

CITY OF LEXINGTON
LEXINGTON, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2017

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City of Lexington, Minnesota
Annual Financial Report
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For the Year Ended December 31, 2017

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INTRODUCTORY SECTION

CITY OF LEXINGTON
LEXINGTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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City of Lexington, Minnesota
Elected and Appointed Officials
For the Year Ended December 31, 2017

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mark Kurth	Mayor	12/31/18
Kim DeVries	Council Member	12/31/18
Mike Murphy	Council Member	12/31/20
John Hughes	Council Member	12/31/18
Diane Harris	Council Member	12/31/20

APPOINTED

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

FOR THE YEAR ENDED
DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Lexington, Minnesota

Report on the Financial Statements

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2017, 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.

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Other Matters

Required Supplementary Information

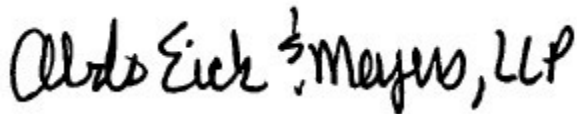
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 15 and the Schedule of Employer's Share of the Net Pension Liability, the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios, and the Schedules of Employer's Contributions starting on page 78 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and 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.

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
May 22, 2018

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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, 2017.

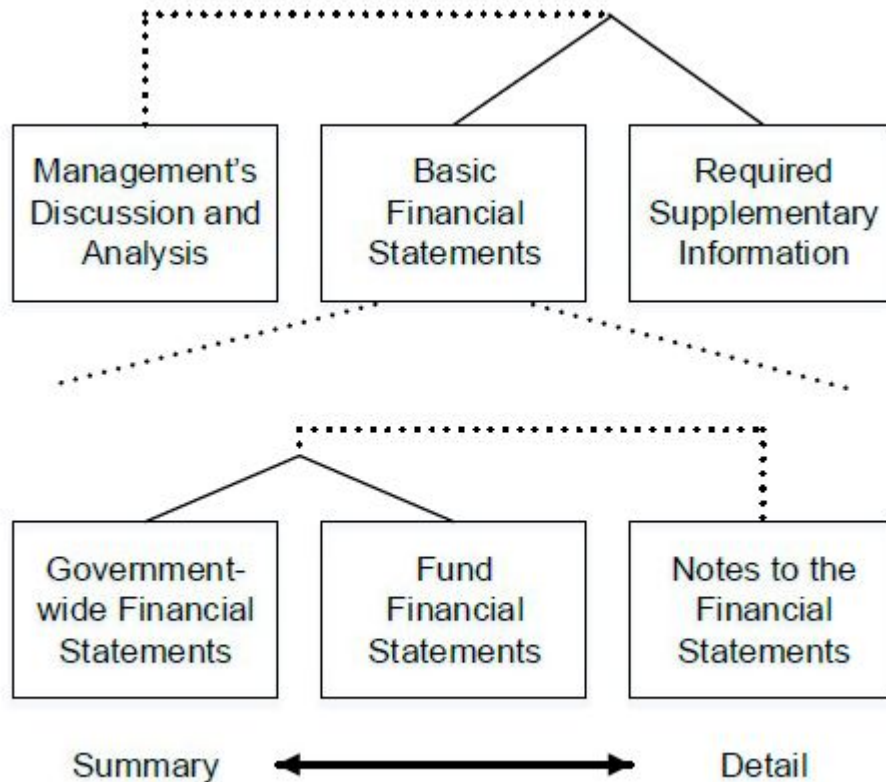
Financial Highlights

- 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 by \$6,995,795 (net position). Of this amount, \$2,946,945 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$466,751, primarily as a result of governmental activities.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,873,923, an increase of \$863,050 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$763,505, or 44.2 percent of 2017 actual expenditures and 42.4 percent of budgeted 2018 expenditures and transfers out.
- The City's total noncurrent liabilities increased \$1,062,039 or 53.0 percent during the current fiscal year. The key factor of this increase was the due to the issuance of the 2017A bonds.

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 between them 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 twelve 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, 2017 Street Improvements and the Capital Projects 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. Budgetary comparison statements have been provided for the General fund to demonstrate compliance with their budgets.

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.

Other 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.

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 82 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 by \$6,995,795 at the close of the most recent fiscal year.

A large portion of the City's net position (47.5 percent) 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		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Assets						
Current and other assets	\$ 2,499,508	\$ 1,413,422	\$ 1,086,086	\$ 2,499,053	\$ 2,892,623	\$ (393,570)
Capital assets, net of depreciation	3,885,595	3,302,808	582,787	2,166,808	1,836,960	329,848
Total Assets	<u>6,385,103</u>	<u>4,716,230</u>	<u>1,668,873</u>	<u>4,665,861</u>	<u>4,729,583</u>	<u>(63,722)</u>
Deferred Outflows of Resources						
Deferred pension resource	<u>92,802</u>	<u>194,665</u>	<u>(101,863)</u>	<u>88,905</u>	<u>170,439</u>	<u>(81,534)</u>
Liabilities						
Noncurrent liabilities outstanding	2,384,870	1,311,557	1,073,313	1,400,664	1,619,063	(218,399)
Other liabilities	<u>137,657</u>	<u>107,396</u>	<u>30,261</u>	<u>134,513</u>	<u>134,526</u>	<u>(13)</u>
Total Liabilities	<u>2,522,527</u>	<u>1,418,953</u>	<u>1,103,574</u>	<u>1,535,177</u>	<u>1,753,589</u>	<u>(218,412)</u>
Deferred Inflows of Resources						
Deferred pension resource	<u>87,440</u>	<u>55,680</u>	<u>31,760</u>	<u>91,732</u>	<u>53,651</u>	<u>38,081</u>
Net Position						
Net investment in capital assets	2,179,361	2,433,825	(254,464)	1,145,189	785,417	359,772
Restricted	721,523	507,011	214,512	-	-	-
Unrestricted	<u>967,054</u>	<u>495,426</u>	<u>471,628</u>	<u>1,982,668</u>	<u>2,307,365</u>	<u>(324,697)</u>
Total Net Position	<u>\$ 3,867,938</u>	<u>\$ 3,436,262</u>	<u>\$ 431,676</u>	<u>\$ 3,127,857</u>	<u>\$ 3,092,782</u>	<u>\$ 35,075</u>

An additional portion of the City's net position (\$721,523) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$2,949,722) 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.

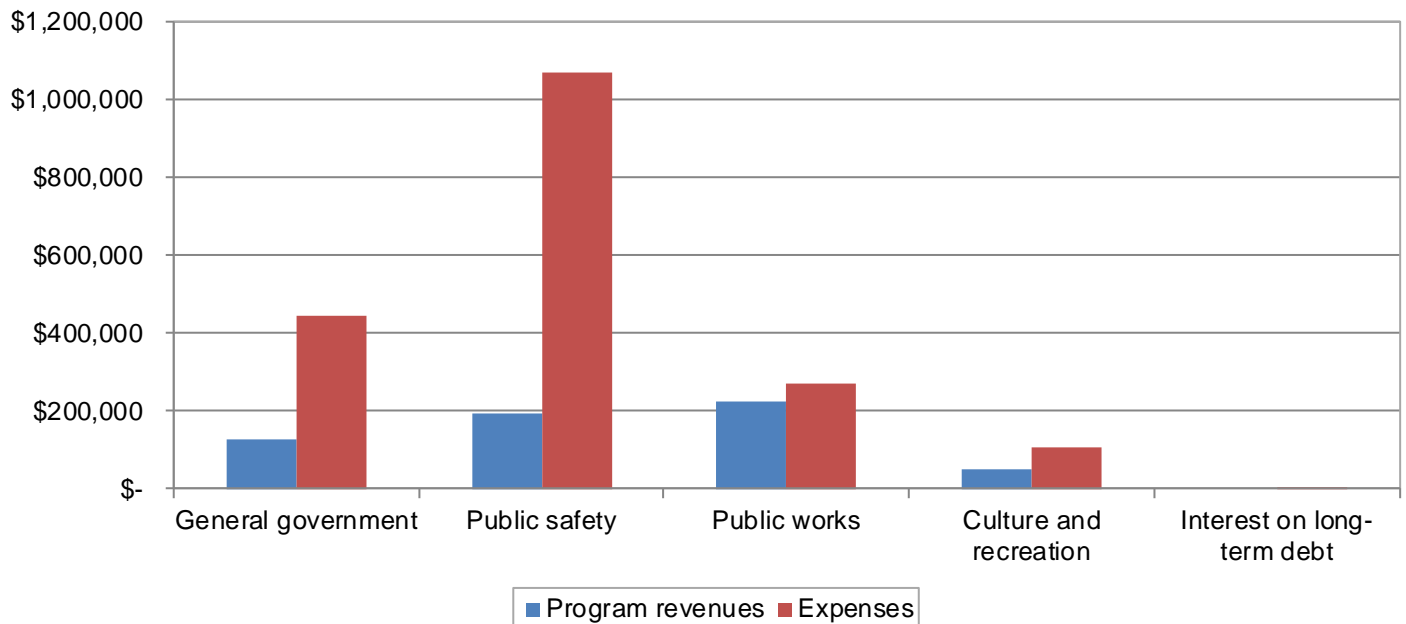
Governmental Activities. Governmental activities increased the City's net position by \$431,676, thereby accounting for all of the growth in the net position of the City. Significant changes from the prior year are noted below:

