pension liability at December 31, 2022 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 | 2.5% per year |
| Investment Rate of Return | 7.50% |

There were no changes in actuarial assumptions in 2022.

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.

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 | \$ (33,721) | \$ (56,332) | \$ (77,366) |

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2023

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

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 2022 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> | |

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 2023 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, 2022 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.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2023

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 2023 were as follows:

| | | |
|----------------------|--------------------------------|----------------------------|
| City of Circle Pines | \$ 1,142,025 | 37.29 % |
| City of Lexington | 966,224 | 31.55 |
| City of Centerville | <u>954,581</u> | <u>31.17</u> |
| Total | <u><u>\$ 3,062,830</u></u> | <u><u>100.00 %</u></u> |

The following information is from the financial statements of the Department as of December 31, 2023. 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 | \$ 4,544,887 |
| Total Liabilities and Deferred Inflows of Resources | 5,649,944 |
| Total Net Position | (1,105,057) |
| Total Revenue | 3,193,445 |
| Total Expenses | 3,305,282 |

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2023

Note 7: Joint Ventures (Continued)

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, 2023

City of Lexington, Minnesota
Required Supplementary Information
For the Year Ended December 31, 2023

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 |
|--------------------|--|---|---|-------------|----------------------------|--|--|
| 6/30/2023 | 0.0100 % | \$ 559,190 | \$ 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 | 79.0 |
| 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 |
| 6/30/2015 | 0.0117 | 606,355 | - | 606,355 | 673,400 | 90.0 | 78.2 |

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

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) |
|-------------|---------------------------------------|--|--|----------------------------|--|
| 12/31/2023 | \$ 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 |
| 12/31/2015 | 51,360 | 51,360 | - | 684,800 | 7.50 |

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, 2023

Notes to the Required Supplementary Information - General Employees Fund

Changes in Actuarial Assumptions

2023 - The investment return assumption and single discount rate were changed from 6.5 percent to 7.00 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 and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

City of Lexington, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2023

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

Changes in Plan Provisions

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 4.00 percent to 3.00 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.00 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 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 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.

2015 - On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

City of Lexington, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2023

Schedule of Employer's Fire Relief Association Contributions

| Year Ending | Actuarial Determined Contribution (a) | Actual Contributions Paid (b) | Contribution Deficiency (Excess) (a-b) |
|----------------|--|--|---|
| 12/31/23 | \$ 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) |
| 12/31/15 | 11,306 | 22,972 | - |

