



# Annual Financial Report

## City of Lexington

Lexington, Minnesota

For the year ended December 31, 2022



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City of Lexington, Minnesota  
Annual Financial Report  
Table of Contents  
For the Year Ended December 31, 2022

	<u>Page No.</u>
<b>Introductory Section</b>	
Elected and Appointed Officials	7
<b>Financial Section</b>	
Independent Auditor's Report	11
Management's Discussion and Analysis	15
<b>Basic Financial Statements</b>	
Government-wide Financial Statements	
Statement of Net Position	29
Statement of Activities	30
Fund Financial Statements	
Governmental Funds	
Balance Sheet	34
Reconciliation of the Balance Sheet to the Statement of Net Position	35
Statement of Revenues, Expenditures and Changes in Fund Balances	36
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	37
General Fund	
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	39
Proprietary Funds	
Statement of Net Position	40
Statement of Revenues, Expenses and Changes in Net Position	44
Statement of Cash Flows	46
Notes to the Financial Statements	51
<b>Required Supplementary Information</b>	
Schedule of Employer's Share of Public Employees Retirement Association Net Pension Liability - General Employee Retirement Fund	76
Schedule of Employer's Public Employees Retirement Association Contributions - General Employee Retirement Fund	76
Notes to the Required Supplementary Information - General Employee Retirement Fund	77
Schedule of Employer's Fire Relief Association Contributions	78
Schedule of Changes in the Fire Relief Association's Net Pension Liability (Asset) and Related Ratios	79
<b>Combining and Individual Fund Financial Statements and Schedules</b>	
Nonmajor Governmental Funds	
Combining Balance Sheet	82
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	83
Nonmajor Capital Projects Funds	
Combining Balance Sheet	84
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	85
General Fund	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	87
Debt Service Funds	
Combining Balance Sheet	90
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	91
Summary Financial Report	
Revenues and Expenditures for General Operations - Governmental Funds	92
<b>Other Required Report</b>	
Independent Auditor's Report on Minnesota Legal Compliance	95

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INTRODUCTORY SECTION

CITY OF LEXINGTON  
LEXINGTON, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022

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City of Lexington, Minnesota  
Elected and Appointed Officials  
For the Year Ended December 31, 2022

**ELECTED**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Murphy	Mayor	12/31/22
Kim DeVries	Council Member	12/31/26
Robert Benson	Council Member	12/31/26
Brandon Winge	Council Member	12/31/24
Diane Harris	Council Member	12/31/24

**APPOINTED**

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

FOR THE YEAR ENDED  
DECEMBER 31, 2022

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Lexington, Minnesota

### Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lexington, Minnesota (the City), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2022, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinions

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

### Responsibilities of Management for the Financial Statements

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS, we:

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

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

### ***Change in Accounting Principle***

As described in Note 8 to the financial statements, the City adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 87, Lease, for the year ended December 31, 2022. Adoption of the provisions of these statements results in significant change to the classifications of the components of the financial statements. Our opinion is not modified with respect to this matter.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 15 and the Schedule of Employer's Share of the Net Pension Liability and the Schedules of Employer's Contributions, the related note disclosures, and the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios, starting on page 76 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.



### **Supplementary Information**

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

### **Other Information**

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

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



**Abdo**  
Minneapolis, Minnesota  
May 20, 2023



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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, 2022.

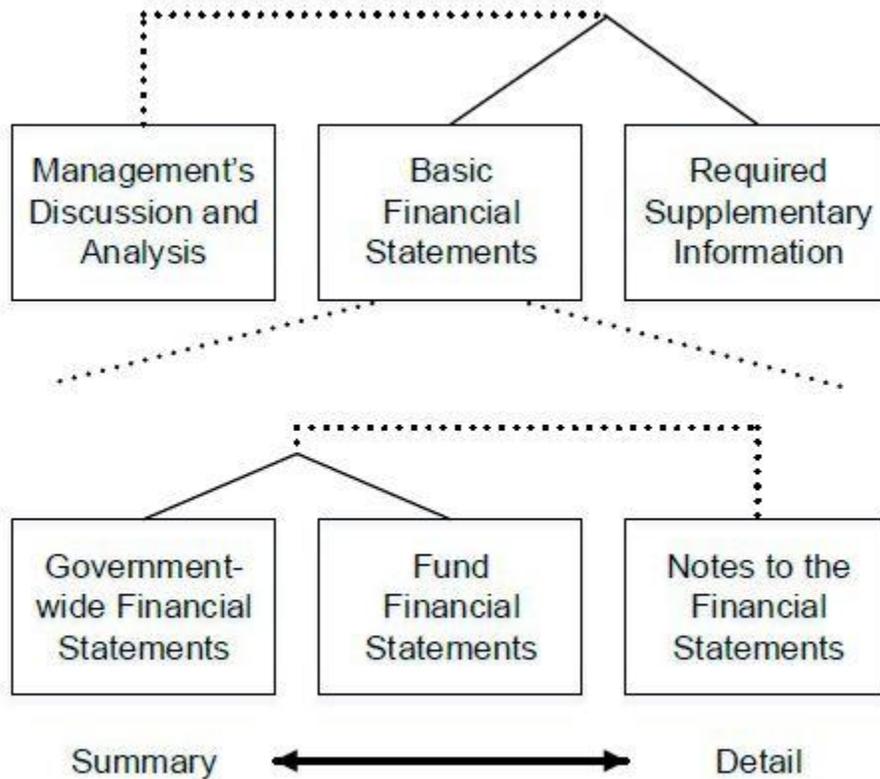
### **Financial Highlights**

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

## Overview of the Financial Statements

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

### Organization of the City's Annual Financial Report



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

### Major Features of the Government-wide and Fund Financial Statements

	Fund Financial Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government and the City’s component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statements of Net Position</li> <li>• Statements of Revenues, Expenses and Changes in Net Position</li> <li>• Statements of Cash Flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

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

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

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

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

The government-wide financial statements start on page 29 of this report.

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

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

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

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, Debt Service fund, Capital Projects fund and TIF District #1-3 fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

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

The basic governmental fund financial statements start on page 34 of this report.

**Proprietary Funds.** The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, municipal liquor, Lovell building, and storm sewer.

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

The basic proprietary fund financial statements start on page 40 of this report.

**Notes to the Financial Statements.** The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 51 of this report.

**Required Supplementary Information.** In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 76 of this report.

**Other Information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to the financial statements. Combining and individual fund financial statements and schedules start on page 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 at the close of the most recent fiscal year.

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

### City of Lexington's Summary of Net Position

	Governmental Activities			Business-type Activities		
	2022	2021	Increase (Decrease)	2022	2021	Increase (Decrease)
<b>Assets</b>						
Current and other assets	\$ 3,972,395	\$ 3,604,193	\$ 368,202	\$ 3,306,600	\$ 3,297,957	\$ 8,643
Capital assets, net of depreciation	3,887,223	3,740,991	146,232	1,529,483	1,590,701	(61,218)
<b>Total Assets</b>	<b>7,859,618</b>	<b>7,345,184</b>	<b>514,434</b>	<b>4,836,083</b>	<b>4,888,658</b>	<b>(52,575)</b>
Deferred Outflows of Resources	135,999	186,920	(50,921)	136,613	180,648	(44,035)
<b>Liabilities</b>						
Noncurrent liabilities outstanding	1,864,427	1,807,731	56,696	911,348	791,380	119,968
Other liabilities	286,046	416,804	(130,758)	113,159	91,654	21,505
<b>Total Liabilities</b>	<b>2,150,473</b>	<b>2,224,535</b>	<b>(74,062)</b>	<b>1,024,507</b>	<b>883,034</b>	<b>141,473</b>
Deferred Inflows of Resources	508,046	257,838	250,208	8,984	229,488	(220,504)
<b>Net Position</b>						
Net investment in capital assets	2,459,714	2,180,480	279,234	1,099,384	1,074,934	24,450
Restricted	1,248,825	940,974	307,851	-	-	-
Unrestricted	1,628,559	1,928,277	(299,718)	2,839,821	2,881,850	(42,029)
<b>Total Net Position</b>	<b>\$ 5,337,098</b>	<b>\$ 5,049,731</b>	<b>\$ 287,367</b>	<b>\$ 3,939,205</b>	<b>\$ 3,956,784</b>	<b>\$ (17,579)</b>
<b>Net Position as a Percent of Total</b>						
Net investment in capital assets	46.1 %	43.2 %		27.9 %	27.2 %	
Restricted	23.4	18.6		-	-	
Unrestricted	30.5	38.2		72.1	72.8	
	<u>100.0 %</u>	<u>100.0 %</u>		<u>100.0 %</u>	<u>100.0 %</u>	

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

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

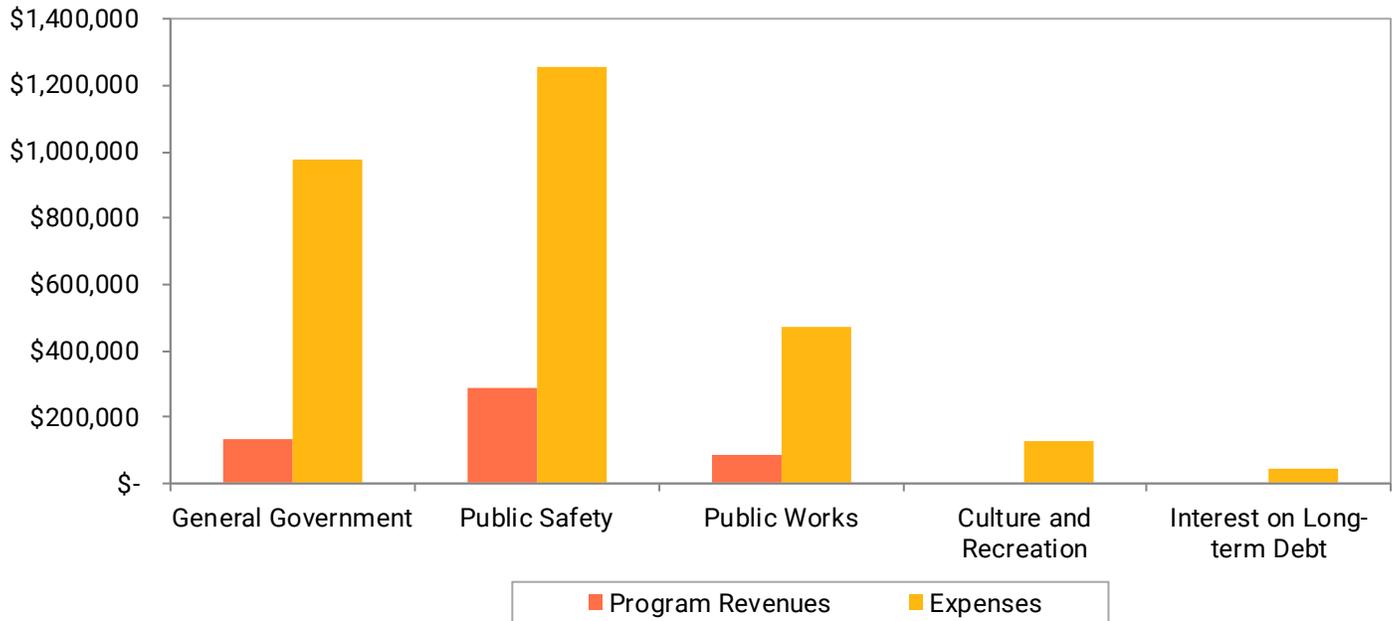
**Governmental Activities.** Governmental activities increased the City's net position, as shown below. This increase was mainly due to a transfer in from business-type activities.