City of Lexington's Changes in Net Position

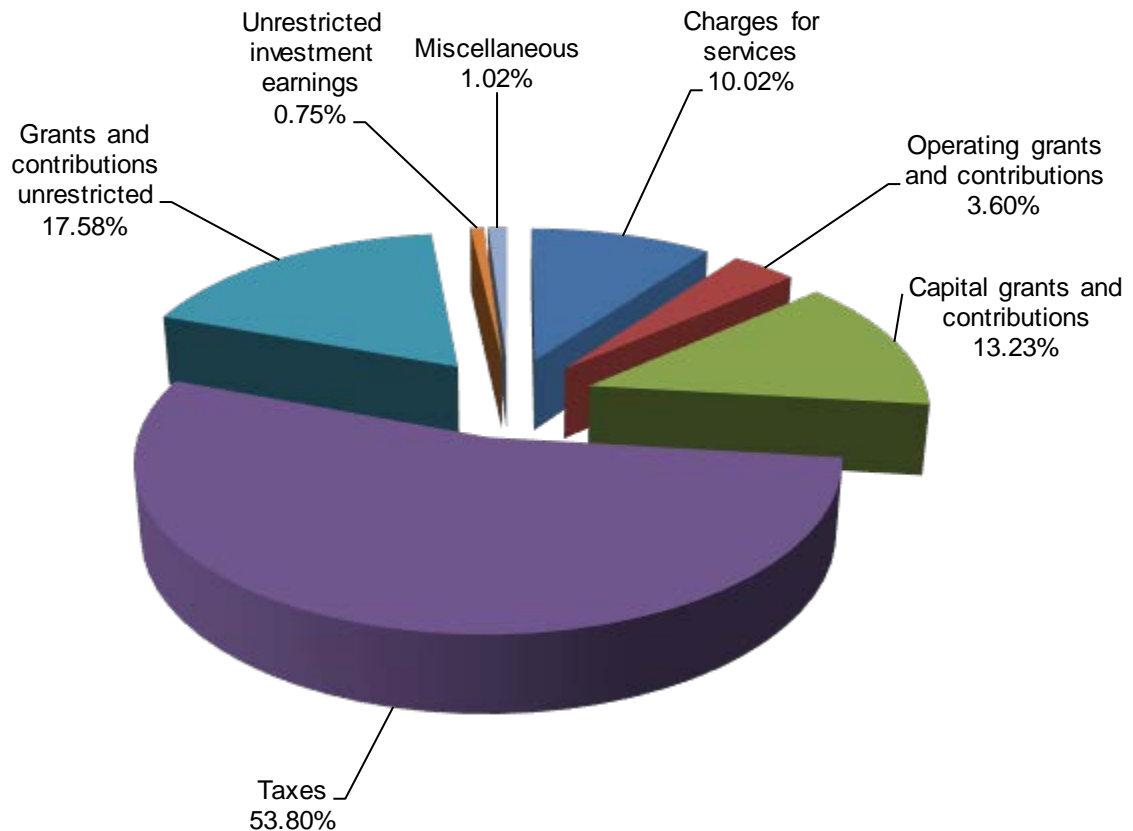
	Governmental Activities			Business-type Activities		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Revenues						
Program Revenues						
Charges for services	\$ 226,112	\$ 189,713	\$ 36,399	\$ 3,645,503	\$ 3,771,318	\$ (125,815)
Operating grants and contributions	81,171	63,414	17,757	-	-	-
Capital grants and contributions	298,586	133,290	165,296	700	1,595	(895)
General Revenues		-	-		-	-
Taxes		-	-		-	-
Property taxes	1,072,780	1,066,710	6,070	5,084	5,021	63
Franchise taxes	141,079	59,818	81,261	-	-	-
Grants and contributions not restricted to specific programs	396,715	395,730	985	-	-	-
Unrestricted investment earnings	16,839	28,393	(11,554)	14,165	27,107	(12,942)
Total Revenues	<u>2,256,361</u>	<u>1,937,068</u>	<u>319,293</u>	<u>3,665,452</u>	<u>3,805,041</u>	<u>(139,589)</u>
Expenses						
General government	447,027	459,175	(12,148)	-	-	-
Public safety	1,070,793	1,192,455	(121,662)	-	-	-
Public works	272,095	291,985	(19,890)	-	-	-
Culture and recreation	107,872	108,709	(837)	-	-	-
Interest on long-term debt	1,898	23,622	(21,724)	-	-	-
Water	-	-	-	168,849	155,398	13,451
Sewer	-	-	-	243,606	244,050	(444)
Municipal liquor	-	-	-	2,958,343	3,104,788	(146,445)
Lovell building	-	-	-	147,412	171,681	(24,269)
Storm sewer	-	-	-	37,167	41,615	(4,448)
Total Expenses	<u>1,899,685</u>	<u>2,075,946</u>	<u>(176,261)</u>	<u>3,555,377</u>	<u>3,717,532</u>	<u>(162,155)</u>
Change in Net Position						
Before Transfers	356,676	(138,878)	495,554	110,075	87,509	22,566
Transfers	<u>75,000</u>	<u>75,000</u>	<u>-</u>	<u>(75,000)</u>	<u>(75,000)</u>	<u>-</u>
Change in Net Position	431,676	(63,878)	495,554	35,075	12,509	22,566
Net Position, January 1	<u>3,436,262</u>	<u>3,500,140</u>	<u>(63,878)</u>	<u>3,092,782</u>	<u>3,080,273</u>	<u>12,509</u>
Net Position, December 31	<u>\$ 3,867,938</u>	<u>\$ 3,436,262</u>	<u>\$ 431,676</u>	<u>\$ 3,127,857</u>	<u>\$ 3,092,782</u>	<u>\$ 35,075</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



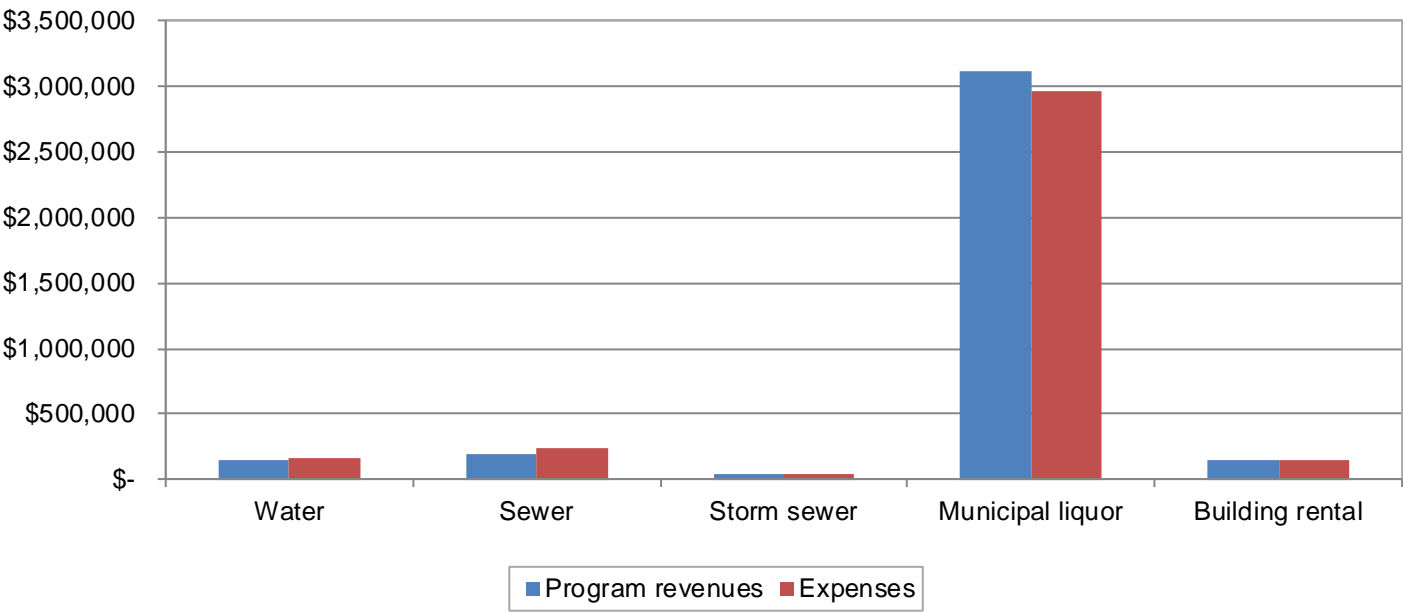
Revenues by Source - Governmental Activities



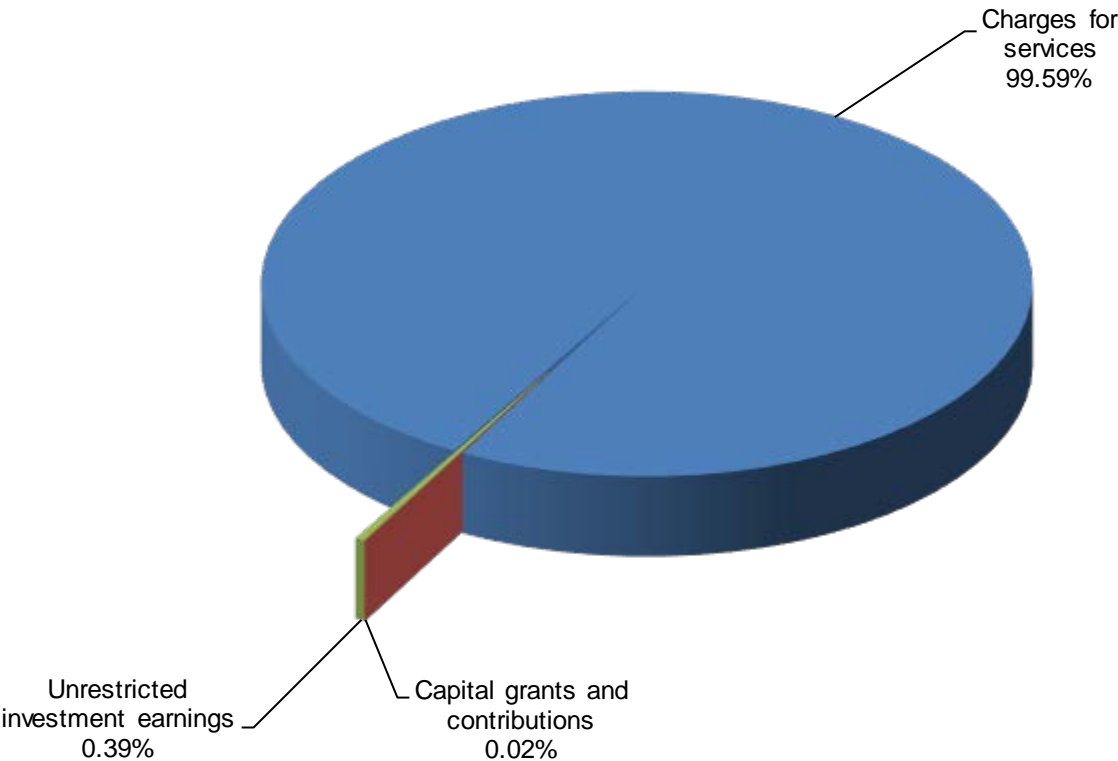
Business-type Activities. Business-type activities increased the City’s net position by \$32,298.