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

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

| | 2023 (Fire Relief Report Date 2022) | 2022 (Fire Relief Report Date 2021) | 2021 (Fire Relief Report Date 2020) | 2020 (Fire Relief Report Date 2019) | 2019 (Fire Relief Report Date 2018) | 2018 (Fire Relief Report Date 2017) | 2017 (Fire Relief Report Date 2016) | 2016 (Fire Relief Report Date 2015) | 2015 (Fire Relief Report Date 2014) |
|--|---|---|---|---|---|---|---|---|---|
| Total Pension Liability | | | | | | | | | |
| Service cost | \$ 33,871 | \$ 29,895 | \$ 28,344 | \$ 29,396 | \$ 28,566 | \$ 25,411 | \$ 21,664 | \$ 24,730 | \$ 19,732 |
| Interest on pension liability (asset) | 33,336 | 37,110 | 38,307 | 36,118 | 30,743 | 26,951 | 27,113 | 22,496 | 17,627 |
| Changes of benefit terms | - | - | - | - | 51,173 | (11,812) | (55,777) | 55,778 | - |
| Differences between expected and actual experience | (22,792) | (76,809) | 16,846 | (27,980) | (21,726) | 60,249 | (14,480) | (9,892) | 81,469 |
| Changes in benefit level | - | 107,066 | - | - | - | - | - | - | - |
| Benefit payments | (118,274) | (210,000) | - | - | - | (81,500) | - | - | - |
| Net Change in Total Pension Liability | (73,859) | (112,738) | 83,497 | 37,534 | - | 19,299 | (21,480) | 93,112 | 118,828 |
| Total Pension Liability - January 1 | 580,862 | 693,600 | 610,103 | 572,569 | 483,813 | 464,514 | 485,994 | 392,882 | 274,054 |
| Total Pension Liability - December 31 | \$ 507,003 | \$ 580,862 | \$ 693,600 | \$ 610,103 | \$ 572,569 | \$ 483,813 | \$ 464,514 | \$ 485,994 | \$ 392,882 |
| Plan Fiduciary Net Position | | | | | | | | | |
| Contributions - State | 11,487 | \$ 10,392 | \$ 9,376 | \$ 11,095 | \$ 12,071 | \$ 8,909 | \$ 9,066 | \$ 9,084 | \$ 11,749 |
| Fire supplemental aid | \$ 2,318 | 2,183 | 2,070 | - | - | 2,156 | 2,199 | 2,223 | - |
| Employer contributions | 1,000 | - | 20,646 | 29,453 | - | - | - | 11,666 | 9,151 |
| Net investment income | (122,058) | 86,819 | 112,320 | 113,020 | (23,586) | 78,295 | 37,687 | 418 | 30,356 |
| Required municipal contribution | - | - | - | - | - | 16,422 | 7,241 | - | - |
| Administrative expense | (780) | (900) | (900) | (849) | (846) | (810) | (690) | (690) | (750) |
| Benefit Payments | (118,274) | (210,000) | - | - | - | (81,500) | - | - | - |
| Other | (48) | (52) | (45) | - | - | (37) | (41) | (17) | - |
| Net Change in Plan Fiduciary Net Position | (226,355) | (111,558) | 143,467 | 152,719 | (12,361) | 23,435 | 55,462 | 22,684 | 50,506 |
| Plan Fiduciary Net Position - January 1 | 789,690 | 901,248 | 757,781 | 605,062 | 617,423 | 593,988 | 538,526 | 515,842 | 465,336 |
| Plan Fiduciary Net Position - December 31 | \$ 563,335 | \$ 789,690 | \$ 901,248 | \$ 757,781 | \$ 605,062 | \$ 617,423 | \$ 593,988 | \$ 538,526 | \$ 515,842 |
| Fire Relief's Net Pension Liability (Asset) - December 31 (a-b) | \$ (56,332) | \$ (208,828) | \$ (207,648) | \$ (147,678) | \$ (32,493) | \$ (133,610) | \$ (129,474) | \$ (52,532) | \$ (122,960) |
| Plan fiduciary net position as a percentage of the total pension liability (b/a) | 111.11% | 135.95% | 129.94% | 99.17% | 105.67% | 127.62% | 127.87% | 110.81% | 131.30% |
| Covered-employee Payroll | N/A | N/A | N/A | N/A | N/A | 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 | N/A | N/A | N/A | N/A | N/A |

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

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COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES

CITY OF LEXINGTON
LEXINGTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2023

City of Lexington, Minnesota
Nonmajor Capital Projects Funds
Combining Balance Sheet
December 31, 2023