### City of Lexington's Changes in Net Position

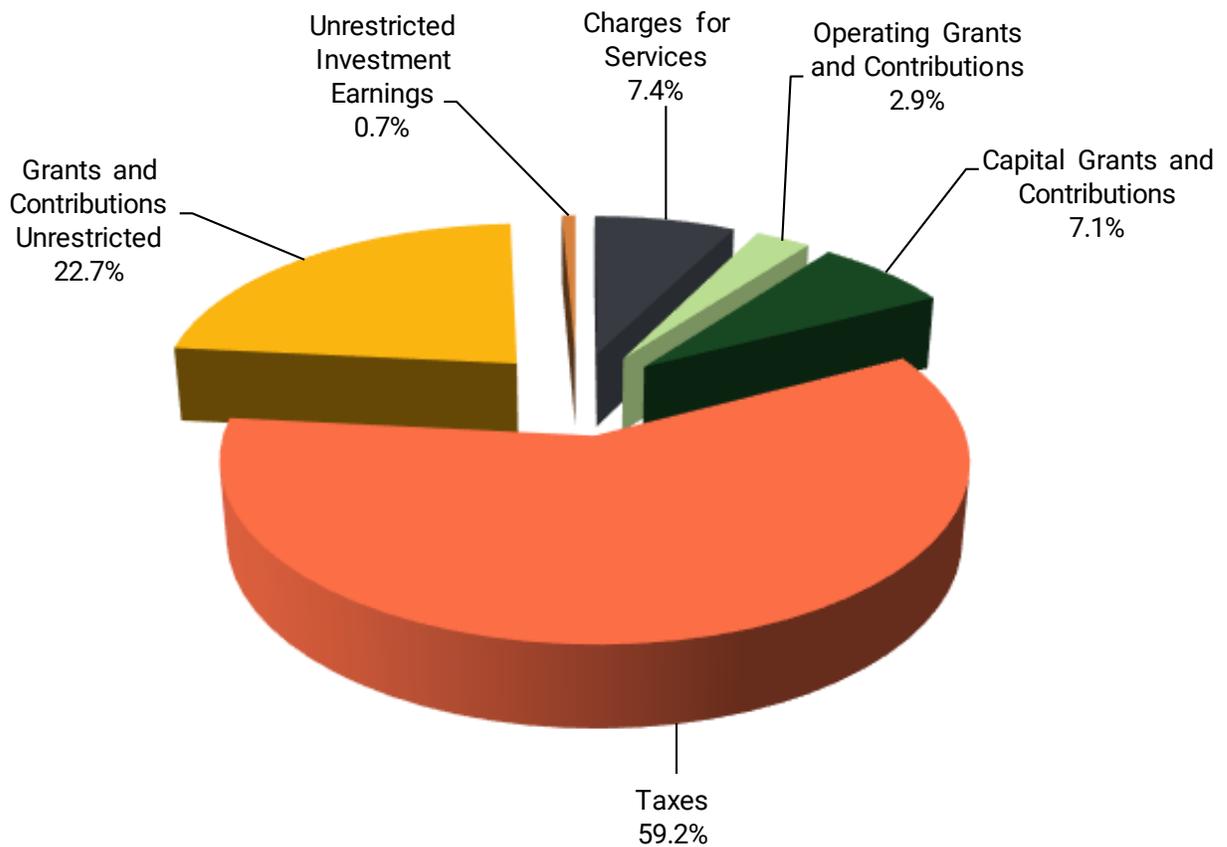
	Governmental Activities			Business-type Activities		
	2022	2021	Increase (Decrease)	2022	2021	Increase (Decrease)
Revenues						
Program Revenues						
Charges for services	\$ 216,201	\$ 615,760	\$ (399,559)	\$ 4,134,353	\$ 4,271,128	\$ (136,775)
Operating grants and contributions	82,650	115,902	(33,252)	30	181	(151)
Capital grants and contributions	206,803	324,324	(117,521)	11,092	677,716	(666,624)
General Revenues						
Taxes						
Property taxes	1,245,922	1,156,050	89,872	21,069	21,069	-
Tax increments	279,475	219,383	60,092	-	-	-
Franchise taxes	188,290	183,523	4,767	-	-	-
Grants and contributions not restricted to specific programs	655,978	440,657	215,321	-	-	-
Unrestricted investment earnings (loss)	19,457	(505)	19,962	14,017	-	14,017
Gain on sale of capital assets	-	-	-	8,100	-	8,100
Total Revenues	<u>2,894,776</u>	<u>3,055,094</u>	<u>(160,318)</u>	<u>4,188,661</u>	<u>4,970,094</u>	<u>(781,433)</u>
Expenses						
General government	978,953	635,737	343,216	-	-	-
Public safety	1,257,162	1,451,294	(194,132)	-	-	-
Public works	473,115	481,878	(8,763)	-	-	-
Culture and recreation	129,925	117,859	12,066	-	-	-
Interest on long-term debt	43,254	48,320	(5,066)	-	-	-
Water	-	-	-	213,102	221,567	(8,465)
Sewer	-	-	-	316,708	300,501	16,207
Municipal liquor	-	-	-	3,326,730	3,470,500	(143,770)
Storm sewer	-	-	-	74,700	59,939	14,761
Total Expenses	<u>2,882,409</u>	<u>2,735,088</u>	<u>147,321</u>	<u>3,931,240</u>	<u>4,052,507</u>	<u>(121,267)</u>
Change in Net Position						
Before Transfers	12,367	320,006	(307,639)	257,421	917,587	(660,166)
Transfers	<u>275,000</u>	<u>275,000</u>	<u>-</u>	<u>(275,000)</u>	<u>(275,000)</u>	<u>-</u>
Change in Net Position	287,367	595,006	(307,639)	(17,579)	642,587	(660,166)
Net Position, January 1	<u>5,049,731</u>	<u>4,454,725</u>	<u>595,006</u>	<u>3,956,784</u>	<u>3,314,197</u>	<u>642,587</u>
Net Position, December 31	<u>\$ 5,337,098</u>	<u>\$ 5,049,731</u>	<u>\$ 287,367</u>	<u>\$ 3,939,205</u>	<u>\$ 3,956,784</u>	<u>\$ (17,579)</u>

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

### Expenses and Program Revenues - Governmental Activities



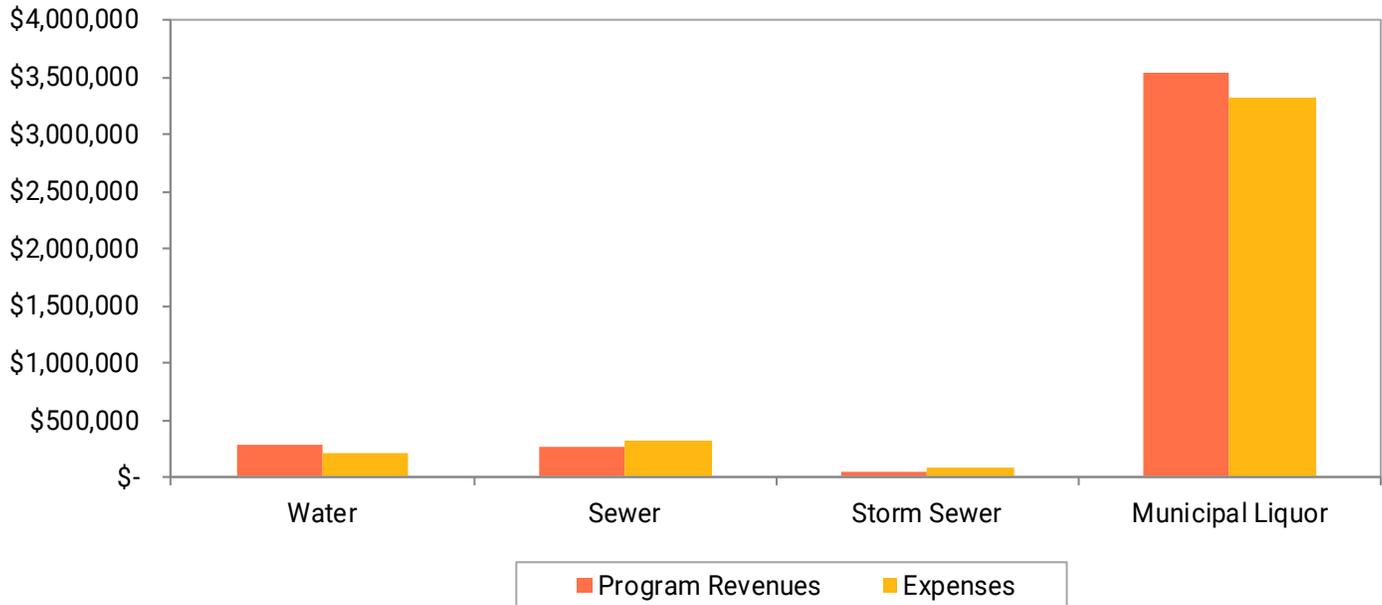
### Revenues by Source - Governmental Activities