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.

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,873,923, an increase of \$863,050 in comparison with the prior year. Approximately 40.7 percent of this total amount (\$763,505) constitutes *unassigned fund balance*, which is available for spending at the City's discretion. The remainder of fund balance (\$1,110,418) is not available for new spending because it is either 1) nonspendable (\$22,517), 2) restricted (\$726,928) or 3) assigned (\$360,973). For further classification, refer to page 34 of this report.

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2017	2016	
General	\$ 838,238	\$ 800,330	\$ 37,908

The General fund's increase in fund balance was \$37,908. The budgeted change was a decrease of \$19,501. As a measure of the General fund's liquidity, it may be useful to compare total fund balance to the following year's budget. The fund balance is 46.6 percent of next year's budgeted expenditures and transfers out to other funds.

Debt Service	\$ 223,974	\$ 204,773	\$ 19,201
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The fund balance of the Debt Service fund increased due to revenues, mainly property taxes and special assessments, being higher than regularly scheduled debt payments.

Capital Projects	\$ 473,631	\$ 475,758	\$ (2,127)
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The decrease in the fund is mainly due to capital outlay expenditures.

2017 Street Improvements	\$ 60,534	\$ -	\$ 60,534
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The increase in the fund balance is mainly due to the issuance of 2017A bonds , which were offset with capital expenditures for the 2017A Street Improvement Project.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the enterprise funds at the end of the year amounted to \$1,979,891. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City's General Fund budget was not amended during the year. The budget called for a decrease in fund balance of \$19,501.

- Actual revenues were \$63,854 over budget and expenditures were \$6,445 over budget.
- The largest favorable revenue variance was in charges for services exceeding budget by \$56,173 mainly due to park dedication fees of \$52,216 that were not budgeted for.
- Public safety and public works were over budget by \$3,263 and \$12,693 respectively. General government and culture and recreation were under budget by \$1,118 and \$8,393, respectively.

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, 2017, amounts to \$6,052,403 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads and utility infrastructure. Major capital asset events during the current fiscal year included the following:

- Purchase of a new fire truck.
- Completion of the 2017 street improvement project.
- Installation of security cameras at Memorial Park.
- Replacement of the liquor store roof and the purchase of a new HVAC system for the liquor store.
- Completion of the 2017 Wellhouse Improvement project.

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

	Governmental Activities			Business-type Activities		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Land	\$ 63,403	\$ 63,403	\$ -	\$ 453,950	\$ 453,950	\$ -
Construction in Progress	-	50,893	(50,893)	-	108,119	(108,119)
Buildings and Improvements	1,464,896	1,533,345	(68,449)	362,503	370,984	(8,481)
Infrastructure	1,755,790	1,248,149	507,641	1,288,973	848,312	440,661
Machinery and Equipment	601,506	407,018	194,488	61,382	55,595	5,787
Total	<u>\$ 3,885,595</u>	<u>\$ 3,302,808</u>	<u>\$ 582,787</u>	<u>\$ 2,166,808</u>	<u>\$ 1,836,960</u>	<u>\$ 329,848</u>

Additional information on the City's capital assets can be found in Note 3B 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 of \$1,840,000. 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		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
G.O. Improvement Bonds	\$ 2,042,449	\$ 868,983	\$ 1,173,466	\$ 112,879	\$ 114,657	\$ (1,778)
G.O. Utility Revenue Bonds	-	-	-	685,000	745,000	(60,000)
Capital Lease Payable	-	-	-	223,740	273,389	(49,649)
Total	<u>\$ 2,042,449</u>	<u>\$ 868,983</u>	<u>\$ 1,173,466</u>	<u>\$ 1,021,619</u>	<u>\$ 1,133,046</u>	<u>\$ (111,427)</u>

The City's total noncurrent liabilities increased \$1,062,039 (53.0 percent) during the current fiscal year. The increase was mainly due to the issuance of 2017A Bonds.

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 3D 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 2018 and are predicted to increase in 2019. The City adjusts their tax rate for inflation to stay ahead of the cost of providing services to the citizens.

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.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF LEXINGTON
LEXINGTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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City of Lexington, Minnesota

Statement of Net Position

December 31, 2017

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and temporary investments	\$ 1,603,935	\$ 1,862,443	\$ 3,466,378
Receivables			
Accounts	60,550	151,216	211,766
Accrued interest	8,006	-	8,006
Taxes	30,746	202	30,948
Special assessments	351,378	60,680	412,058
Due from other governments	292,901	-	292,901
Inventories	-	422,015	422,015
Prepaid items	22,517	2,497	25,014
Pension asset	129,475	-	129,475
Capital assets			
Land and construction in progress	63,403	453,950	517,353
Depreciable assets (net of accumulated depreciation)	3,822,192	1,712,858	5,535,050
Total Assets	<u>6,385,103</u>	<u>4,665,861</u>	<u>11,050,964</u>
Deferred Outflows of Resources			
Deferred pension resources	<u>92,802</u>	<u>88,905</u>	<u>181,707</u>
Liabilities			
Accounts payable	97,894	82,392	180,286
Accrued salaries payable	19,783	5,579	25,362
Due to other governments	-	34,652	34,652
Accrued interest payable	19,980	10,718	30,698
Deposits payable	-	1,022	1,022
Unearned revenue	-	150	150
Noncurrent liabilities			
Due within one year	113,695	136,519	250,214
Due in more than one year	2,271,175	1,264,145	3,535,320
Total Liabilities	<u>2,522,527</u>	<u>1,535,177</u>	<u>4,057,704</u>
Deferred Inflows of Resources			
Deferred pension resources	<u>87,440</u>	<u>91,732</u>	<u>179,172</u>
Net Position			
Net investment in capital assets	2,179,361	1,145,189	3,324,550
Restricted for			
Debt service	556,649	-	556,649
Fire equipment	92,058	-	92,058
Cable TV equipment	20,600	-	20,600
Parks	52,216	-	52,216
Unrestricted	<u>967,054</u>	<u>1,982,668</u>	<u>2,949,722</u>
Total Net Position	<u>\$ 3,867,938</u>	<u>\$ 3,127,857</u>	<u>\$ 6,995,795</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, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General government	\$ 447,027	\$ 130,067	\$ -	\$ -
Public safety	1,070,793	43,829	57,766	94,480
Public works	272,095	-	23,405	204,106
Culture and recreation	107,872	52,216	-	-
Interest on long-term debt	1,898	-	-	-
Total Governmental Activities	<u>1,899,685</u>	<u>226,112</u>	<u>81,171</u>	<u>298,586</u>
Business-type Activities				
Water	168,849	155,476	-	-
Sewer	243,606	187,740	-	-
Municipal liquor	2,958,343	3,113,657	-	-
Lovell building	147,412	148,381	-	-
Storm sewer	37,167	40,249	-	700
Total Business-type Activities	<u>3,555,377</u>	<u>3,645,503</u>	<u>-</u>	<u>700</u>
Total	<u>\$ 5,455,062</u>	<u>\$ 3,871,615</u>	<u>\$ 81,171</u>	<u>\$ 299,286</u>

General Revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for debt service

Franchise taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on sale of capital assets

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position, January 1

Net Position, December 31

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

Net (Expenses) Revenues and
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (316,960)	\$ -	\$ (316,960)
(874,718)	-	(874,718)
(44,584)	-	(44,584)
(55,656)	-	(55,656)
(1,898)	-	(1,898)
<u>(1,293,816)</u>	<u>-</u>	<u>(1,293,816)</u>
-	(13,373)	(13,373)
-	(55,866)	(55,866)
-	155,314	155,314
-	969	969
-	3,782	3,782
<u>-</u>	<u>90,826</u>	<u>90,826</u>
<u>(1,293,816)</u>	<u>90,826</u>	<u>(1,202,990)</u>
998,777	5,084	1,003,861
74,003	-	74,003
141,079	-	141,079
396,715	-	396,715
16,839	14,165	31,004
23,079	-	23,079
75,000	(75,000)	-
<u>1,725,492</u>	<u>(55,751)</u>	<u>1,669,741</u>
431,676	35,075	466,751
<u>3,436,262</u>	<u>3,092,782</u>	<u>6,529,044</u>
<u>\$ 3,867,938</u>	<u>\$ 3,127,857</u>	<u>\$ 6,995,795</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, 2017

City of Lexington, Minnesota
Balance Sheet
Governmental Funds
December 31, 2017

	General	Debt Service	Capital Projects	2017 Street Improvements	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and temporary investments	\$ 898,253	\$ 224,282	\$ 416,152	\$ (226,933)	\$ 292,181	\$ 1,603,935
Receivables						
Accounts	105	-	60,445	-	-	60,550
Accrued interest	8,006	-	-	-	-	8,006
Taxes	28,488	2,258	-	-	-	30,746
Special assessments	1,289	350,089	-	-	-	351,378
Due from other governments	4,797	-	-	288,104	-	292,901
Prepaid items	22,517	-	-	-	-	22,517
Total Assets	\$ 963,455	\$ 576,629	\$ 476,597	\$ 61,171	\$ 292,181	\$ 2,370,033
Liabilities						
Accounts payable	\$ 77,791	\$ -	\$ 2,966	\$ 637	\$ 16,500	\$ 97,894
Accrued salaries payable	19,783	-	-	-	-	19,783
Total Liabilities	97,574	-	2,966	637	16,500	117,677
Deferred Inflows of Resources						
Unavailable revenue - delinquent taxes	26,354	2,057	-	-	-	28,411
Unavailable revenue - special assessments	1,289	350,598	-	-	-	351,887
Total Deferred Inflows of Resources	27,643	352,655	-	-	-	380,298
Fund Balances						
Nonspendable						
Prepaid items	22,517	-	-	-	-	22,517
Restricted for						
Debt service	-	223,974	-	-	-	223,974
Fire equipment	-	-	92,058	-	-	92,058
Cable TV equipment	-	-	20,600	-	-	20,600
Parks	52,216	-	-	-	-	52,216
Capital projects	-	-	-	60,534	275,681	336,215
Assigned to						
Future capital	-	-	360,973	-	-	360,973
Unassigned	763,505	-	-	-	-	763,505
Total Fund Balances	838,238	223,974	473,631	60,534	275,681	1,872,058
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 963,455	\$ 576,629	\$ 476,597	\$ 61,171	\$ 292,181	\$ 2,370,033