| | 440 2015 Street Improvements | 422 2022 Street Improvements | 423 2023 Street Improvements | 405 Park Dedication Fees | Total Capital Projects Funds |
|---|---|---|---|---------------------------------------|------------------------------------|
| Assets | | | | | |
| Cash and temporary investments | \$ 16,500 | \$ 71,448 | \$ 2,694 | \$ 59,787 | \$ 150,429 |
| Special assessments receivable | | | | | |
| Deferred | - | 20,442 | 27,241 | - | 47,683 |
| Total Assets | <u>\$ 16,500</u> | <u>\$ 91,890</u> | <u>\$ 29,935</u> | <u>\$ 59,787</u> | <u>\$ 198,112</u> |
| Liabilities | | | | | |
| Accounts payable | \$ 16,500 | \$ - | \$ 788 | \$ - | \$ 17,288 |
| Deferred Inflows of Resources | | | | | |
| Unavailable revenue - special assessments | - | 20,442 | 27,241 | - | 47,683 |
| Fund Balances | | | | | |
| Restricted for parks | - | - | - | 59,787 | 59,787 |
| Assigned for future capital projects | - | 71,448 | 1,906 | - | 73,354 |
| Total Fund Balances | <u>-</u> | <u>71,448</u> | <u>1,906</u> | <u>59,787</u> | <u>133,141</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 16,500</u> | <u>\$ 91,890</u> | <u>\$ 29,935</u> | <u>\$ 59,787</u> | <u>\$ 198,112</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, 2023

| | 440 2015 Street Improvements | 422 2022 Street Improvements | 423 2023 Street Improvements | 405 Park Dedication Fees | Total Capital Projects Funds |
|--|---|---|---|---------------------------------------|------------------------------------|
| Revenues | | | | | |
| Special assessments | \$ - | \$ 12,487 | \$ 7,486 | \$ - | \$ 19,973 |
| Investment earnings | - | 3,320 | 2,453 | 2,922 | 8,695 |
| Total Revenues | <u>-</u> | <u>15,807</u> | <u>9,939</u> | <u>2,922</u> | <u>28,668</u> |
| Expenditures | | | | | |
| Capital outlay | | | | | |
| Public works | - | 105 | 109,008 | - | 109,113 |
| Culture and recreation | - | - | - | 22,269 | 22,269 |
| Total Expenditures | <u>-</u> | <u>105</u> | <u>109,008</u> | <u>22,269</u> | <u>131,382</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>-</u> | <u>15,702</u> | <u>(99,069)</u> | <u>(19,347)</u> | <u>(102,714)</u> |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | <u>-</u> | <u>-</u> | <u>104,000</u> | <u>-</u> | <u>104,000</u> |
| Net Change in Fund Balances | - | 15,702 | 4,931 | (19,347) | 1,286 |
| Fund Balances, January 1 | <u>-</u> | <u>55,746</u> | <u>(3,025)</u> | <u>79,134</u> | <u>131,855</u> |
| Fund Balances, December 31 | <u>\$ -</u> | <u>\$ 71,448</u> | <u>\$ 1,906</u> | <u>\$ 59,787</u> | <u>\$ 133,141</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, 2023
(With Comparative Actual Amounts for the Year Ended December 31, 2022)

| | 2023 | | | 2022 |
|----------------------------|------------------|--------------|-------------------|-------------------|
| | Budgeted Amounts | | Actual Amounts | Actual Amounts |
| | Original | Final | | |
| Revenues | | | | |
| Taxes | | | | |
| Property taxes | \$ 1,323,157 | \$ 1,323,157 | \$ 1,329,500 | \$ 1,117,540 |
| Licenses and permits | | | | |
| Business | 42,900 | 42,900 | 41,767 | 41,350 |
| Nonbusiness | 46,300 | 46,300 | 68,290 | 58,361 |
| Total licenses and permits | 89,200 | 89,200 | 110,057 | 99,711 |
| Intergovernmental | | | | |
| State | | | | |
| Local government aid | 451,367 | 451,367 | 451,367 | 448,239 |
| Public safety aid | - | - | 114,214 | - |
| Fire aid | 10,000 | 10,000 | 11,876 | 14,931 |
| Police aid | 41,000 | 41,000 | 44,763 | 42,483 |
| Other | 20,000 | 20,000 | - | - |
| County | | | | |
| Recycling grant | 26,000 | 26,000 | 14,555 | 23,446 |
| Total intergovernmental | 548,367 | 548,367 | 636,775 | 529,099 |
| Charges for services | | | | |
| General government | 79,150 | 79,150 | 74,405 | 75,920 |
| Fines and forfeitures | 18,000 | 18,000 | 26,671 | 28,429 |
| Investment earnings | 5,106 | 5,106 | 57,787 | 2,444 |
| Miscellaneous | | | | |
| Other | 47,000 | 47,000 | 47,554 | 9,010 |
| Total Revenues | 2,109,980 | 2,109,980 | 2,282,749 | 1,862,153 |