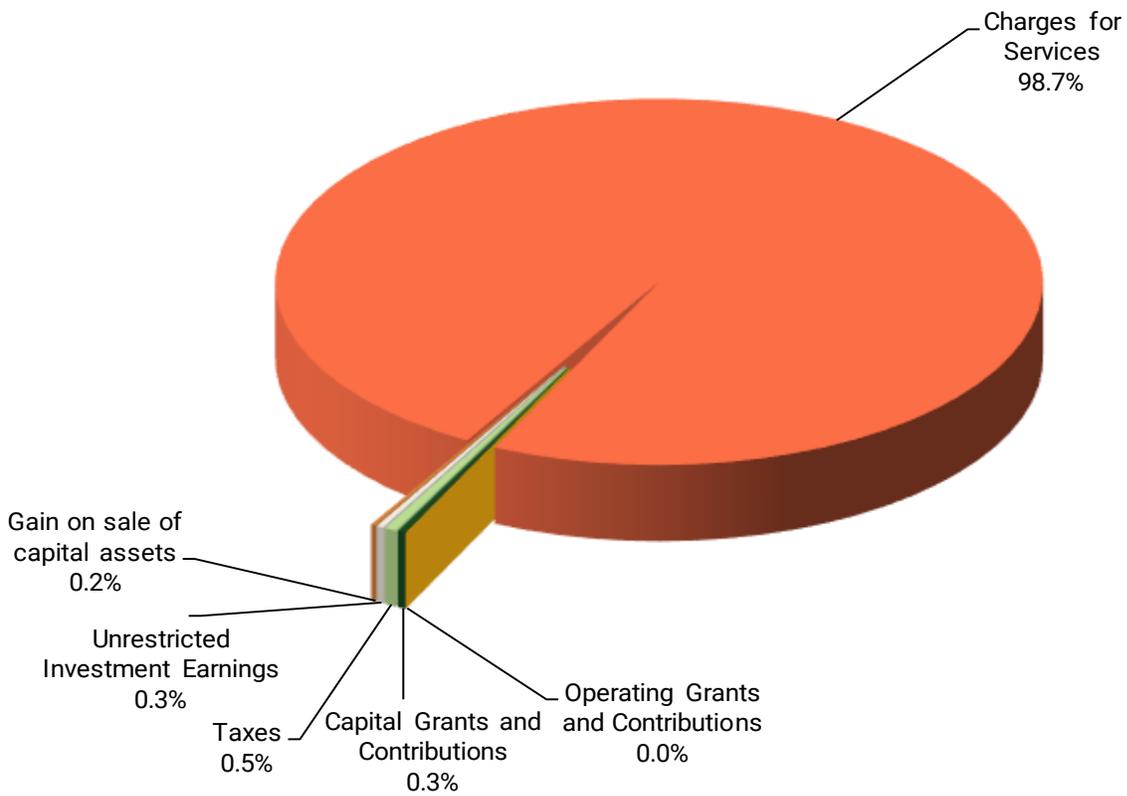
**Business-type Activities.** Business-type activities decreased the City's net position, as shown in the changes in net position table.

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

### Expenses and Program Revenues - Business-type Activities



### Revenues by Source - Business-type Activities



## Financial Analysis of the City's Funds

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

**Governmental Funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The table below outlines the governmental fund balances for the year ending December 31, 2022

	General Fund	Debt Service Fund	Capital Projects	TIF District #1-3	Other Governmental Funds	Total	Prior Year Total	Increase/ (Decrease)
Fund Balances								
Nonspendable	\$ 3,152	\$ -	\$ 2,062,053	\$ -	\$ -	\$ 2,065,205	\$ 2,008,102	\$ 57,103
Restricted for	38,741	422,229	397,881	-	79,134	937,985	742,341	195,644
Assigned for	257,090	-	355,301	-	55,746	668,137	888,929	(220,792)
Unassigned	1,044,670	-	-	(1,936,289)	(3,025)	(894,644)	(950,762)	56,118
	<u>\$ 1,343,653</u>	<u>\$ 422,229</u>	<u>\$ 2,815,235</u>	<u>\$ (1,936,289)</u>	<u>\$ 131,855</u>	<u>\$ 2,776,683</u>	<u>\$ 2,688,610</u>	<u>\$ 88,073</u>

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances shown above. Additional information on the City's fund balances can be found in Note 1 starting on page 51 of this report.

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

	Current Year Ending Balance	Prior Year Ending Balance	Increase/ (Decrease)
General Fund Fund Balances			
Nonspendable	\$ 3,152	\$ 2,951	\$ 201
Restricted for	38,741	38,741	-
Assigned for	257,090	257,090	-
Unassigned	1,044,670	955,666	89,004
	<u>\$ 1,343,653</u>	<u>\$ 1,254,448</u>	<u>\$ 89,205</u>
General Fund expenditures	\$ 2,047,948	\$ 2,187,951	
Unassigned as a percent of expenditures	51.0%	43.7%	
Total Fund Balance as a percent of expenditures	65.6%	57.3%	

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

Other major governmental fund analysis is shown below:

<b>Major Funds</b>	<b>Fund Balance December 31,</b>		<b>Increase (Decrease)</b>
	<b>2022</b>	<b>2021</b>	
<b>General</b>	\$ 1,343,653	\$ 1,254,448	\$ 89,205
The City had a balanced budget. The increase can be attributed to expenditures under budget.			
<b>Debt Service</b>	\$ 422,229	\$ 455,146	\$ (32,917)
The fund balance of the Debt Service fund decreased due to a transfer out to closed matured debt issued in 2012.			
<b>Capital Projects</b>	\$ 2,815,235	\$ 2,762,884	\$ 52,351
The increase in the fund balance of the Capital Projects fund was mainly due to franchise taxes, interest on interfund loan and intergovernmental revenue.			
<b>TIF District #1-3</b>	\$ (1,936,289)	\$ (1,906,428)	\$ (29,861)

This is a fund financed with an interfund loan intended to be paid back with future tax increment collections. The decrease is due to interest on the interfund loan.

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

<b>Major Funds</b>	<b>Net Position December 31,</b>		<b>Increase (Decrease)</b>
	<b>2022</b>	<b>2021</b>	
<b>Water</b>	\$ 915,494	\$ 842,601	\$ 72,893
The net position of the water fund increased due to operating revenues exceeding expenses.			
<b>Sewer</b>	\$ 1,379,146	\$ 1,410,017	\$ (30,871)
The net position of the Sewer fund decreased due operating revenues less than expenses.			
<b>Municipal Liquor</b>	\$ 1,212,845	\$ 1,267,588	\$ (54,743)
The decrease is due to transfers out.			
<b>Lovell Building</b>	\$ 584,657	\$ 581,420	\$ 3,237
Net position increase for the Lovell Building can be attributed to investment earnings for the year.			

## General Fund Budgetary Highlights

	Original Budgeted Amounts	Budget Amendments	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues	\$ 1,879,586	\$ -	\$ 1,879,586	\$ 1,862,153	\$ (17,433)
Expenditures	2,154,586	-	2,154,586	2,047,948	106,638
Excess of Revenues Over Expenditures	(275,000)	-	(275,000)	(185,795)	89,205
Other Financing Sources (Uses) Transfers in	275,000	-	275,000	275,000	-
Net Change in Fund Balances	-	-	-	89,205	89,205
Fund Balances, January 1	1,254,448	-	1,254,448	1,254,448	
Fund Balances, December 31	\$ 1,254,448	\$ -	\$ 1,254,448	\$ 1,343,653	\$ 89,205

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

## Capital Asset and Debt Administration

**Capital Assets.** The City's investment in capital assets for its governmental and business-type activities as of December 31, 2022, is shown below in the capital asset table (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads and utility infrastructure.

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

	Governmental Activities			Business-type Activities		
	2022	2021	Increase (Decrease)	2022	2021	Increase (Decrease)
Land	\$ 63,403	\$ 63,403	\$ -	\$ 51,950	\$ 51,950	\$ -
Construction in Progress	185,984	-	185,984	6,644	11,640	(4,996)
Buildings and Improvements	1,669,689	1,656,339	13,350	306,608	338,328	(31,720)
Infrastructure	1,393,421	1,463,427	(70,006)	999,974	1,069,249	(69,275)
Machinery and Equipment	574,726	557,822	16,904	164,307	119,534	44,773
Total	\$ 3,887,223	\$ 3,740,991	\$ 146,232	\$ 1,529,483	\$ 1,590,701	\$ (61,218)
Percent increase (decrease)			3.9%			-3.8%

Additional information on the City's capital assets can be found in Note 3C starting on page 61 of this report.

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

	Governmental Activities			Business-type Activities		
	2022	2021	Increase (Decrease)	2022	2021	Increase (Decrease)
G.O. Improvement Bonds	\$ 1,427,509	\$ 1,560,511	\$ (133,002)	\$ 95,099	\$ 105,767	\$ (10,668)
G.O. Utility Revenue Bonds	-	-	-	335,000	410,000	(75,000)
<b>Total</b>	<b>\$ 1,427,509</b>	<b>\$ 1,560,511</b>	<b>\$ (133,002)</b>	<b>\$ 430,099</b>	<b>\$ 515,767</b>	<b>\$ (85,668)</b>
Percent increase (decrease)			-8.5%			-16.6%

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

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

Additional information on the City's long-term debt can be found in Note 3E starting on page 63 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

Economic factors affect the preparation of annual budgets. Properties, and their taxable market value, continued to increase in 2022 and are predicted to increase in 2023. The City adjusts their tax rate for inflation to stay ahead of the cost of providing services to the citizens. As population and police call volumes increase, the City will be taking on a higher percentage of the Centennial Lake Police Department budget obligation.