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, 2017

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

Total Fund Balances - Governmental Funds	\$ 1,872,058
Capital assets used in governmental activities are not financial resources, and therefore are not reported as assets in governmental funds.	
Cost of capital assets	6,378,332
Less accumulated depreciation	(2,492,737)
Long-term assets from pensions reported in governmental activities are not current financial resources and therefore are not reported as assets in the funds.	
Pension asset	129,475
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	(27,072)
Pension liability	(315,349)
Bonds payable	(2,042,449)
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	28,411
Special assessments receivable	351,887
Governmental funds do not report a liability for accrued interest until due and payable.	(19,980)
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	92,802
Deferred inflows of pension resources	(87,440)
Total Net Position - Governmental Activities	<u><u>\$ 3,867,938</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, 2017

	General	Debt Service	Capital Projects	2017 Street Improvements	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes						
Property taxes	\$ 997,320	\$ 74,003	\$ -	\$ -	\$ -	\$ 1,071,323
Franchise taxes	-	4,079	137,000	-	-	141,079
Licenses and permits	70,638	-	-	-	-	70,638
Intergovernmental	472,764	-	75,453	-	-	548,217
Charges for services	110,673	-	8,145	-	-	118,818
Fines and forfeitures	20,611	-	-	-	-	20,611
Special assessments	231	75,106	-	-	-	75,337
Investment earnings	2,878	993	12,146	141	681	16,839
Miscellaneous	10,814	5,000	24,027	-	-	39,841
Total Revenues	<u>1,685,929</u>	<u>159,181</u>	<u>256,771</u>	<u>141</u>	<u>681</u>	<u>2,102,703</u>
Expenditures						
Current						
General government	390,470	-	-	-	-	390,470
Public safety	1,073,802	-	-	-	-	1,073,802
Public works	172,823	-	-	-	-	172,823
Culture and recreation	90,926	-	-	-	-	90,926
Capital outlay						
General government	-	-	16,074	-	-	16,074
Public safety	-	-	234,327	-	-	234,327
Public works	-	-	-	514,414	4,513	518,927
Culture and recreation	-	-	26,576	-	-	26,576
Debt service						
Principal	-	86,534	-	-	-	86,534
Interest and other	-	22,022	-	-	-	22,022
Bond issuance costs	-	-	-	-	19,046	19,046
Total Expenditures	<u>1,728,021</u>	<u>108,556</u>	<u>276,977</u>	<u>514,414</u>	<u>23,559</u>	<u>2,651,527</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(42,092)</u>	<u>50,625</u>	<u>(20,206)</u>	<u>(514,273)</u>	<u>(22,878)</u>	<u>(548,824)</u>
Other Financing Sources (Uses)						
Transfers in	80,000	-	-	-	82,318	162,318
Bonds issued	-	-	-	595,000	665,000	1,260,000
Bond premium	-	-	-	30,701	21,229	51,930
Sale of capital assets	-	-	23,079	-	-	23,079
Transfers out	-	(31,424)	(5,000)	(50,894)	-	(87,318)
Total Other Financing Sources (Uses)	<u>80,000</u>	<u>(31,424)</u>	<u>18,079</u>	<u>574,807</u>	<u>768,547</u>	<u>1,410,009</u>
Net Change in Fund Balances	37,908	19,201	(2,127)	60,534	745,669	861,185
Fund Balances, January 1	<u>800,330</u>	<u>204,773</u>	<u>475,758</u>	<u>-</u>	<u>(469,988)</u>	<u>1,010,873</u>
Fund Balances, December 31	<u>\$ 838,238</u>	<u>\$ 223,974</u>	<u>\$ 473,631</u>	<u>\$ 60,534</u>	<u>\$ 275,681</u>	<u>\$ 1,872,058</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, 2017

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

Total Net Change in Fund Balances - Governmental Funds	\$ 861,185
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	784,813
Depreciation expense	(202,026)
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.	
Bonds issued	(1,260,000)
Principal repayments	86,534
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.	(12,760)
Long-term pension activity is not reported in governmental funds.	
Pension expense	44,681
Pension revenue from state contributions	122
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	129,000
Property taxes	1,457
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	(1,330)
Change in Net Position - Governmental Activities	<u><u>\$ 431,676</u></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, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 1,003,910	\$ 1,003,910	\$ 997,320	\$ (6,590)
Licenses and permits	81,950	81,950	70,638	(11,312)
Intergovernmental	445,715	445,715	472,764	27,049
Charges for services	54,500	54,500	110,673	56,173
Fines and forfeitures	28,000	28,000	20,611	(7,389)
Special assessments	-	-	231	231
Interest on investments	-	-	2,878	2,878
Miscellaneous	8,000	8,000	10,814	2,814
Total Revenues	<u>1,622,075</u>	<u>1,622,075</u>	<u>1,685,929</u>	<u>63,854</u>
Expenditures				
Current				
General government	391,588	391,588	390,470	1,118
Public safety	1,082,195	1,082,195	1,073,802	8,393
Public works	169,560	169,560	172,823	(3,263)
Culture and recreation	78,233	78,233	90,926	(12,693)
Total Expenditures	<u>1,721,576</u>	<u>1,721,576</u>	<u>1,728,021</u>	<u>(6,445)</u>
Deficiency of Revenues Under Expenditures	(99,501)	(99,501)	(42,092)	57,409
Other Financing Sources				
Transfers in	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>	<u>-</u>
Net Change in Fund Balances	(19,501)	(19,501)	37,908	57,409
Fund Balances, January 1	<u>800,330</u>	<u>800,330</u>	<u>800,330</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 780,829</u>	<u>\$ 780,829</u>	<u>\$ 838,238</u>	<u>\$ 57,409</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, 2017

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Municipal Liquor
Assets			
Current Assets			
Cash and temporary investments	\$ (40,621)	\$ 1,068,868	\$ 506,099
Receivables			
Accounts	36,681	64,118	44,344
Taxes	-	-	-
Special assessments	21,928	4,830	-
Inventories	-	-	422,015
Prepaid items	1,127	-	1,370
Total Current Assets	<u>19,115</u>	<u>1,137,816</u>	<u>973,828</u>
Noncurrent Assets			
Capital assets			
Land	-	-	51,950
Buildings and improvements	-	-	850,004
Infrastructure	1,390,407	1,316,113	-
Machinery and equipment	24,969	127,870	249,759
Less accumulated depreciation	(687,681)	(966,742)	(699,198)
Total Capital Assets (Net of Accumulated Depreciation)	<u>727,695</u>	<u>477,241</u>	<u>452,515</u>
Total Assets	<u>746,810</u>	<u>1,615,057</u>	<u>1,426,343</u>
Deferred Outflows of Resources			
Deferred pension resources	<u>13,006</u>	<u>10,731</u>	<u>62,894</u>
Liabilities			
Current Liabilities			
Accounts payable	6,568	3,637	59,270
Accrued salaries payable	-	-	5,579
Due to other governments	2,372	-	32,280
Accrued interest payable	3,391	6,100	-
Deferred revenue	-	-	-
Deposits payable	-	-	-
Compensated absences payable - current	-	-	17,697
Capital lease payable - current	-	-	52,044
Bonds payable - current	25,000	40,000	-
Total Current Liabilities	<u>37,331</u>	<u>49,737</u>	<u>166,870</u>

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

Business-type Activities - Enterprise Funds

	Nonmajor	
<u>Lovell Building</u>	<u>Storm Sewer</u>	<u>Total</u>
\$ 385,460	\$ (57,363)	\$ 1,862,443
335	5,738	151,216
-	202	202
-	33,922	60,680
-	-	422,015
-	-	2,497
<u>385,795</u>	<u>(17,501)</u>	<u>2,499,053</u>
402,000	-	453,950
677,263	-	1,527,267
-	98,871	2,805,391
5,000	-	407,598
<u>(658,944)</u>	<u>(14,833)</u>	<u>(3,027,398)</u>
<u>425,319</u>	<u>84,038</u>	<u>2,166,808</u>
<u>811,114</u>	<u>66,537</u>	<u>4,665,861</u>
-	2,274	88,905
10,937	1,980	82,392
-	-	5,579
-	-	34,652
-	1,227	10,718
150	-	150
1,022	-	1,022
-	-	17,697
-	-	52,044
-	1,778	66,778
<u>12,109</u>	<u>4,985</u>	<u>271,032</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, 2017

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Municipal Liquor
Noncurrent Liabilities			
Capital lease payable	\$ -	\$ -	\$ 171,696
Bonds payable	220,000	400,000	-
Pension liability	50,608	41,705	260,131
Total Noncurrent Liabilities	<u>270,608</u>	<u>441,705</u>	<u>431,827</u>
 Total Liabilities	 <u>307,939</u>	 <u>491,442</u>	 <u>598,697</u>
 Deferred Inflows of Resources			
Deferred pension resources	<u>12,194</u>	<u>10,032</u>	<u>67,345</u>
 Net Position			
Net investment in capital assets	482,695	37,241	228,775
Unrestricted	<u>(43,012)</u>	<u>1,087,073</u>	<u>594,420</u>
 Total Net Position	 <u>\$ 439,683</u>	 <u>\$ 1,124,314</u>	 <u>\$ 823,195</u>