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, 2023
(With Comparative Actual Amounts for the Year Ended December 31, 2022)

| | 2023 | | | | 2022 |
|--|------------------|-----------|-----------|---------------|-----------|
| | Budgeted Amounts | | Actual | Variance With | Actual |
| | Original | Final | Amounts | Final Budget | Amounts |
| Expenditures | | | | | |
| Current | | | | | |
| General government | | | | | |
| Mayor and city council | | | | | |
| Personnel services | \$ 46,936 | \$ 46,936 | \$ 45,106 | \$ 1,830 | \$ 44,460 |
| Other services and charges | 855 | 855 | 1,727 | (872) | 230 |
| Total mayor and city council | 47,791 | 47,791 | 46,833 | 958 | 44,690 |
| Administration | | | | | |
| Personnel services | 286,384 | 286,384 | 283,552 | 2,832 | 270,663 |
| Supplies | 4,800 | 4,800 | 3,246 | 1,554 | 2,813 |
| Other services and charges | 219,951 | 219,951 | 222,900 | (2,949) | 170,361 |
| Total administration | 511,135 | 511,135 | 509,698 | 1,437 | 443,837 |
| Elections | | | | | |
| Personnel services | 7,836 | 7,836 | 7,166 | 670 | 9,485 |
| Other services and charges | 530 | 530 | 526 | 4 | 868 |
| Total elections | 8,366 | 8,366 | 7,692 | 674 | 10,353 |
| Total general government | 567,292 | 567,292 | 564,223 | 3,069 | 498,880 |
| Public safety | | | | | |
| Police protection and administration | | | | | |
| Other services and charges | 1,086,224 | 1,086,224 | 1,020,085 | 66,139 | 915,860 |
| Fire fighting and administration | | | | | |
| Personnel services | 145,257 | 145,257 | 167,712 | (22,455) | 129,794 |
| Supplies | 19,256 | 19,256 | 17,441 | 1,815 | 16,052 |
| Other services and charges | 74,440 | 74,440 | 72,919 | 1,521 | 67,292 |
| Total fire fighting and administration | 238,953 | 238,953 | 258,072 | (19,119) | 213,138 |
| Building inspection | | | | | |
| Other services and charges | 72,000 | 72,000 | 68,663 | 3,337 | 106,839 |
| Animal control | | | | | |
| Other services and charges | 500 | 500 | - | 500 | 169 |
| Total public safety | 1,397,677 | 1,397,677 | 1,346,820 | 50,857 | 1,236,006 |

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, 2023
(With Comparative Actual Amounts for the Year Ended December 31, 2022)