### **Requests for Information**

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF LEXINGTON  
LEXINGTON, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022

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City of Lexington, Minnesota  
Statement of Net Position  
December 31, 2022

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and temporary investments	\$ 2,931,904	\$ 2,551,900	\$ 5,483,804
Receivables			
Accounts	63,810	194,555	258,365
Accrued interest	7,315	-	7,315
Taxes	20,985	-	20,985
Special assessments	282,468	32,380	314,848
Lease	421,101	-	421,101
Due from other governments	32,832	-	32,832
Inventories	-	526,395	526,395
Prepaid items	3,152	1,370	4,522
Net pension asset	208,828	-	208,828
Capital assets			
Land and construction in progress	249,387	58,594	307,981
Depreciable assets (net of accumulated depreciation)	3,637,836	1,470,889	5,108,725
Total Assets	<u>7,859,618</u>	<u>4,836,083</u>	<u>12,695,701</u>
<b>Deferred Outflows of Resources</b>			
Deferred pension resources	<u>135,999</u>	<u>136,613</u>	<u>272,612</u>
<b>Liabilities</b>			
Accounts payable	148,245	53,960	202,205
Accrued salaries payable	38,390	14,482	52,872
Due to other governments	-	38,554	38,554
Accrued interest payable	17,334	6,163	23,497
Unearned revenue	82,077	-	82,077
Noncurrent liabilities			
Due within one year			
Long-term liabilities	171,886	106,756	278,642
Due in more than one year			
Long-term liabilities	1,294,418	339,431	1,633,849
Net pension liability	398,123	465,161	863,284
Total Liabilities	<u>2,150,473</u>	<u>1,024,507</u>	<u>3,174,980</u>
<b>Deferred Inflows of Resources</b>			
Deferred pension resources	93,326	8,984	102,310
Deferred lease resources	414,720	-	414,720
Total Deferred Inflows of Resources	<u>508,046</u>	<u>8,984</u>	<u>517,030</u>
Net investment in capital assets	2,459,714	1,099,384	3,559,098
Restricted for			
Debt service	597,077	-	597,077
Fire relief pension	135,992	-	135,992
Fire equipment	365,412	-	365,412
Cable TV equipment	32,469	-	32,469
Parks	79,134	-	79,134
Small cities assistance	38,741	-	38,741
Unrestricted	1,628,559	2,839,821	4,468,380
Total Net Position	<u>\$ 5,337,098</u>	<u>\$ 3,939,205</u>	<u>\$ 9,276,303</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, 2022

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities</b>				
General government	\$ 978,953	\$ 133,811	\$ -	\$ -
Public safety	1,257,162	82,390	59,204	146,759
Public works	473,115	-	23,446	60,044
Culture and recreation	129,925	-	-	-
Interest on long-term debt	43,254	-	-	-
Total Governmental Activities	<u>2,882,409</u>	<u>216,201</u>	<u>82,650</u>	<u>206,803</u>
<b>Business-type Activities</b>				
Water	213,102	274,737	30	9,592
Sewer	316,708	269,742	-	1,500
Municipal liquor	3,326,730	3,544,338	-	-
Storm sewer	74,700	45,536	-	-
Total Business-type Activities	<u>3,931,240</u>	<u>4,134,353</u>	<u>30</u>	<u>11,092</u>
Total	<u>\$ 6,813,649</u>	<u>\$ 4,350,554</u>	<u>\$ 82,680</u>	<u>\$ 217,895</u>

General Revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for debt service

Tax increments

Franchise taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings (loss)

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
\$ (845,142)	\$ -	\$ (845,142)
(968,809)	-	(968,809)
(389,625)	-	(389,625)
(129,925)	-	(129,925)
(43,254)	-	(43,254)
<u>(2,376,755)</u>	<u>-</u>	<u>(2,376,755)</u>
-	71,257	71,257
-	(45,466)	(45,466)
-	217,608	217,608
-	(29,164)	(29,164)
<u>-</u>	<u>214,235</u>	<u>214,235</u>
<u>(2,376,755)</u>	<u>214,235</u>	<u>(2,162,520)</u>
1,115,986	21,069	1,137,055
129,936	-	129,936
279,475	-	279,475
188,290	-	188,290
655,978	-	655,978
19,457	14,017	33,474
-	8,100	8,100
275,000	(275,000)	-
<u>2,664,122</u>	<u>(231,814)</u>	<u>2,432,308</u>
287,367	(17,579)	269,788
<u>5,049,731</u>	<u>3,956,784</u>	<u>9,006,515</u>
<u>\$ 5,337,098</u>	<u>\$ 3,939,205</u>	<u>\$ 9,276,303</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, 2022

City of Lexington, Minnesota

Balance Sheet  
Governmental Funds  
December 31, 2022

	101	500's	310	320	Other	Total
	General	Debt Service	Capital Projects	TIF District #1-3	Governmental Funds	Governmental Funds
<b>Assets</b>						
Cash and temporary investments	\$ 1,411,820	\$ 419,487	\$ 689,980	\$ 126,295	\$ 284,322	\$ 2,931,904
Receivables						
Accounts	840	-	62,970	-	-	63,810
Accrued interest	7,315	-	-	-	-	7,315
Taxes	20,985	-	-	-	-	20,985
Special assessments	-	192,183	58,925	-	31,360	282,468
Lease	421,101	-	-	-	-	421,101
Due from other governments	29,859	2,741	232	-	-	32,832
Advance to other funds	-	-	2,062,053	-	-	2,062,053
Prepaid items	3,152	-	-	-	-	3,152
<b>Total Assets</b>	<b>\$ 1,895,072</b>	<b>\$ 614,411</b>	<b>\$ 2,874,160</b>	<b>\$ 126,295</b>	<b>\$ 315,682</b>	<b>\$ 5,825,620</b>
<b>Liabilities</b>						
Accounts payable	\$ 77,324	\$ -	\$ -	\$ 531	\$ 70,390	\$ 148,245
Accrued salaries payable	38,390	-	-	-	-	38,390
Due to other funds	-	-	-	2,062,053	-	2,062,053
Unearned revenue	-	-	-	-	82,077	82,077
<b>Total Liabilities</b>	<b>115,714</b>	<b>-</b>	<b>-</b>	<b>2,062,584</b>	<b>152,467</b>	<b>2,330,765</b>
<b>Deferred Inflows of Resources</b>						
Unavailable revenue - delinquent taxes	20,985	-	-	-	-	20,985
Unavailable revenue - special assessments	-	192,182	58,925	-	31,360	282,467
Deferred lease resources	414,720	-	-	-	-	414,720
<b>Total Deferred Inflows of Resources</b>	<b>435,705</b>	<b>192,182</b>	<b>58,925</b>	<b>-</b>	<b>31,360</b>	<b>718,172</b>
<b>Fund Balances</b>						
<b>Nonspendable</b>						
Advance to other funds	-	-	2,062,053	-	-	2,062,053
Prepaid items	3,152	-	-	-	-	3,152
<b>Restricted for</b>						
Debt service	-	422,229	-	-	-	422,229
Fire equipment	-	-	365,412	-	-	365,412
Cable TV equipment	-	-	32,469	-	-	32,469
Parks	-	-	-	-	79,134	79,134
Small cities assistance	38,741	-	-	-	-	38,741
<b>Assigned to</b>						
Future capital	257,090	-	355,301	-	55,746	668,137
Unassigned	1,044,670	-	-	(1,936,289)	(3,025)	(894,644)
<b>Total Fund Balances</b>	<b>1,343,653</b>	<b>422,229</b>	<b>2,815,235</b>	<b>(1,936,289)</b>	<b>131,855</b>	<b>2,776,683</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 1,895,072</b>	<b>\$ 614,411</b>	<b>\$ 2,874,160</b>	<b>\$ 126,295</b>	<b>\$ 315,682</b>	<b>\$ 5,825,620</b>

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, 2022

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

Total Fund Balances - Governmental Funds	\$ 2,776,683
Capital assets used in governmental activities are not financial resources, and therefore are not reported as assets in governmental funds.	
Cost of capital assets	7,541,962
Less accumulated depreciation	(3,654,739)
Long-term assets from pensions reported in governmental activities are not current financial resources and therefore are not reported as assets in the funds.	
Net pension asset	208,828
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	(38,795)
Net pension liability	(398,123)
Bonds payable	(1,427,509)
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	20,985
Special assessments receivable	282,467
Governmental funds do not report a liability for accrued interest until due and payable.	(17,334)
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	135,999
Deferred inflows of pension resources	(93,326)
Total Net Position - Governmental Activities	\$ 5,337,098

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, 2022

	101	500's	310	320	Other Governmental Funds	Total Governmental Funds
	General	Debt Service	Capital Projects	TIF District #1-3		
<b>Revenues</b>						
<b>Taxes</b>						
Property taxes	\$ 1,117,540	\$ 129,936	\$ -	\$ -	\$ -	\$ 1,247,476
Tax increments	-	-	-	279,475	-	279,475
Franchise taxes	-	4,090	184,200	-	-	188,290
Licenses and permits	99,711	-	-	-	-	99,711
Intergovernmental	529,099	-	91,800	-	207,739	828,638
Charges for services	75,920	-	3,131	-	-	79,051
Fines and forfeitures	28,429	-	-	-	-	28,429
Special assessments	-	34,549	-	-	30,365	64,914
Investment earnings	2,444	1,952	93,591	152	1,524	99,663
Miscellaneous	9,010	-	54,959	-	-	63,969
<b>Total Revenues</b>	<b>1,862,153</b>	<b>170,527</b>	<b>427,681</b>	<b>279,627</b>	<b>239,628</b>	<b>2,979,616</b>
<b>Expenditures</b>						
<b>Current</b>						
General government	498,880	-	-	229,282	185,984	914,146
Public safety	1,236,006	-	-	-	21,755	1,257,761
Public works	201,232	-	-	-	-	201,232
Culture and recreation	111,830	-	-	-	-	111,830
<b>Capital outlay</b>						
General government	-	-	9,244	-	-	9,244
Public safety	-	-	151,920	-	-	151,920
Public works	-	-	98,599	-	151,362	249,961
Culture and recreation	-	-	6,709	-	5,867	12,576
<b>Debt service</b>						
Principal	-	133,002	-	-	-	133,002
Interest and other	-	44,665	-	80,206	-	124,871
<b>Total Expenditures</b>	<b>2,047,948</b>	<b>177,667</b>	<b>266,472</b>	<b>309,488</b>	<b>364,968</b>	<b>3,166,543</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(185,795)</b>	<b>(7,140)</b>	<b>161,209</b>	<b>(29,861)</b>	<b>(125,340)</b>	<b>(186,927)</b>
<b>Other Financing Sources (Uses)</b>						
Transfers in	275,000	-	75,142	-	184,000	534,142
Transfers out	-	(25,777)	(184,000)	-	(49,365)	(259,142)
<b>Total Other Financing Sources (Uses)</b>	<b>275,000</b>	<b>(25,777)</b>	<b>(108,858)</b>	<b>-</b>	<b>134,635</b>	<b>275,000</b>
<b>Net Change in Fund Balances</b>	<b>89,205</b>	<b>(32,917)</b>	<b>52,351</b>	<b>(29,861)</b>	<b>9,295</b>	<b>88,073</b>
<b>Fund Balances, January 1</b>	<b>1,254,448</b>	<b>455,146</b>	<b>2,762,884</b>	<b>(1,906,428)</b>	<b>122,560</b>	<b>2,688,610</b>
<b>Fund Balances, December 31</b>	<b>\$ 1,343,653</b>	<b>\$ 422,229</b>	<b>\$ 2,815,235</b>	<b>\$ (1,936,289)</b>	<b>\$ 131,855</b>	<b>\$ 2,776,683</b>