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

Business-type Activities - Enterprise Funds

Nonmajor		
<u>Lovell Building</u>	<u>Storm Sewer</u>	<u>Total</u>
\$ -	\$ -	\$ 171,696
-	111,101	731,101
-	8,904	361,348
-	120,005	1,264,145
12,109	124,990	1,535,177
-	2,161	91,732
425,319	(28,841)	1,145,189
373,686	(29,499)	1,982,668
<u>\$ 799,005</u>	<u>\$ (58,340)</u>	<u>\$ 3,127,857</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, 2017

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Municipal Liquor
Operating Revenues			
Sales	\$ -	\$ -	\$ 3,111,671
Cost of sales	-	-	(2,375,181)
Gross Profit	-	-	736,490
Charges for services	155,476	187,566	-
Total Operating Revenues	155,476	187,566	736,490
Operating Expenses			
Personnel services	76,678	63,153	398,574
Supplies	20,861	2,069	10,390
Other services and charges	34,937	127,141	117,364
Depreciation	27,968	36,295	44,378
Total Operating Expenses	160,444	228,658	570,706
Operating Income (Loss)	(4,968)	(41,092)	165,784
Nonoperating Revenues (Expenses)			
Investment earnings	2,003	6,321	3,551
Miscellaneous revenue	-	174	1,986
Property taxes	-	-	-
Interest expense	(8,405)	(14,948)	(12,456)
Total Nonoperating Revenues (Expenses)	(6,402)	(8,453)	(6,919)
Income (Loss) Before Contributions and Transfers	(11,370)	(49,545)	158,865
Capital Contributions	-	-	-
Transfers Out	-	-	(75,000)
Change in Net Position	(11,370)	(49,545)	83,865
Net Position, January 1	451,053	1,173,859	739,330
Net Position, December 31	\$ 439,683	\$ 1,124,314	\$ 823,195

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

Business-type Activities - Enterprise Funds

	Nonmajor	
<u>Lovell Building</u>	<u>Storm Sewer</u>	<u>Total</u>
\$ -	\$ -	\$ 3,111,671
-	-	(2,375,181)
-	-	736,490
147,831	40,249	531,122
<u>147,831</u>	<u>40,249</u>	<u>1,267,612</u>
29,002	13,580	580,987
624	582	34,526
89,829	17,429	386,700
27,957	2,469	139,067
<u>147,412</u>	<u>34,060</u>	<u>1,141,280</u>
419	6,189	126,332
2,290	-	14,165
550	-	2,710
-	5,084	5,084
-	(3,107)	(38,916)
<u>2,840</u>	<u>1,977</u>	<u>(16,957)</u>
3,259	8,166	109,375
-	700	700
-	-	(75,000)
3,259	8,866	35,075
<u>795,746</u>	<u>(67,206)</u>	<u>3,092,782</u>
<u>\$ 799,005</u>	<u>\$ (58,340)</u>	<u>\$ 3,127,857</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, 2017

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Municipal Liquor
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 153,030	\$ 199,947	\$ 3,112,881
Other operating receipts	-	174	1,986
Payments to suppliers	(54,141)	(127,539)	(2,478,106)
Payments to employees	(75,056)	(61,821)	(389,720)
Net Cash Provided (Used) by Operating Activities	23,833	10,761	247,041
Cash Flows from Noncapital Financing Activities			
Transfers to other funds	-	-	(75,000)
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(429,520)	-	(69,640)
Property taxes collected	-	-	-
Capital contributions - special assessments received	-	-	-
Principal paid on long-term debt	(20,000)	(40,000)	(49,649)
Interest paid on long-term debt	(8,613)	(15,365)	(12,456)
Net Cash Used by Capital and Related Financing Activities	(458,133)	(55,365)	(131,745)
Cash Flows from Investing Activities			
Interest received on investments	2,003	6,321	3,551
Net Increase (Decrease) in Cash and Cash Equivalents	(432,297)	(38,283)	43,847
Cash and Cash Equivalents, January 1	391,676	1,107,151	462,252
Cash and Cash Equivalents, December 31	\$ (40,621)	\$ 1,068,868	\$ 506,099

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

Business-type Activities - Enterprise Funds

Nonmajor		
<u>Lovell Building</u>	<u>Storm Sewer</u>	<u>Total</u>
\$ 156,852	\$ 20,408	\$ 3,643,118
550	-	2,710
(102,001)	(17,053)	(2,778,840)
(29,002)	(13,291)	(568,890)
<u>26,399</u>	<u>(9,936)</u>	<u>298,098</u>
<u>-</u>	<u>-</u>	<u>(75,000)</u>
-	-	(499,160)
-	5,274	5,274
-	3,185	3,185
-	(1,778)	(111,427)
-	(3,117)	(39,551)
<u>-</u>	<u>3,564</u>	<u>(641,679)</u>
<u>2,290</u>	<u>-</u>	<u>14,165</u>
28,689	(6,372)	(404,416)
<u>356,771</u>	<u>(50,991)</u>	<u>2,266,859</u>
<u>\$ 385,460</u>	<u>\$ (57,363)</u>	<u>\$ 1,862,443</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, 2017

	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)	\$ (4,968)	\$ (41,092)	\$ 165,784
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	27,968	36,295	44,378
Other income	-	174	1,986
(Increase) decrease in assets			
Accounts receivable	4,038	785	1,210
Special assessments receivable	(6,484)	11,596	-
Inventories	-	-	(14,731)
Prepaid items	(111)	36	722
(Increase) decrease in deferred outflows of resources			
Deferred pension resources	10,360	8,511	60,814
Increase (decrease) in liabilities			
Accounts payable	487	1,635	40,082
Due to other governments	1,281	-	(1,244)
Accrued salaries payable	-	-	(546)
Deposits payable	-	-	-
Deferred revenues	-	-	-
Compensated absences payable	-	-	(126)
Pension liability	(13,577)	(11,154)	(79,692)
Increase (decrease) in deferred inflows of resources			
Deferred pension resources	4,839	3,975	28,404
Net Cash Provided (Used) By Operating Activities	<u>\$ 23,833</u>	<u>\$ 10,761</u>	<u>\$ 247,041</u>

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

Business-type Activities - Enterprise Funds		
	Nonmajor	
<u>Lovell Building</u>	<u>Storm Sewer</u>	<u>Total</u>
\$ 419	\$ 6,189	\$ 126,332
27,957	2,469	139,067
550	-	2,710
9,021	113	15,167
-	(19,954)	(14,842)
-	-	(14,731)
228	10	885
-	1,849	81,534
1,371	948	44,523
(14)	-	23
-	-	(546)
(13,283)	-	(13,283)
150	-	150
-	-	(126)
-	(2,423)	(106,846)
-	863	38,081
<u>\$ 26,399</u>	<u>\$ (9,936)</u>	<u>\$ 298,098</u>

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

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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.

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 *2017 Street Improvements fund* accounts for the 2017 street improvement activity.

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 operation and maintenance of the City's rental 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.

Note 1: Summary of Significant Accounting Policies (Continued)

The City has the following recurring fair value measurements as of December 31, 2017:

- Negotiable certificates of deposits of \$2,029,822 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 2017. 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.

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:

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

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 position 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.

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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 position 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 two types of items, *unavailable revenue* 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.

- *Deferred pension resources* is reported only in the statements of net position and results from actuarial calculations.

Note 1: Summary of Significant Accounting Policies (Continued)

Fund Balance

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

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

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

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

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

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

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

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

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.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2017

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 2017.

B. Deficit Fund Equity

The following fund had a net position deficit at December 31, 2017:

Fund	Amount
Nonmajor Enterprise Fund	
Storm Sewer	\$ 58,340

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

C. Excess of Expenditures Over Appropriations

For the year ended December 31, 2017, expenditures exceeded appropriations in the following fund:

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
General	\$ 1,721,576	\$ 1,728,021	\$ 6,445

These excess expenditures were funded with revenues in excess of budget.

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 market 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, 2017

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	Level 3
Pooled Investments at Amortized Costs						
4M fund	N/A	less than 6 months	\$ 1,432,871			
Broker money market	N/A	less than 6 months	985			
Non-pooled Investments at Fair Value						
Negotiable certificates of deposit	N/A	less than 6 months	275,000	\$ -	\$ 275,000	\$ -
Negotiable certificates of deposit	N/A	6 to 12 months	272,899	-	272,899	-
Negotiable certificates of deposit	N/A	1 to 3 years	136,644	-	136,644	-
Negotiable certificates of deposit	N/A	more than 3 years	1,345,279	-	1,345,279	-
Total Investments			<u>\$ 3,463,678</u>	<u>\$ -</u>	<u>\$ 2,029,822</u>	<u>\$ -</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.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

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

Investments	\$ 3,463,678
Cash on hand	<u>2,700</u>
Total	<u><u>\$ 3,466,378</u></u>

B. Capital Assets

Capital asset activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets not being Depreciated				
Land	\$ 63,403	\$ -	\$ -	\$ 63,403
Construction in progress	<u>50,893</u>	<u>514,413</u>	<u>(565,306)</u>	<u>-</u>
Total Capital Assets not being Depreciated	<u>114,296</u>	<u>514,413</u>	<u>(565,306)</u>	<u>63,403</u>
Capital Assets being Depreciated				
Buildings and improvements	2,399,981	-	-	2,399,981
Infrastructure	1,661,032	565,306	-	2,226,338
Machinery and equipment	<u>1,436,710</u>	<u>270,400</u>	<u>(18,500)</u>	<u>1,688,610</u>
Total Capital Assets being depreciated	<u>5,497,723</u>	<u>835,706</u>	<u>(18,500)</u>	<u>6,314,929</u>
Less Accumulated Depreciation for				
Buildings and improvements	(866,636)	(68,449)	-	(935,085)
Infrastructure	(412,883)	(57,665)	-	(470,548)
Machinery and equipment	<u>(1,029,692)</u>	<u>(75,912)</u>	<u>18,500</u>	<u>(1,087,104)</u>
Total Accumulated Depreciation	<u>(2,309,211)</u>	<u>(202,026)</u>	<u>18,500</u>	<u>(2,492,737)</u>
Total Capital Assets being Depreciated, Net	<u>3,188,512</u>	<u>633,680</u>	<u>-</u>	<u>3,822,192</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 3,302,808</u></u>	<u><u>\$ 1,148,093</u></u>	<u><u>\$ (565,306)</u></u>	<u><u>\$ 3,885,595</u></u>