| | 2023 | | | | 2022 |
|---------------------------------|------------------|--------------|--------------|---------------|--------------|
| | Budgeted Amounts | | Actual | Variance With | Actual |
| | Original | Final | Amounts | Final Budget | Amounts |
| Expenditures (Continued) | | | | | |
| Current (continued) | | | | | |
| Public works | | | | | |
| General public works | | | | | |
| Personnel services | \$ 106,342 | \$ 106,342 | \$ 105,268 | \$ 1,074 | \$ 94,409 |
| Supplies | 50,774 | 50,774 | 40,912 | 9,862 | 39,274 |
| Other services and charges | 42,883 | 42,883 | 34,372 | 8,511 | 40,528 |
| Total general public works | 199,999 | 199,999 | 180,552 | 19,447 | 174,211 |
| Recycling | | | | | |
| Personnel services | 11,836 | 11,836 | 15,247 | (3,411) | 14,572 |
| Supplies | 2,800 | 2,800 | 2,982 | (182) | 2,640 |
| Other services and charges | 15,800 | 15,800 | 8,296 | 7,504 | 9,809 |
| Total recycling | 30,436 | 30,436 | 26,525 | 3,911 | 27,021 |
| Total public works | 230,435 | 230,435 | 207,077 | 23,358 | 201,232 |
| Culture and recreation | | | | | |
| Parks | | | | | |
| Personnel services | 69,179 | 69,179 | 68,654 | 525 | 61,452 |
| Supplies | 11,024 | 11,024 | 8,515 | 2,509 | 9,766 |
| Other services and charges | 34,373 | 34,373 | 26,995 | 7,378 | 40,612 |
| Total culture and recreation | 114,576 | 114,576 | 104,164 | 10,412 | 111,830 |
| Total Expenditures | 2,309,980 | 2,309,980 | 2,222,284 | 87,696 | 2,047,948 |
| Excess (Deficiency) of Revenues | | | | | |
| Over (Under) Expenditures | (200,000) | (200,000) | 60,465 | 260,465 | (185,795) |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | 200,000 | 200,000 | 200,000 | - | 275,000 |
| Transfers out | - | - | (38,741) | (38,741) | - |
| Total Other Financing | | | | | |
| Sources (Uses) | 200,000 | 200,000 | 161,259 | (38,741) | 275,000 |
| Net Change in Fund Balances | - | - | 221,724 | 221,724 | 89,205 |
| Fund Balances, January 1 | 1,343,653 | 1,343,653 | 1,343,653 | - | 1,254,448 |
| Fund Balances, December 31 | \$ 1,343,653 | \$ 1,343,653 | \$ 1,565,377 | \$ 221,724 | \$ 1,343,653 |

City of Lexington, Minnesota

Debt Service Funds

Combining Balance Sheet

December 31, 2023

| | 591 | 592 | 551 | |
|--|-----------------------|-----------------------|----------------------|-----------------------|
| | Improvement | Improvement | Improvement | Total |
| | <u>Bonds of 2014</u> | <u>Bonds of 2017</u> | <u>Bonds of 2016</u> | |
| Assets | | | | |
| Cash and temporary investments | \$ 135,194 | \$ 317,275 | \$ - | \$ 452,469 |
| Special assessments | 724 | 154,288 | - | 155,012 |
| Due from other governments | <u>577</u> | <u>806</u> | <u>-</u> | <u>1,383</u> |
| Total Assets | <u>\$ 136,495</u> | <u>\$ 472,369</u> | <u>\$ -</u> | <u>\$ 608,864</u> |
| Deferred Inflows of Resources | | | | |
| Unavailable revenue - special assessments | \$ 724 | \$ 154,288 | \$ - | \$ 155,012 |
| Fund Balances | | | | |
| Restricted for debt service | <u>135,771</u> | <u>318,081</u> | <u>-</u> | <u>453,852</u> |
| Total Deferred Inflows of Resources and Fund Balances | <u>\$ 136,495</u> | <u>\$ 472,369</u> | <u>\$ -</u> | <u>\$ 608,864</u> |

City of Lexington, Minnesota
Debt Service Funds
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
For the Year Ended December 31, 2023