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, 2022

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

Total Net Change in Fund Balances - Governmental Funds	\$	88,073
<p>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.</p>		
Capital outlays		441,808
Depreciation expense		(295,576)
<p>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.</p>		
Principal repayments		133,002
<p>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.</p>		
		1,411
<p>Long-term pension activity is not reported in governmental funds.</p>		
Pension expense		(75,558)
Pension revenue from state contributions		1,790
<p>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.</p>		
Special assessments		(4,870)
Property taxes		(1,554)
<p>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.</p>		
Compensated absences		(1,159)
		(1,159)
Change in Net Position - Governmental Activities	\$	287,367

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, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,107,097	\$ 1,107,097	\$ 1,117,540	\$ 10,443
Licenses and permits	133,625	133,625	99,711	(33,914)
Intergovernmental	525,239	525,239	529,099	3,860
Charges for services	78,600	78,600	75,920	(2,680)
Fines and forfeitures	17,000	17,000	28,429	11,429
Interest on investments	14,025	14,025	2,444	(11,581)
Miscellaneous	4,000	4,000	9,010	5,010
Total Revenues	<u>1,879,586</u>	<u>1,879,586</u>	<u>1,862,153</u>	<u>(17,433)</u>
Expenditures				
Current				
General government	562,949	562,949	498,880	64,069
Public safety	1,239,224	1,239,224	1,236,006	3,218
Public works	228,288	228,288	201,232	27,056
Culture and recreation	124,125	124,125	111,830	12,295
Total Expenditures	<u>2,154,586</u>	<u>2,154,586</u>	<u>2,047,948</u>	<u>106,638</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(275,000)	(275,000)	(185,795)	89,205
Other Financing Sources (Uses)				
Transfers in	<u>275,000</u>	<u>275,000</u>	<u>275,000</u>	<u>-</u>
Net Change in Fund Balances	-	-	89,205	89,205
Fund Balances, January 1	<u>1,254,448</u>	<u>1,254,448</u>	<u>1,254,448</u>	<u>-</u>
Fund Balances, December 31	<u><u>\$ 1,254,448</u></u>	<u><u>\$ 1,254,448</u></u>	<u><u>\$ 1,343,653</u></u>	<u><u>\$ 89,205</u></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, 2022

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Municipal Liquor</u>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and temporary investments	\$ 351,462	\$ 1,179,151	\$ 575,889
Receivables			
Accounts	68,303	70,331	42,997
Special assessments	15,922	12,429	-
Inventories	-	-	526,395
Prepaid items	-	-	1,370
<b>Total Current Assets</b>	<u>435,687</u>	<u>1,261,911</u>	<u>1,146,651</u>
<b>Noncurrent Assets</b>			
Capital assets			
Land	-	-	51,950
Buildings and improvements	-	-	963,691
Infrastructure	1,449,301	1,316,113	-
Machinery and equipment	64,449	151,906	337,292
Construction in progress	-	6,644	-
Less accumulated depreciation	<u>(860,346)</u>	<u>(1,096,532)</u>	<u>(926,664)</u>
<b>Total Capital Assets (Net of Accumulated Depreciation)</b>	<u>653,404</u>	<u>378,131</u>	<u>426,269</u>
<b>Total Assets</b>	<u>1,089,091</u>	<u>1,640,042</u>	<u>1,572,920</u>
<b>Deferred Outflows of Resources</b>			
Deferred pension resources	<u>16,602</u>	<u>14,981</u>	<u>101,146</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable	6,806	3,825	46,578
Accrued salaries payable	-	-	14,482
Due to other governments	1,325	-	37,229
Accrued interest payable	1,813	3,249	-
Compensated absences payable - current	-	-	16,088
Bonds payable - current	<u>30,000</u>	<u>50,000</u>	<u>-</u>
<b>Total Current Liabilities</b>	<u>39,944</u>	<u>57,074</u>	<u>114,377</u>

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

Business-type Activities - Enterprise Funds

<u>Lovell Building</u>	<u>Nonmajor Storm Sewer</u>	<u>Total</u>
\$ 580,869	\$ (135,471)	\$ 2,551,900
-	12,924	194,555
-	4,029	32,380
-	-	526,395
-	-	1,370
<u>580,869</u>	<u>(118,518)</u>	<u>3,306,600</u>
-	-	51,950
-	-	963,691
-	98,871	2,864,285
-	-	553,647
-	-	6,644
-	(27,192)	(2,910,734)
<u>-</u>	<u>71,679</u>	<u>1,529,483</u>
<u>580,869</u>	<u>(46,839)</u>	<u>4,836,083</u>
-	3,884	136,613
(3,788)	539	53,960
-	-	14,482
-	-	38,554
-	1,101	6,163
-	-	16,088
-	10,668	90,668
<u>(3,788)</u>	<u>12,308</u>	<u>219,915</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, 2022

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Municipal Liquor
Noncurrent Liabilities			
Bonds payable	\$ 90,000	\$ 165,000	\$ -
Net pension liability	59,311	53,007	339,848
Total Noncurrent Liabilities	149,311	218,007	339,848
Total Liabilities	189,255	275,081	454,225
Deferred Inflows of Resources			
Deferred pension resources	944	796	6,996
Net Position			
Net investment in capital assets	533,404	163,131	426,269
Unrestricted	382,090	1,216,015	786,576
Total Net Position	\$ 915,494	\$ 1,379,146	\$ 1,212,845

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

Business-type Activities - Enterprise Funds

Lovell Building	Nonmajor Storm Sewer	Total
\$ -	\$ 84,431	\$ 339,431
-	12,995	465,161
-	97,426	804,592
(3,788)	109,734	1,024,507
-	248	8,984
-	(23,420)	1,099,384
584,657	(129,517)	2,839,821
<u>\$ 584,657</u>	<u>\$ (152,937)</u>	<u>\$ 3,939,205</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, 2022

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Municipal Liquor</u>
Operating Revenues			
Sales	\$ -	\$ -	\$ 3,543,896
Cost of sales	-	-	(2,609,098)
Gross Profit	<u>-</u>	<u>-</u>	<u>934,798</u>
Charges for services	<u>274,737</u>	<u>269,718</u>	<u>-</u>
Total Operating Revenues	<u>274,737</u>	<u>269,718</u>	<u>934,798</u>
Operating Expenses			
Personnel services	86,040	77,954	526,817
Supplies	17,404	2,868	4,198
Other services and charges	67,303	179,171	138,922
Depreciation	37,748	48,497	47,695
Total Operating Expenses	<u>208,495</u>	<u>308,490</u>	<u>717,632</u>
Operating Income (Loss)	<u>66,242</u>	<u>(38,772)</u>	<u>217,166</u>
Nonoperating Revenues (Expenses)			
Investment earnings	1,636	6,495	2,649
Miscellaneous revenue	30	24	442
Gain on sale of capital assets	-	8,100	-
Property taxes	-	-	-
Interest expense	(4,607)	(8,218)	-
Total Nonoperating Revenues (Expenses)	<u>(2,941)</u>	<u>6,401</u>	<u>3,091</u>
Income (Loss) Before Contributions and Transfers	63,301	(32,371)	220,257
Capital Contributions	9,592	1,500	-
Transfers Out	<u>-</u>	<u>-</u>	<u>(275,000)</u>
Change in Net Position	72,893	(30,871)	(54,743)
Net Position, January 1	<u>842,601</u>	<u>1,410,017</u>	<u>1,267,588</u>
Net Position, December 31	<u>\$ 915,494</u>	<u>\$ 1,379,146</u>	<u>\$ 1,212,845</u>

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

Business-type Activities - Enterprise Funds

Lovell Building	Nonmajor Storm Sewer	Total
\$ -	\$ -	\$ 3,543,896
-	-	(2,609,098)
-	-	934,798
-	45,536	589,991
-	45,536	1,524,789
-	19,875	710,686
-	1,048	25,518
-	48,546	433,942
-	2,472	136,412
-	71,941	1,306,558
-	(26,405)	218,231
3,237	-	14,017
-	-	496
-	-	8,100
-	21,069	21,069
-	(2,759)	(15,584)
3,237	18,310	28,098
3,237	(8,095)	246,329
-	-	11,092
-	-	(275,000)
3,237	(8,095)	(17,579)
581,420	(144,842)	3,956,784
\$ 584,657	\$ (152,937)	\$ 3,939,205

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, 2022

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Municipal Liquor</u>
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 254,566	\$ 258,271	\$ 3,541,630
Other operating receipts	30	24	442
Payments to suppliers	(79,889)	(181,152)	(2,802,175)
Payments to employees	(82,024)	(74,320)	(506,181)
Net Cash Provided (Used) by Operating Activities	<u>92,683</u>	<u>2,823</u>	<u>233,716</u>
Cash Flows from Noncapital Financing Activities			
Transfers to other funds	-	-	(275,000)
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	-	(75,194)	-
Proceeds from sale of capital assets	-	8,100	-
Property taxes collected	-	-	-
Capital contributions	9,592	1,500	-
Principal paid on long-term debt	(25,000)	(50,000)	-
Interest paid on long-term debt	(4,940)	(8,885)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(20,348)</u>	<u>(124,479)</u>	<u>-</u>
Cash Flows from Investing Activities			
Interest received on investments	<u>1,636</u>	<u>6,495</u>	<u>2,649</u>
Net Increase (Decrease) in Cash and Cash Equivalents	73,971	(115,161)	(38,635)
Cash and Cash Equivalents, January 1	<u>277,491</u>	<u>1,294,312</u>	<u>614,524</u>
Cash and Cash Equivalents, December 31	<u>\$ 351,462</u>	<u>\$ 1,179,151</u>	<u>\$ 575,889</u>