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

Governmental Activities	
General Government	\$ 47,146
Public Safety	51,567
Public Works	92,262
Culture and Recreation	<u>11,051</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 202,026</u></u>

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital Assets not being Depreciated				
Land	\$ 453,950	\$ -	\$ -	\$ 453,950
Construction in progress	108,119	399,277	(507,396)	-
Total Capital Assets not being Depreciated	<u>562,069</u>	<u>399,277</u>	<u>(507,396)</u>	<u>453,950</u>
Capital Assets being Depreciated				
Buildings and improvements	1,473,317	53,950	-	1,527,267
Infrastructure	2,297,994	507,396	-	2,805,390
Machinery and equipment	391,910	15,688	-	407,598
Total Capital Assets being Depreciated	<u>4,163,221</u>	<u>577,034</u>	<u>-</u>	<u>4,740,255</u>
Less Accumulated Depreciation for				
Buildings and improvements	(1,102,333)	(62,431)	-	(1,164,764)
Infrastructure	(1,449,682)	(66,735)	-	(1,516,417)
Machinery and equipment	(336,315)	(9,901)	-	(346,216)
Total Accumulated Depreciation	<u>(2,888,330)</u>	<u>(139,067)</u>	<u>-</u>	<u>(3,027,397)</u>
Total Capital Assets being Depreciated, Net	<u>1,274,891</u>	<u>437,967</u>	<u>-</u>	<u>1,712,858</u>
Business-type Activities Capital Assets, Net	<u>\$ 1,836,960</u>	<u>\$ 837,244</u>	<u>\$ (507,396)</u>	<u>\$ 2,166,808</u>

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

Business-type Activities	
Water	\$ 27,968
Sewer	36,295
Municipal Liquor	44,378
Lovell Building	27,957
Storm Sewer	<u>2,469</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 139,067</u>

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

C. Interfund Receivables, Payable and Transfers

The composition of interfund transfers at December 31, 2017 is as follows:

Fund	Transfer in		
	General	Nonmajor Governmental	Total
Transfer Out			
Debt Service	\$ -	\$ 31,424	\$ 31,424
Capital Projects	5,000	-	5,000
2017 Street Improvements	-	50,894	50,894
Municipal Liquor	75,000	-	75,000
Total Transfers In	<u>\$ 80,000</u>	<u>\$ 82,318</u>	<u>\$ 162,318</u>

The City annually budgets transfers for specific purposes. Annual transfers include transfers made to cover annual operations and part of capital improvement plans.

During the year ended December 31, 2017, the City made the following nonbudgeted transfers:

- \$5,000 from a nonmajor governmental fund to the General fund.
- \$31,424 from nonmajor governmental fund to another nonmajor governmental fund to eliminate a cash deficit and close the fund.
- \$50,894 from nonmajor governmental fund to another nonmajor governmental fund to eliminate a cash deficit and close the fund.

D. Long-term Debt

Capital Lease Payable

During 2006, the City entered into a lease agreement for financing a building addition, remodeling work, and equipment at the municipal liquor store. The lease has been recorded at the present value of the future minimum lease payments as of the date of its inception. The lease will be repaid from future net revenues pledged from the Municipal Liquor fund. Annual principal and interest payments are expected to require less than 10 percent of net revenues from the Municipal Liquor fund. For 2017, principal and interest paid and total customer net revenues for the Municipal Liquor fund were \$49,648 and \$3,111,671, respectively.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

The assets acquired through the capital lease are as follows:

	Business-type Activities
Assets	
Building and improvements	\$ 494,498
Less accumulated depreciation	<u>(217,579)</u>
Total	<u><u>\$ 276,919</u></u>
Assets	
Machinery and equipment	\$ 122,105
Less accumulated depreciation	<u>(97,873)</u>
Total	<u><u>\$ 24,232</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments are as follows:

Year Ending December 31,	Business-type Activities
2018	\$ 62,103
2019	62,103
2020	62,103
2021	<u>62,103</u>
Total Minimum Lease Payments	248,412
Less Amount Representing Interest	<u>(24,672)</u>
Present Value of Minimum Lease Payments	<u><u>\$ 223,740</u></u>

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.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

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 2004A	\$ 235,000	4.10 - 4.70 %	12/22/04	02/01/20	\$ 60,000
G.O. Improvement and Crossover Refunding Bonds, Series 2012A	445,000	1.00 - 1.70	06/14/12	02/01/21	175,000
G.O. Improvement Bonds of 2014A	655,000	1.3-3.25	05/28/14	02/01/31	635,000
G.O. Capital Notes, Series 2016A	31,952	2.00	4/14/16	02/01/24	25,328
G.O. Improvement Bonds, Series 2017A	1,260,000	3.00	08/24/17	02/01/38	1,260,000
Total G.O. Improvement Bonds					<u>\$ 2,155,328</u>

The G.O. Improvement and Refunding Bonds, Series 2012A were issued by the City of Circle Pines, refunding the Capital Improvement Plan Bonds of 2005A. The 2005A issue was for the construction of a police station per the joint powers agreement in Note 7. The \$175,000 represents the City of Lexington's remaining portion of the 2012A issue.

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. The \$25,328 represents the City of Lexington's remaining portion of the 2016A issue.

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
2018	\$ 86,623	\$ 54,044	\$ 140,667	\$ 1,778	\$ 2,933	\$ 4,711
2019	161,713	53,516	215,229	1,778	2,910	4,688
2020	156,802	49,425	206,227	1,778	2,886	4,664
2021	76,802	46,317	123,119	1,778	2,863	4,641
2022	133,004	43,523	176,527	10,666	2,745	13,411
2023-2027	646,055	164,747	810,802	51,551	10,274	61,825
2028-2032	616,450	67,873	684,323	43,550	2,821	46,371
2033-2037	145,000	11,175	156,175	-	-	-
2038	20,000	300	20,300	-	-	-
Total	<u>\$ 2,042,449</u>	<u>\$ 490,920</u>	<u>\$ 2,533,369</u>	<u>\$ 112,879</u>	<u>\$ 27,432</u>	<u>\$ 140,311</u>

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

G.O. Utility Revenue Bonds

The following bonds were issued to finance capital improvements in the enterprise funds. They will be repaid from future operating revenues pledged from the Water and Sewer fund and are backed by the taxing power of the City. Annual principal and interest payments on the G.O. utility revenue bonds are expected to require less than 25 and 30 percent of operating revenues from the Water and Sewer funds, respectively. For 2017, principal and interest paid and total customer operating revenues for the Water fund were \$28,613 and \$153,030, respectively. For 2017, principal and interest paid and total customer net expenses for the Sewer fund were \$55,365 and \$199,947, 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>\$ 685,000</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
2018	\$ 65,000	\$ 21,884	86,884
2019	70,000	19,940	89,940
2020	70,000	17,840	87,840
2021	70,000	15,670	85,670
2022	75,000	13,350	88,350
2023-2026	<u>335,000</u>	<u>24,987</u>	<u>359,987</u>
Total	<u>\$ 685,000</u>	<u>\$ 113,671</u>	<u>\$ 798,671</u>

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
G.O. Improvement Bonds	\$ 868,983	\$ 1,260,000	\$ (86,534)	\$ 2,042,449	\$ 86,623
Compensated Absences Payable	25,742	1,330	-	27,072	27,072
Pension Liability	416,832	74	(101,484)	315,349	-
Governmental Activities Long-term Liabilities	<u>\$ 1,311,557</u>	<u>\$ 1,261,404</u>	<u>\$ (188,018)</u>	<u>\$ 2,384,870</u>	<u>\$ 113,695</u>
Business-type Activities					
G.O. Improvement Bonds	\$ 114,657	\$ -	\$ (1,778)	\$ 112,879	\$ 1,778
G.O. Utility Revenue Bonds	745,000		(60,000)	685,000	65,000
Total Bonds Payable	859,657	-	(61,778)	797,879	66,778
Capital Lease Payable	273,389	-	(49,649)	223,740	52,044
Compensated Absences Payable	17,823	-	(125)	17,697	17,697
Pension Liability	468,194	78	(106,924)	361,348	-
Business-type Activities Long-term Liabilities	<u>\$ 1,619,063</u>	<u>\$ 78</u>	<u>\$ (218,476)</u>	<u>\$ 1,400,664</u>	<u>\$ 136,519</u>

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 Fund (GERF)

All full-time and certain part-time employees of the City are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

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

B. Benefits Provided

PERA provides retirement, disability and death benefits. Benefit provisions are established by Minnesota statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. 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.

GERF Benefits

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 and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year 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.

C. Contributions

Minnesota statutes chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2017. The City was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2017. The City's contributions to the GERF for the year ending December 31, 2017, 2016 and 2015 were \$51,556, \$50,089 and \$51,360. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

D. Pension Costs

GERF Pension Costs

At December 31, 2017, the City reported a liability of \$676,697 for its proportionate share of the GERF's net pension liability. The City's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$8,547. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion was 0.0106 percent which was a decrease of 0.0003 percent from its proportion measured as of June 30, 2016.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2017

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

For the year ended December 31, 2017, the City recognized pension expense of \$24,905 for its proportionate share of GERF's pension expense. In addition, the City recognized an additional \$247 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the GERF.