| | 591 | 592 | 551 | |
|-----------------------------|----------------------|----------------------|----------------------|-------------------|
| | Improvement | Improvement | Improvement | Total |
| | <u>Bonds of 2014</u> | <u>Bonds of 2017</u> | <u>Bonds of 2016</u> | |
| Revenues | | | | |
| Taxes | | | | |
| Property | \$ 54,528 | \$ 81,058 | \$ - | \$ 135,586 |
| Franchise | - | - | 4,107 | 4,107 |
| Special assessments | 9,536 | 40,900 | - | 50,436 |
| Investment earnings | 4,297 | 11,412 | - | 15,709 |
| Total Revenues | <u>68,361</u> | <u>133,370</u> | <u>4,107</u> | <u>205,838</u> |
| Expenditures | | | | |
| Debt service | | | | |
| Principal | 49,332 | 80,000 | 3,759 | 133,091 |
| Interest and other | 12,101 | 28,675 | 348 | 41,124 |
| Total Expenditures | <u>61,433</u> | <u>108,675</u> | <u>4,107</u> | <u>174,215</u> |
| Net Change in Fund Balances | 6,928 | 24,695 | - | 31,623 |
| Fund Balances, January 1 | <u>128,843</u> | <u>293,386</u> | <u>-</u> | <u>422,229</u> |
| Fund Balances, December 31 | <u>\$ 135,771</u> | <u>\$ 318,081</u> | <u>\$ -</u> | <u>\$ 453,852</u> |

City of Lexington, Minnesota
Summary Financial Report
Revenues and Expenditures For General Operations -
Governmental Funds
For the Years Ended December 31, 2023 and 2022

| | Total | | Percent Increase (Decrease) |
|------------------------------------|---------------------|---------------------|-----------------------------------|
| | 2023 | 2022 | |
| Revenues | | | |
| Taxes | | | |
| Property taxes | \$ 1,465,086 | \$ 1,247,476 | 17.44 % |
| Tax increment | 169,033 | 279,475 | (39.52) |
| Franchise taxes | 184,285 | 188,290 | (2.13) |
| Licenses and permits | 110,057 | 99,711 | 10.38 |
| Intergovernmental | 766,775 | 828,638 | (7.47) |
| Charges for services | 76,622 | 79,051 | (3.07) |
| Fines and forfeitures | 26,671 | 28,429 | (6.18) |
| Special assessments | 81,511 | 64,914 | 25.57 |
| Investment earnings | 212,286 | 99,663 | 113.00 |
| Miscellaneous | 57,603 | 63,969 | (9.95) |
| Total Revenues | <u>\$ 3,149,929</u> | <u>\$ 2,979,616</u> | 5.72 % |
| Per Capita | <u>\$ 1,025</u> | <u>\$ 1,142</u> | (10.18) % |
| Expenditures | | | |
| Current | | | |
| General government | \$ 771,145 | \$ 914,146 | (15.64) % |
| Public safety | 1,346,820 | 1,257,761 | 7.08 |
| Public works | 207,077 | 201,232 | 2.90 |
| Culture and recreation | 104,164 | 111,830 | (6.86) |
| Capital outlay | | | |
| General government | 14,778 | 9,244 | 59.87 |
| Public safety | 12,276 | 151,920 | (91.92) |
| Public works | 135,683 | 249,961 | (45.72) |
| Culture and recreation | 48,509 | 12,576 | 285.73 |
| Debt service | | | |
| Principal | 133,091 | 133,002 | 0.07 |
| Interest and other | 123,606 | 124,871 | (1.01) |
| Total Expenditures | <u>\$ 2,897,149</u> | <u>\$ 3,166,543</u> | (8.51) % |
| Per Capita | <u>\$ 943</u> | <u>\$ 1,213</u> | (22.27) % |
| Total Long-term Indebtedness | \$ 1,294,418 | \$ 1,427,509 | (9.32) % |
| Per Capita | 421 | 547 | (22.97) |
| General Fund Balance - December 31 | \$ 1,565,377 | \$ 1,343,653 | 16.50 % |
| Per Capita | 510 | 515 | (1.06) |

The purpose of this report is to provide a summary of financial information concerning the City of Lexington to interested citizens. The complete financial statements may be examined at City Hall, 9180 Lexington Avenue, Lexington, MN 55014. Questions about this report should be directed to Bill Petracek, City Administrator at (763) 784-2792.

OTHER REQUIRED REPORT

CITY OF LEXINGTON
LEXINGTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2023

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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, 2023, and the related notes to the financial statements which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 8, 2024.

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
May 8, 2024