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

Business-type Activities - Enterprise Funds

Lovell Building	Nonmajor Storm Sewer	Total
\$ -	\$ 46,011	\$ 4,100,478
-	-	496
(3,536)	(49,260)	(3,116,012)
-	(18,941)	(681,466)
(3,536)	(22,190)	303,496
-	-	(275,000)
-	-	(75,194)
-	-	8,100
-	21,069	21,069
-	-	11,092
-	(10,668)	(85,668)
-	(2,848)	(16,673)
-	7,553	(137,274)
3,237	-	14,017
(299)	(14,637)	(94,761)
581,168	(120,834)	2,646,661
\$ 580,869	\$ (135,471)	\$ 2,551,900

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, 2022

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Municipal Liquor</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	\$ 66,242	\$ (38,772)	\$ 217,166
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	37,748	48,497	47,695
Other income	30	24	442
(Increase) decrease in assets			
Accounts receivable	(13,146)	(6,817)	(2,266)
Special assessments receivable	(7,025)	(4,630)	-
Inventories	-	-	(69,996)
Prepaid items	-	-	1
(Increase) decrease in deferred outflows of resources			
Deferred pension resources	5,391	4,880	32,510
Increase (decrease) in liabilities			
Accounts payable	4,631	887	17,175
Due to other governments	187	-	2,863
Accrued salaries payable	-	-	53
Deposits payable	-	-	-
Compensated absences payable	-	-	(3,630)
Net pension liability	25,618	23,188	154,499
Decrease in deferred inflows of resources			
Deferred pension resources	(26,993)	(24,434)	(162,796)
 Net Cash Provided (Used) By Operating Activities	 <u>\$ 92,683</u>	 <u>\$ 2,823</u>	 <u>\$ 233,716</u>

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

Business-type Activities - Enterprise Funds

<u>Lovell Building</u>	<u>Nonmajor Storm Sewer</u>	<u>Total</u>
\$ -	\$ (26,405)	\$ 218,231
-	2,472	136,412
-	-	496
-	(90)	(22,319)
-	565	(11,090)
-	-	(69,996)
-	-	1
-	1,254	44,035
-	334	23,027
-	-	3,050
-	-	53
(3,536)	-	(3,536)
-	-	(3,630)
-	5,961	209,266
-	(6,281)	(220,504)
<u>\$ (3,536)</u>	<u>\$ (22,190)</u>	<u>\$ 303,496</u>

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

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City of Lexington, Minnesota  
Notes to the Financial Statements  
December 31, 2022

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

The City reports the following major proprietary funds:

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

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

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

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

## Note 1: Summary of Significant Accounting Policies (Continued)

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

#### *Deposits and Investments*

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

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

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

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

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

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

City of Lexington, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 1: Summary of Significant Accounting Policies (Continued)**

The City has the following recurring fair value measurements as of December 31, 2022:

- Negotiable certificates of deposits of \$1,238,847 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 2022. The City annually certifies delinquent water, sewer and storm sewer accounts to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established.

***Special Assessments***

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

***Inventories and Prepaid Items***

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

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

City of Lexington, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 1: Summary of Significant Accounting Policies (Continued)**

***Lease Receivable***

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

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

***Capital Assets***

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are, reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

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

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

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

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

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

**Note 1: Summary of Significant Accounting Policies (Continued)**

***Deferred Outflows of Resources***

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net 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.

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

	Public Employees Retirement Association of Minnesota (PERA) GERP	Fire Relief Association	Total All Plans
Pension Expense	\$ 125,622	\$ 44,224	\$ 169,846

***Compensated Absences***

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

## **Note 1: Summary of Significant Accounting Policies (Continued)**

### ***Long-term Obligations***

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

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

### ***Deferred Inflows of Resources***

In addition to liabilities, the statement of net position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net 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 three types of items, unavailable revenue, deferred lease resources and deferred pension resources.

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

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

### ***Fund Balance***

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

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

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

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

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

City of Lexington, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 1: Summary of Significant Accounting Policies (Continued)**

*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.

**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 2022.

**B. Deficit Fund Equity**

The following funds had a net position deficit at December 31, 2022:

Fund	Amount
Major	
TIF District #1-3	\$ 1,936,289
Nonmajor Governmental Fund	
2023 Street Improvements	3,025
Nonmajor Enterprise Fund	
Storm Sewer	152,937

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

City of Lexington, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds**

**A. Deposits and Investments**

***Deposits***

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

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

Authorized collateral in lieu of a corporate surety bond includes:

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

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

City of Lexington, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds (Continued)**

**Investments**

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

Investment Type	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount	Fair Value Measurement Using	
				Level 1	Level 2
Pooled Investments at Amortized Costs					
4M fund	N/A	less than 6 months	\$ 4,242,157		
Non-pooled Investments at Fair Value					
Negotiable certificates of deposit	N/A	less than 1 year	1,238,847	\$ -	\$ 1,238,847
Total Investments			<u>\$ 5,481,004</u>	<u>\$ -</u>	<u>\$ 1,238,847</u>

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

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

N/A Indicates not applicable or available.

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

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

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

Investments	\$ 5,481,004
Cash on Hand	<u>2,800</u>
Total	<u>\$ 5,483,804</u>

City of Lexington, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds (Continued)**

**B. Lease Receivable**

As of December 31, 2022, the City had the following lease receivable:

Description	Issue Date	Discount Rate		Current Year Inflow of Resources	Balance at Year End
Verizon Cell Tower	05/01/16	1.16	% \$	25,371	\$ 214,984
American Tower Cell Tower	01/01/19	1.16		24,396	206,117
Total					<u>\$ 421,101</u>

**C. Capital Assets**

Capital asset activity for the year ended December 31, 2022 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets not Being Depreciated				
Land	\$ 63,403	\$ -	\$ -	\$ 63,403
Construction in progress	-	185,984	-	185,984
Total Capital Assets not Being Depreciated	<u>63,403</u>	<u>185,984</u>	<u>-</u>	<u>249,387</u>
Capital Assets Being Depreciated				
Buildings and improvements	2,880,657	99,650	-	2,980,307
Infrastructure	2,226,338	-	-	2,226,338
Machinery and equipment	1,929,756	156,174	-	2,085,930
Total Capital Assets being depreciated	<u>7,036,751</u>	<u>255,824</u>	<u>-</u>	<u>7,292,575</u>
Less Accumulated Depreciation for				
Buildings and improvements	(1,224,318)	(86,300)	-	(1,310,618)
Infrastructure	(762,911)	(70,006)	-	(832,917)
Machinery and equipment	(1,371,934)	(139,270)	-	(1,511,204)
Total Accumulated Depreciation	<u>(3,359,163)</u>	<u>(295,576)</u>	<u>-</u>	<u>(3,654,739)</u>
Total Capital Assets Being Depreciated, Net	<u>3,677,588</u>	<u>(39,752)</u>	<u>-</u>	<u>3,637,836</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,740,991</u>	<u>\$ 146,232</u>	<u>\$ -</u>	<u>\$ 3,887,223</u>

City of Lexington, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds (Continued)**

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

Function/Program				Amount
<b>Governmental Activities</b>				
General Government				\$ 45,636
Public Safety				125,418
Public Works				108,549
Culture and Recreation				15,973
 Total Depreciation Expense - Governmental Activities				 \$ 295,576
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type Activities</b>				
Capital Assets not Being Depreciated				
Land	\$ 51,950	\$ -	\$ -	\$ 51,950
Construction in progress	11,640	6,644	(11,640)	6,644
Total Capital Assets not Being Depreciated	63,590	6,644	(11,640)	58,594
Capital Assets Being Depreciated				
Buildings and improvements	963,691	-	-	963,691
Infrastructure	2,864,285	-	-	2,864,285
Machinery and equipment	548,711	80,190	(75,254)	553,647
Total Capital Assets Being Depreciated	4,376,687	80,190	(75,254)	4,381,623
Less Accumulated Depreciation for				
Buildings and improvements	(625,363)	(31,720)	-	(657,083)
Infrastructure	(1,795,036)	(69,275)	-	(1,864,311)
Machinery and equipment	(429,177)	(35,417)	75,254	(389,340)
Total Accumulated Depreciation	(2,849,576)	(136,412)	75,254	(2,910,734)
 Total Capital Assets Being Depreciated, Net	 1,527,111	 (56,222)	 -	 1,470,889
 Business-type Activities Capital Assets, Net	 \$ 1,590,701	 \$ (49,578)	 \$ (11,640)	 \$ 1,529,483

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

<b>Business-type Activities</b>	
Water	\$ 37,748
Sewer	48,497
Municipal Liquor	47,695
Storm Sewer	2,472
 Total Depreciation Expense - Business-type Activities	 \$ 136,412

City of Lexington, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds (Continued)**

**D. Interfund Receivables, Payable and Transfers**

The composition of interfund transfers for the year ended December 31, 2022 is as follows:

Fund	Transfer in			
	General	Capital Projects	Nonmajor Governmental	Total
Transfer Out				
Debt Service	\$ -	\$ 25,777	\$ -	\$ 25,777
Capital Projects	-	-	184,000	184,000
Nonmajor Governmental	-	49,365	-	49,365
Municipal Liquor	275,000	-	-	275,000
<b>Total Transfers In</b>	<b>\$ 275,000</b>	<b>\$ 75,142</b>	<b>\$ 184,000</b>	<b>\$ 534,142</b>

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

An interfund loan was set up between the Capital Projects Fund and TIF District #1-3 for the establishment of the TIF District. The amount of the loan is \$2,062,053 including unpaid interest, expected to be refunded from the future tax increment at a 4 percent interest rate.