At December 31, 2017, the City reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 22,127	\$ 41,656
Changes in Actuarial Assumptions	111,163	67,839
Net Difference between Projected and Actual Earnings on Plan Investments	-	30,319
Changes in Proportion	4,057	35,857
Contributions to GERF Subsequent to the Measurement Date	25,854	-
	<u>25,854</u>	<u>-</u>
Total	<u>\$ 163,201</u>	<u>\$ 175,671</u>

Deferred outflows of resources totaling \$25,854 related to pensions resulting from the City's contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

2018	\$ (17,067)
2019	24,641
2020	(17,169)
2021	(28,729)

E. Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for the GERF for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be: 1 percent per year through 2044 and then 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERF was completed in 2015.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2017

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

The following changes in actuarial assumptions occurred in 2017:

GERF

- 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.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Stocks	39.00 %	5.10 %
International Stocks	19.00	5.30
Bonds	20.00	0.75
Alternative Assets	20.00	5.90
Cash	<u>2.00</u>	-
Total	<u><u>100.00 %</u></u>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50 percent, a reduction from the 7.90 percent used in 2016. 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 GERF was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2017

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

G. 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 1 percentage point lower or 1 percentage point higher than the current discount rate:

	City Proportionate Share of NPL		
	1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
GERF	\$ 1,049,607	\$ 676,697	\$ 371,402

H. 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.

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, 2016, the plan covered 18 active firefighters and 7 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

Minnesota statutes, chapters 424 and 424A authorize pension benefits for volunteer fire relief associations. The plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota statutes and voluntary City contributions (if applicable). The State of Minnesota contributed \$11,266 in fire state aid to the plan on behalf of the City Fire Department for the year ended December 31, 2016, which was recorded as a revenue. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the plan for the year ended December 31, 2016 were \$11,266. The City's contributions were equal to the required contributions as set by state statute. The City made voluntary contributions to the plan. The firefighter has no obligation to contribute to the plan.

D. 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.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2017

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

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in Minnesota statutes, chapter 11A and chapter 356A.

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 investment 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 2016 for the SVF plan.

E. Pension Costs

At December 31, 2017, the City reported a net pension liability (asset) of (\$129,475) for the SVF plan. The net pension liability (asset) was measured as of December 31, 2016. The total pension liability used to calculate the net pension liability (asset) in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the Lexington Fire Department as of December 31, 2016. The following table presents the changes in net pension liability (asset) during the year:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance January 1, 2016	\$ 430,217	\$ 538,526	\$ (108,309)
Changes for the Year			
Service cost	21,664	-	21,664
Interest on pension liability (asset)	27,113	-	27,113
Actuarial experience (gains)/losses	(14,480)	-	(14,480)
Projected investment earnings	-	32,312	(32,312)
Contributions (employer)	-	7,241	(7,241)
Contributions (State)	-	11,266	(11,266)
Adjustment to initial asset transfer	-	-	-
Asset (gain)/loss	-	5,375	(5,375)
Administrative costs	-	(731)	731
Total Net Changes	34,297	55,463	(21,166)
Ending Balance December 31, 2016	\$ 464,514	\$ 593,989	\$ (129,475)

For the year ended December 31, 2017, the City recognized pension revenue of (\$2,283).

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2017

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

At December 31, 2017, the City reported deferred inflows of resources and deferred outflows of resources, its contributions subsequent to the measurement date, related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ -	\$ 17,520
Net Difference between Projected and Actual Earnings on Plan Investments	-	(14,019)
Contributions to SVF Subsequent to the Measurement Date	<u>18,506</u>	<u>-</u>
Total	<u>\$ 18,506</u>	<u>\$ 3,501</u>

Deferred outflows of resources totaling \$11,265 related to pensions resulting from the City's contributions to SVF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources related to SVF pensions will be recognized in pension expense as follows:

2018	\$ 158
2019	158
2020	158
2021	(3,975)

F. Actuarial Assumptions

The total pension liability at December 31, 2016 was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Retirement Eligibility at the Later of Age 50 or 20 Years of Service	
Inflation	3.00% per year
Investment Rate of Return	6.00%

There were no changes in actuarial assumptions in 2016.

The 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. 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.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2017

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

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Statewide Volunteer Firefighter Retirement Plan (VOLP) that includes allocations to domestic equity, international equity, bonds and cash equivalents. The long-term target asset allocation and long-term expected real rate of return is the following:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Stocks	35.00 %	5.10 %
International Stocks	15.00	5.30
Bonds	45.00	0.75
Cash	<u>5.00</u>	-
Total	<u><u>100.00 %</u></u>	

G. 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.

H. 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:

	<u>1 Percent Decrease (5.00%)</u>	<u>Current (6.00%)</u>	<u>1 Percent Increase (7.00%)</u>
SVF	<u>\$ (114,598)</u>	<u>\$ (129,475)</u>	<u>\$ (143,311)</u>

I. Pension Plan Fiduciary Net Position

Detailed information about each defined benefit 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, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or (800) 652-9026.

City of Lexington, Minnesota
Notes to the Financial Statements
December 31, 2017

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 2017 were as follows:

City of Lexington	\$ 736,697	28.42 %
City of Circle Pines	980,270	37.82
City of Centerville	<u>875,154</u>	<u>33.76</u>
 Total	 <u><u>\$ 2,592,121</u></u>	 <u><u>100.00 %</u></u>

The following information is from the financial statements of the Department as of December 31, 2017. 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	\$ 1,044,164
Total Deferred Outflows of Resources	2,543,306
Total Liabilities	2,223,179
Total Deferred Inflows of Resources	3,157,808
Total Net Position	(1,793,517)
Total Revenue	2,618,005
Total Expenses	2,613,912

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, 2017

City of Lexington, Minnesota
Required Supplementary Information
For the Year Ended December 31, 2017

Schedule of Employer's Share of PERA Net Pension Liability - General Employee Retirement 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-Employee Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2017	0.0106 %	\$ 676,697	\$ 8,547	\$ 685,244	\$ 686,204	99.9 %	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	684,463	88.6	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 Employee Retirement Fund

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered-Employee Payroll (c)	Contributions as a Percentage of Covered-Employee Payroll (b/c)
12/31/17	\$ 51,556	\$ 51,556	\$ -	\$ 687,409	7.5 %
12/31/16	50,089	50,089	-	667,856	7.5
12/31/15	51,360	51,360	-	684,800	7.5

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

Schedule of Employer's Fire Relief Association Contributions

Year Ending	Actuarial Determined Contribution (a)	Actual Contributions Paid (b)	Contribution Deficiency (Excess) (a-b)
12/31/17	\$ 11,265	\$ 18,506	\$ (7,241)
12/31/16	11,266	18,507	(7,241)
12/31/15	11,306	22,972	(11,666)
12/31/14	11,749	20,900	(9,151)

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, 2017

Notes to the Required Supplementary Information - General Employee Retirement Fund

Changes in Actuarial Assumptions

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.

Changes in Plan Provisions

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, 2017

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

	2017 (Fire Relief Report Date 2016)	2016 (Fire Relief Report Date 2015)	2015 (Fire Relief Report Date 2014)
Total Pension Liability			
Service cost	\$ 21,664	\$ 24,730	\$ 19,732
Interest	27,113	22,496	17,627
Changes of benefit terms	(55,777)	55,778	-
Differences between expected and actual experience	(14,480)	(9,892)	81,469
Net Change in Total Pension Liability	(21,480)	93,112	118,828
Total Pension Liability - January 1	485,994	392,882	274,054
 Total Pension Liability - December 31	 \$ 464,514	 \$ 485,994	 \$ 392,882
 Plan Fiduciary Net Position			
Contributions - State	\$ 9,066	\$ 9,084	\$ 11,749
Fire supplemental aid	2,199	2,223	-
Contributions - employer	-	11,666	9,151
Net investment income	37,687	418	30,356
Required municipal contribution	7,241	-	-
Administrative expense	(690)	(690)	(750)
Other	(41)	(17)	-
Net Change in Plan Fiduciary Net Position	55,462	22,684	50,506
 Plan Fiduciary Net Position - January 1	 538,526	 515,842	 465,336
 Plan Fiduciary Net Position - December 31	 \$ 593,988	 \$ 538,526	 \$ 515,842
 Fire Relief's Net Pension Liability (Asset) - December 31 (a-b)	 \$ (129,474)	 \$ (52,532)	 \$ (122,960)
 Plan fiduciary net position as a percentage of the total pension liability (b/a)	 127.90%	 110.80%	 131.30%
 Covered-employee Payroll	 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

Notes to Schedule:

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

COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES

CITY OF LEXINGTON
LEXINGTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

City of Lexington, Minnesota
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2017

	Capital Projects			Total
	440	445	418	Nonmajor
	2015 Street	2016 Street	Lake Drive	Governmental
	Improvements	Improvements	Project	Funds
Assets				
Cash and temporary investments	<u>\$ 16,500</u>	<u>\$ -</u>	<u>\$ 275,681</u>	<u>\$ 292,181</u>
Liabilities				
Accounts payable	\$ 16,500	\$ -	\$ -	\$ 16,500
Fund Balances				
Restricted for capital projects			275,681	275,681
Total Liabilities and Fund Balances	<u>\$ 16,500</u>	<u>\$ -</u>	<u>\$ 275,681</u>	<u>\$ 292,181</u>

City of Lexington, Minnesota
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
For the Year Ended December 31, 2017

	Capital Projects			Total Nonmajor Governmental Funds
	440 2015 Street Improvements	445 2016 Street Improvements	418 Lake Drive Project	
Revenues				
Investment earnings	\$ -	\$ -	\$ 681	\$ 681
Expenditures				
Capital outlay				
Public works	4,513	-	-	4,513
Debt service				
Bond issuance costs	19,046	-	-	19,046
Total Expenditures	23,559	-	-	23,559
Excess (Deficiency) of Revenues Over (Under) Expenditures	(23,559)	-	681	(22,878)
Other Financing Sources				
Transfers in	31,424	50,894	-	82,318
Bond premium	21,229	-	-	21,229
Bonds issued	390,000	-	275,000	665,000
Total Other Financing Sources	442,653	50,894	275,000	768,547
Net Change in Fund Balances	419,094	50,894	275,681	745,669
Fund Balances, January 1	(419,094)	(50,894)	-	(469,988)
Fund Balances, December 31	\$ -	\$ -	\$ 275,681	\$ 275,681

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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, 2017
(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017			2016	
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Taxes					
Property taxes	\$ 1,003,910	\$ 1,003,910	\$ 997,320	\$ (6,590)	\$ 989,865
Licenses and permits					
Business	44,600	44,600	44,100	(500)	43,175
Nonbusiness	37,350	37,350	26,538	(10,812)	18,202
Total licenses and permits	81,950	81,950	70,638	(11,312)	61,377
Intergovernmental					
State					
Local government aid	395,219	395,219	395,219	-	394,234
PERA aid	1,496	1,496	1,496	-	1,496
Fire aid	-	-	22,243	22,243	6,700
Police aid	33,000	33,000	35,401	2,401	37,942
County					
Recycling grant	16,000	16,000	18,405	2,405	17,104
Total intergovernmental	445,715	445,715	472,764	27,049	457,476
Charges for services					
General government	54,500	54,500	58,457	3,957	72,571
Culture and recreation	-	-	52,216	52,216	-
Total charges for services	54,500	54,500	110,673	56,173	72,571
Fines and forfeitures	28,000	28,000	20,611	(7,389)	27,998
Special assessments	-	-	231	231	-
Investment earnings	-	-	2,878	2,878	8,252
Miscellaneous					
Other	8,000	8,000	10,814	2,814	20,988
Total Revenues	1,622,075	1,622,075	1,685,929	63,854	1,638,527

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, 2017
(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017				2016
	Budgeted Amounts		Actual Amounts	Variance With Final Budget	Actual Amounts
	Original	Final			
Expenditures					
Current					
General government					
Mayor and city council					
Personnel services	\$ 27,881	\$ 27,881	\$ 27,499	\$ 382	\$ 24,285
Other services and charges	4,050	4,050	3,450	600	2,583
Total mayor and city council	31,931	31,931	30,949	982	26,868
Administration					
Personnel services	178,292	178,292	190,057	(11,765)	173,812
Supplies	5,000	5,000	3,592	1,408	5,318
Other services and charges	175,900	175,900	165,397	10,503	145,632
Total administration	359,192	359,192	359,046	146	324,762
Elections					
Personnel services	-	-	-	-	3,256
Other services and charges	465	465	475	(10)	948
Total elections	465	465	475	(10)	4,204
Total general government	391,588	391,588	390,470	1,118	355,834
Public safety					
Police protection and administration					
Other services and charges	831,697	831,697	831,818	(121)	824,201
Fire fighting and administration					
Personnel services	122,618	122,618	115,384	7,234	92,350
Supplies	13,500	13,500	14,445	(945)	16,815
Other services and charges	51,580	51,580	40,442	11,138	40,174
Total fire fighting and administration	187,698	187,698	170,271	17,427	149,339
Building inspection					
Other services and charges	62,300	62,300	71,713	(9,413)	66,554
Animal control					
Other services and charges	500	500	-	500	-
Total public safety	1,082,195	1,082,195	1,073,802	8,393	1,040,094

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, 2017
(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017				2016
	Budgeted Amounts		Actual	Variance With	Actual
	Original	Final	Amounts	Final Budget	Amounts
Expenditures (Continued)					
Current (continued)					
Public works					
General public works					
Personnel services	\$ 68,180	\$ 68,180	\$ 93,851	\$ (25,671)	\$ 94,375
Supplies	41,340	41,340	24,899	16,441	19,253
Other services and charges	36,028	36,028	26,442	9,586	54,717
Total general public works	145,548	145,548	145,192	356	168,345
Recycling					
Personnel services	14,772	14,772	16,105	(1,333)	15,347
Supplies	1,000	1,000	2,105	(1,105)	926
Other services and charges	8,240	8,240	9,421	(1,181)	8,624
Total recycling	24,012	24,012	27,631	(3,619)	24,897
Total public works	169,560	169,560	172,823	(3,263)	193,242
Culture and recreation					
Parks					
Personnel services	54,207	54,207	60,058	(5,851)	58,653
Supplies	6,440	6,440	6,223	217	4,993
Other services and charges	17,586	17,586	24,645	(7,059)	19,066
Total culture and recreation	78,233	78,233	90,926	(12,693)	82,712
Total Expenditures	1,721,576	1,721,576	1,728,021	(6,445)	1,671,882
Deficiency of Revenues					
Under Expenditures	(99,501)	(99,501)	(42,092)	57,409	(33,355)
Other Financing Sources (Uses)					
Transfers in	80,000	80,000	80,000	-	75,000
Transfers out	-	-	-	-	(61,467)
Total Other Financing Sources (Uses)	80,000	80,000	80,000	-	13,533
Net Change in Fund Balances	(19,501)	(19,501)	37,908	57,409	(19,822)
Fund Balances, January 1	800,330	800,330	800,330	-	820,152
Fund Balances, December 31	\$ 780,829	\$ 780,829	\$ 838,238	\$ 57,409	\$ 800,330

City of Lexington, Minnesota

Debt Service Funds

Combining Balance Sheet

December 31, 2017

	Improvement Bonds of 2004	G.O. Refunding Bonds of 2012	Improvement Bonds of 2014	Improvement Bonds of 2017	Improvement Bonds of 2016	Total
Assets						
Cash and temporary investments	\$ 48,835	\$ 22,130	\$ 90,745	\$ 62,572	\$ -	\$ 224,282
Receivables						
Taxes	138	1,795	166	159	-	2,258
Special assessments	-	-	57,663	292,426	-	350,089
Total Assets	\$ 48,973	\$ 23,925	\$ 148,574	\$ 355,157	\$ -	\$ 576,629
Deferred Inflows of Resources						
Unavailable revenue - delinquent taxes	\$ 135	\$ 1,739	\$ 183	\$ -	\$ -	\$ 2,057
Unavailable revenue - special assessments	-	-	58,172	292,426	-	350,598
Total Deferred Inflows of Resources	135	1,739	58,355	292,426	-	352,655
Fund Balances						
Restricted for debt service	48,838	22,186	90,219	62,731	-	223,974
Total Deferred Inflows of Resources and Fund Balances	\$ 48,973	\$ 23,925	\$ 148,574	\$ 355,157	\$ -	\$ 576,629

City of Lexington, Minnesota
Debt Service Funds
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
For the Year Ended December 31, 2017

	Improvement Bonds of 2004	G.O. Refunding Bonds of 2012	Improvement Bonds of 2014	Improvement Bonds of 2017	Improvement Bonds of 2016	Total
Revenues						
Taxes						
Property	\$ 1,690	\$ 60,834	\$ 11,320	\$ 159	\$ -	\$ 74,003
Franchise	-	-	-	-	4,079	4,079
Special assessments	70	-	17,023	58,013	-	75,106
Investment earnings	286	38	466	203	-	993
Miscellaneous						
Other	-	5,000	-	-	-	5,000
Total Revenues	<u>2,046</u>	<u>65,872</u>	<u>28,809</u>	<u>58,375</u>	<u>4,079</u>	<u>159,181</u>
Expenditures						
Debt service						
Principal	20,000	55,000	8,222	-	3,312	86,534
Interest and other	<u>3,650</u>	<u>3,543</u>	<u>14,062</u>	<u>-</u>	<u>767</u>	<u>22,022</u>
Total Expenditures	<u>23,650</u>	<u>58,543</u>	<u>22,284</u>	<u>-</u>	<u>4,079</u>	<u>108,556</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(21,604)	7,329	6,525	58,375	-	50,625
Other Financing Uses						
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>(31,424)</u>	<u>-</u>	<u>(31,424)</u>
Net Change in Fund Balances	(21,604)	7,329	6,525	26,951	-	19,201
Fund Balances, January 1	<u>70,442</u>	<u>14,857</u>	<u>83,694</u>	<u>35,780</u>	<u>-</u>	<u>204,773</u>
Fund Balances, December 31	<u>\$ 48,838</u>	<u>\$ 22,186</u>	<u>\$ 90,219</u>	<u>\$ 62,731</u>	<u>\$ -</u>	<u>\$ 223,974</u>

City of Lexington, Minnesota
Summary Financial Report
Revenues and Expenditures For General Operations -
Governmental Funds
For the Years Ended December 31, 2017 and 2016

	Total		Percent Increase (Decrease)
	2017	2016	
Revenues			
Taxes			
Property taxes	\$ 1,071,323	\$ 1,067,443	0.36 %
Franchise taxes	141,079	59,818	135.85
Licenses and permits	70,638	61,377	15.09
Intergovernmental	548,217	557,476	(1.66)
Charges for services	118,818	78,581	51.20
Fines and forfeitures	20,611	28,767	(28.35)
Special assessments	75,337	53,917	39.73
Investment earnings	16,839	28,393	(40.69)
Miscellaneous	39,841	38,492	3.50
Total Revenues	<u>\$ 2,102,703</u>	<u>\$ 1,974,264</u>	6.51 %
Per Capita	<u>\$ 1,042</u>	<u>\$ 968</u>	7.67 %
Expenditures			
Current			
General government	\$ 390,470	\$ 355,834	9.73 %
Public safety	1,073,802	1,040,094	3.24
Public works	172,823	193,242	(10.57)
Culture and recreation	90,926	82,712	9.93
Capital outlay			
General government	16,074	97,686	(83.55)
Public safety	234,327	28,001	736.85
Public works	518,927	69,850	642.92
Culture and recreation	26,576	15,000	77.17
Debt service		-	
Principal	86,534	81,534	6.13
Interest and other	22,022	23,950	(8.05)
Bond issuance costs	19,046	-	N/A
Total Expenditures	<u>\$ 2,651,527</u>	<u>\$ 1,987,903</u>	33.38 %
Per Capita	<u>\$ 1,314</u>	<u>\$ 974</u>	34.84 %
Total Long-term Indebtedness	\$ 2,042,449	\$ 868,983	135.04 %
Per Capita	1,012	426	137.60
General Fund Balance - December 31	\$ 838,238	\$ 800,330	4.74 %
Per Capita	415	392	5.88

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, 2017

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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, 2017, 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 22, 2018.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the City has not established a tax increment financing district.

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 *Minnesota Legal Compliance Audit Guide for Cities*. 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.

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, EICK & MEYERS, LLP
Minneapolis, Minnesota
May 22, 2018