**E. Long-term Debt**

General Obligation (G.O.) Bonds

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

G.O. Improvement Bonds

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Improvement Bonds of 2014A	\$ 655,000	1.3 - 3.25 %	05/28/14	02/01/31	\$ 535,000
G.O. Capital Notes, Series 2016A	31,952	2.00	4/14/16	02/01/24	7,608
G.O. Improvement Bonds, Series 2017A	1,260,000	3.00	08/24/17	02/01/38	980,000
<b>Total G.O. Improvement Bonds</b>					<b>\$ 1,522,608</b>

City of Lexington, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds (Continued)**

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

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

Year Ending December 31,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2023	\$ 133,091	\$ 39,910	\$ 173,001	\$ 10,668	\$ 2,532	\$ 13,200
2024	133,181	36,474	169,655	10,668	2,308	12,976
2025	125,221	33,034	158,255	9,779	2,083	11,862
2026	125,221	29,458	154,679	9,779	1,829	11,608
2027	129,332	25,640	154,972	10,668	1,552	12,220
2028 - 2032	616,439	67,872	684,311	43,561	2,821	46,382
2033 - 2037	145,000	11,175	156,175	-	-	-
2038 - 2039	20,000	300	20,300	-	-	-
<b>Total</b>	<b>\$ 1,427,485</b>	<b>\$ 243,863</b>	<b>\$ 1,671,348</b>	<b>\$ 95,123</b>	<b>\$ 13,125</b>	<b>\$ 108,248</b>

G.O. Utility Revenue Bonds

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Utility Revenue Bonds, Series 2010A	\$ 1,040,000	1.85 - 3.75 %	07/14/10	02/01/26	<u>\$ 335,000</u>

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

**Requirement to maturity for utility bonds**

Year Ending December 31,	Business-type Activities		
	Principal	Interest	Total
2023	\$ 80,000	\$ 10,750	\$ 90,750
2024	85,000	7,863	92,863
2025	85,000	4,781	89,781
2026	85,000	1,594	86,594
<b>Total</b>	<b>\$ 335,000</b>	<b>\$ 24,988</b>	<b>\$ 359,988</b>

City of Lexington, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds (Continued)**

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2022 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
G.O. Improvement Bonds	\$ 1,560,511	\$ -	\$ (133,002)	\$ 1,427,509	\$ 133,091
Compensated Absences Payable	37,636	62,109	(60,950)	38,795	38,795
Governmental Activities Long-term Liabilities	<u>\$ 1,598,147</u>	<u>\$ 62,109</u>	<u>\$ (193,952)</u>	<u>\$ 1,466,304</u>	<u>\$ 171,886</u>
<b>Business-type Activities</b>					
G.O. Improvement Bonds	\$ 105,767	\$ -	\$ (10,668)	\$ 95,099	\$ 10,668
G.O. Utility Revenue Bonds	410,000		(75,000)	335,000	80,000
Total Bonds Payable	<u>515,767</u>	<u>-</u>	<u>(85,668)</u>	<u>430,099</u>	<u>90,668</u>
Compensated Absences Payable	19,718	28,501	(32,131)	16,088	16,088
Business-type Activities Long-term Liabilities	<u>\$ 535,485</u>	<u>\$ 28,501</u>	<u>\$ (117,799)</u>	<u>\$ 446,187</u>	<u>\$ 106,756</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 Plan

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

**B. Benefits Provided**

PERA provides retirement, disability and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

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

##### General Employees Plan Benefits

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

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

#### **C. Contributions**

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

##### General Employees Fund Contributions

Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2022 and the City was required to contribute 7.50 percent of pay for Coordinated Plan members. The City's contributions to the General Employees Fund for the years ending December 31, 2022, 2021 and 2020 were \$59,504, \$60,151 and \$57,739, respectively. The City's contributions were equal to the required contributions for each year as set by state statute.

#### **D. Pension Costs**

##### General Employees Fund Pension Costs

At December 31, 2022, the City reported a liability of \$863,284 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million to the fund in 2022. 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 \$25,265. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2022, the City's proportion was 0.0109 percent which was the same as its proportion measured as of June 30, 2021.

City of Lexington, Minnesota  
Notes to the Financial Statements  
December 31, 2022

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

City's Proportionate Share of the Net Pension Liability	\$ 863,284
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City	<u>25,265</u>
Total	<u><u>\$ 888,549</u></u>

For the year ended December 31, 2022, the City recognized pension expense of \$121,847 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized \$3,775 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2022, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources, related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Economic Experience	\$ 7,211	\$ 9,184
Changes in Actuarial Assumptions	195,377	3,350
Net Difference Between Projected and Actual Earnings on Plan Investments	13,454	-
Changes in Proportion	12,147	2,135
Contributions Paid to PERA Subsequent to the Measurement Date	<u>29,618</u>	<u>-</u>
Total	<u><u>\$ 257,807</u></u>	<u><u>\$ 14,669</u></u>

The \$29,618 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2023	\$ 85,936
2024	77,024
2025	(27,511)
2026	78,071
2027	-
Thereafter	-

City of Lexington, Minnesota  
Notes to the Financial Statements  
December 31, 2022

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

**E. Long-term Expected Return on Investment**

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

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

**F. Actuarial Assumptions**

The total pension liability in the June 30, 2022 actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5 percent was deemed to be within that range of reasonableness for financial reporting purposes.

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

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years of service.

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

Actuarial assumptions used in the June 30, 2022 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and become effective with the July 1, 2020 actuarial valuation.

City of Lexington, Minnesota  
Notes to the Financial Statements  
December 31, 2022

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

The following changes in actuarial assumptions and plan provisions occurred in 2022:

General Employees Fund

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**G. Discount Rate**

The discount rate used to measure the total pension liability in 2022 was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund 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.

**H. Pension Liability Sensitivity**

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

	City Proportionate Share of NPL		
	1 Percent Decrease (5.50%)	Current (6.50%)	1 Percent Increase (7.50%)
	General Employees Fund	\$ 1,363,602	\$ 863,284

**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](http://www.mnpera.org).

**Note 5: Public Employees Defined Contribution Plans**

**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, 2021, the plan covered 18 active firefighters and 9 vested terminated fire fighters whose pension benefits are deferred. The plan is established and administered in accordance with Minnesota statutes, chapter 353 G.

City of Lexington, Minnesota  
Notes to the Financial Statements  
December 31, 2022

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

**B. Benefits Provided**

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

**C. Contributions**

The Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota statutes and voluntary City contributions. The State of Minnesota contributed \$14,805 in fire state aid to the fund for the year ended December 31, 2022. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the Volunteer Firefighter Fund for the year ended December 31, 2022 were \$14,805. The City's contributions were equal to the required contributions as set by state statute, if applicable. The City made no voluntary contributions to the plan.

**D. Pension Costs**

At December 31, 2022, the City reported a net pension asset of \$208,828 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2021. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the Department. The following table presents the changes in net pension asset during the year:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance January 1, 2020	\$ 693,600	\$ 901,249	\$ (207,649)
Changes for the Year			
Service cost	29,895	-	29,895
Interest on pension liability (asset)	37,110	-	37,110
Actuarial experience (gains)/losses	(76,809)	-	(76,809)
Projected investment earnings	-	54,075	(54,075)
Changes in benefit level	107,066	-	107,066
Contributions (State)	-	12,575	(12,575)
Asset (gain)/loss	-	32,743	(32,743)
Benefit payouts	(210,000)	(210,000)	-
Administrative costs	-	(952)	952
Total Net Changes	(112,738)	(111,559)	(1,179)
Ending Balance December 31, 2021	\$ 580,862	\$ 789,690	\$ (208,828)

For the year ended December 31, 2022, the City recognized pension expense of \$44,224

City of Lexington, Minnesota  
Notes to the Financial Statements  
December 31, 2022

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

At December 31, 2022, the City reported its deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, to the plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ -	\$ 61,447
Asset (Gain)/Loss	-	26,194
Contributions to Plan Subsequent to the Measurement Date	14,805	-
Total	\$ 14,805	\$ 87,641

Deferred outflows of resources totaling \$14,805 related to pensions resulting from the City's contributions to the plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows of resources related to the plan will be recognized in pension expense as follows:

2023	\$ (55,964)
2024	(45,071)
2025	(53,852)
2026	67,246

**E. Actuarial Assumptions**

The total pension liability at December 31, 2021 was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Retirement Eligibility at the Later of Age 50 or 20 Years of Service	
Inflation	2.5% per year
Investment Rate of Return	7.50%

There were no changes in actuarial assumptions in 2021.

**F. Discount Rate**

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

City of Lexington, Minnesota  
Notes to the Financial Statements  
December 31, 2022

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

**G. Pension Liability Sensitivity**

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

	1 Percent Decrease (5.00%)	Current (6.00%)	1 Percent Increase (7.00%)
SVF	\$ (186,750)	\$ (208,828)	\$ (229,405)

**H. Investment Policy**

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

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

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

The SBI made no significant changes to their investment policy during fiscal year 2021 for the SVF plan.

**I. Asset Allocation**

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

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

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

City of Lexington, Minnesota  
Notes to the Financial Statements  
December 31, 2022

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

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

The SBI made no significant changes to their investment policy during fiscal year 2022 for the Volunteer Firefighter Fund.

**J. Pension Plan Fiduciary Net Position**

Detailed information about the Volunteer Firefighter Fund’s fiduciary net position as of December 31, 2021 is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at [www.mnpera.org](http://www.mnpera.org).

**Note 6: Other Information**

**Risk Management**

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

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

**Note 7: Joint Ventures**

**Centennial Lake Police Department**

The Centennial Lakes Police Department (the Department) was formed under the authority of Minnesota statutes 436.06 in 2005 by agreement of the member cities of Centerville, Circle Pines and Lexington. The Department was created to provide police protection services to its member cities. The Department is managed through a three tier system consisting of a Governing Board, an Operations Committee, and a Chief of Police. The Governing Board consists of six members, two elected officials appointed by each member city. The Operations Committee is made up of the City administrators from each member city and the Chief of Police. The Chief of Police is appointed by mutual agreement of the City Councils of all member cities. Annual contributions required by each member city are calculated based on complaint history, population, and staffing formulas. The City’s equity interest and its share of the net income (loss) of the Department is not measurable; therefore, no equity interest is reported in the government-wide financial statements. Contributions made by member cities for 2022 were as follows:

City of Circle Pines	\$ 1,101,620	40.83 %
City of Lexington	746,258	27.66
City of Centerville	<u>849,994</u>	<u>31.51</u>
 Total	 <u>\$ 2,697,872</u>	 <u>100.00 %</u>

City of Lexington, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 7: Joint Ventures (Continued)**

The following information is from the financial statements of the Department as of December 31, 2022. 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.

	Centennial Lakes Police Department
Total Assets and Deferred Outflows of Resources	\$ 4,909,596
Total Liabilities and Deferred Inflows of Resources	5,902,816
Total Net Position	(993,220)
Total Revenue	2,954,289
Total Expenses	2,940,524

**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.

**Note 8: Change in Accounting Principles**

For fiscal year 2022, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 87, Leases. GASB Statement No. 87 enhances the relevance and consistency of information of the government's leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. These changes were incorporated in the City's 2022 financial statements. The City's recognition of the beginning balances related to the lease liability and the intangible right to use lease asset were equal balances and had no effect on the beginning net position of the Governmental Activities.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LEXINGTON  
LEXINGTON, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022

City of Lexington, Minnesota  
Required Supplementary Information  
For the Year Ended December 31, 2022

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

Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2022	0.0109 %	\$ 863,284	\$ 25,265	888,549	\$ 803,274	107.5 %	76.7 %
6/30/2021	0.0109	465,479	14,300	479,779	786,037	59.2	87.0
6/30/2020	0.0104	623,528	19,190	642,718	740,027	84.3	79.0
6/30/2019	0.0101	558,406	17,333	575,739	713,371	78.3	80.2
6/30/2018	0.0104	576,949	18,852	595,801	698,367	82.6	79.5
6/30/2017	0.0106	676,697	8,547	685,244	686,204	98.6	75.9
6/30/2016	0.0109	885,026	-	885,026	656,576	134.8	68.9
6/30/2015	0.0117	606,355	-	606,355	673,400	90.0	78.2

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

**Schedule of Employer's PERA Contributions - General Employees Fund**

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/2022	\$ 59,504	\$ 59,504	\$ -	\$ 793,383	7.50 %
12/31/2021	60,151	60,151	-	802,018	7.50
12/31/2020	57,739	57,739	-	769,853	7.50
12/31/2019	53,272	53,272	-	710,297	7.50
12/31/2018	53,678	53,678	-	715,712	7.50
12/31/2017	51,556	51,556	-	687,409	7.50
12/31/2016	50,089	50,089	-	667,856	7.50
12/31/2015	51,360	51,360	-	684,800	7.50

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

City of Lexington, Minnesota  
Required Supplementary Information (Continued)  
For the Year Ended December 31, 2022

**Notes to the Required Supplementary Information - General Employees Fund**

Changes in Actuarial Assumptions

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

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

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

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

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

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

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

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

City of Lexington, Minnesota  
 Required Supplementary Information (Continued)  
 For the Year Ended December 31, 2022

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

Changes in Plan Provisions

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

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

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

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

2018 - The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

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

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

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

**Schedule of Employer's Fire Relief Association Contributions**

Year Ending	Required Supplementary Information		
	Actuarial Determined Contribution (a)	Actual Contributions Paid (b)	Contribution Deficiency (Excess) (a-b)
12/31/22	\$ 14,805	\$ 14,805	\$ -
12/31/21	12,575	12,575	-
12/31/20	11,445	11,445	-
12/31/19	11,095	11,095	-
12/31/18	12,071	12,071	(11,664)
12/31/17	27,487	27,487	(7,241)
12/31/16	18,507	18,507	(7,241)
12/31/15	11,306	22,972	-

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

**City of Lexington, Minnesota**  
**Required Supplementary Information (Continued)**  
**For the Year Ended December 31, 2022**

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

	2022 (Fire Relief Report Date 2021)	2021 (Fire Relief Report Date 2020)	2020 (Fire Relief Report Date 2019)	2019 (Fire Relief Report Date 2018)	2018 (Fire Relief Report Date 2017)	2017 (Fire Relief Report Date 2016)	2016 (Fire Relief Report Date 2015)	2015 (Fire Relief Report Date 2014)
<b>Total Pension Liability</b>								
Service cost	\$ 29,895	\$ 28,344	\$ 29,396	\$ 28,566	\$ 25,411	\$ 21,664	\$ 24,730	\$ 19,732
Interest on pension liability (asset)	37,110	38,307	36,118	30,743	26,951	27,113	22,496	17,627
Changes of benefit terms	-	-	-	51,173	(11,812)	(55,777)	55,778	-
Differences between expected and actual experience	(76,809)	16,846	(27,980)	(21,726)	60,249	(14,480)	(9,892)	81,469
Changes in benefit level	107,066	-	-	-	-	-	-	-
Benefit payments	(210,000)	-	-	-	(81,500)	-	-	-
<b>Net Change in Total Pension Liability</b>	<b>(112,738)</b>	<b>83,497</b>	<b>37,534</b>	<b>-</b>	<b>19,299</b>	<b>(21,480)</b>	<b>93,112</b>	<b>118,828</b>
<b>Total Pension Liability - January 1</b>	<b>693,600</b>	<b>610,103</b>	<b>572,569</b>	<b>483,813</b>	<b>464,514</b>	<b>485,994</b>	<b>392,882</b>	<b>274,054</b>
<b>Total Pension Liability - December 31</b>	<b>\$ 580,862</b>	<b>\$ 693,600</b>	<b>\$ 610,103</b>	<b>\$ 572,569</b>	<b>\$ 483,813</b>	<b>\$ 464,514</b>	<b>\$ 485,994</b>	<b>\$ 392,882</b>
<b>Plan Fiduciary Net Position</b>								
Contributions - State	10,392	\$ 9,376	\$ 11,095	\$ 12,071	\$ 8,909	\$ 9,066	\$ 9,084	\$ 11,749
Fire supplemental aid	\$ 2,183	2,070	-	-	2,156	2,199	2,223	-
Employer contributions	-	20,646	29,453	-	-	-	11,666	9,151
Net investment income	86,819	112,320	113,020	(23,586)	78,295	37,687	418	30,356
Required municipal contribution	-	-	-	-	16,422	7,241	-	-
Administrative expense	(900)	(900)	(849)	(846)	(810)	(690)	(690)	(750)
Benefit Payments	(210,000)	-	-	-	(81,500)	-	-	-
Other	(52)	(45)	-	-	(37)	(41)	(17)	-
<b>Net Change in Plan Fiduciary Net Position</b>	<b>(111,558)</b>	<b>143,467</b>	<b>152,719</b>	<b>(12,361)</b>	<b>23,435</b>	<b>55,462</b>	<b>22,684</b>	<b>50,506</b>
<b>Plan Fiduciary Net Position - January 1</b>	<b>901,248</b>	<b>757,781</b>	<b>605,062</b>	<b>617,423</b>	<b>593,988</b>	<b>538,526</b>	<b>515,842</b>	<b>465,336</b>
<b>Plan Fiduciary Net Position - December 31</b>	<b>\$ 789,690</b>	<b>\$ 901,248</b>	<b>\$ 757,781</b>	<b>\$ 605,062</b>	<b>\$ 617,423</b>	<b>\$ 593,988</b>	<b>\$ 538,526</b>	<b>\$ 515,842</b>
<b>Fire Relief's Net Pension Liability (Asset) - December 31 (a-b)</b>	<b>\$ (208,828)</b>	<b>\$ (207,648)</b>	<b>\$ (147,678)</b>	<b>\$ (32,493)</b>	<b>\$ (133,610)</b>	<b>\$ (129,474)</b>	<b>\$ (52,532)</b>	<b>\$ (122,960)</b>
<b>Plan fiduciary net position as a percentage of the total pension liability (b/a)</b>	<b>145.44%</b>	<b>109.25%</b>	<b>124.21%</b>	<b>105.67%</b>	<b>127.62%</b>	<b>127.87%</b>	<b>110.81%</b>	<b>131.30%</b>
<b>Covered-employee Payroll</b>	<b>N/A</b>							
<b>Fire Relief's Net Pension Liability (Asset) as a Percentage of Covered-employee Payroll</b>	<b>N/A</b>							

**Notes to Schedule:**

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

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COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS AND SCHEDULES

CITY OF LEXINGTON  
LEXINGTON, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022

City of Lexington, Minnesota  
 Nonmajor Governmental Funds  
 Combining Balance Sheet  
 December 31, 2022

	229 ARPA Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
<b>Assets</b>			
Cash and temporary investments	\$ 82,077	\$ 202,245	\$ 284,322
Receivables			
Special assessments	-	31,360	31,360
	\$ 82,077	\$ 233,605	\$ 315,682
<b>Liabilities</b>			
Accounts payable	\$ -	\$ 70,390	\$ 70,390
Unearned revenue	82,077	-	82,077
Total Liabilities	82,077	70,390	152,467
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - special assessments	-	31,360	31,360
<b>Fund Balances</b>			
<b>Restricted</b>			
Parks	-	79,134	79,134
Assigned for future capital	-	55,746	55,746
Unassigned	-	(3,025)	(3,025)
Total Fund Balances	-	131,855	131,855
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
	\$ 82,077	\$ 233,605	\$ 315,682

City of Lexington, Minnesota  
 Nonmajor Governmental Funds  
 Combining Statement of Revenues, Expenditures and  
 Changes in Fund Balances  
 For the Year Ended December 31, 2022

	229 ARPA Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
<b>Revenues</b>			
Intergovernmental	\$ 207,739	\$ -	\$ 207,739
Special assessments	-	30,365	30,365
Investment earnings	-	1,524	1,524
Total Revenues	<u>207,739</u>	<u>31,889</u>	<u>239,628</u>
<b>Expenditures</b>			
Current			
General government	185,984	-	185,984
Public safety	21,755	-	21,755
Capital outlay			
Public works	-	151,362	151,362
Culture and recreation	-	5,867	5,867
Total Expenditures	<u>207,739</u>	<u>157,229</u>	<u>364,968</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>(125,340)</u>	<u>(125,340)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	184,000	184,000
Transfers out	-	(49,365)	(49,365)
Total Other Financing Sources (Uses)	<u>-</u>	<u>134,635</u>	<u>134,635</u>
Net Change in Fund Balances	-	9,295	9,295
Fund Balances, January 1	<u>-</u>	<u>122,560</u>	<u>122,560</u>
Fund Balances, December 31	<u>\$ -</u>	<u>\$ 131,855</u>	<u>\$ 131,855</u>

City of Lexington, Minnesota  
 Nonmajor Capital Projects Funds  
 Combining Balance Sheet  
 December 31, 2022

	<b>440</b> 2015 Street Improvements	<b>419</b> Jackson Ave.	<b>421</b> 2021 Street Improvements	<b>422</b> 2022 Street Improvements	<b>423</b> 2023 Street Improvements	<b>405</b> Park Dedication Fees	Total Capital Projects Funds
<b>Assets</b>							
Cash and temporary investments	\$ 16,500	\$ -	\$ -	\$ 109,636	\$ (3,025)	\$ 79,134	\$ 202,245
Special assessments receivable Deferred	-	-	-	31,360	-	-	31,360
<b>Total Assets</b>	<b>\$ 16,500</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 140,996</b>	<b>\$ (3,025)</b>	<b>\$ 79,134</b>	<b>\$ 233,605</b>
<b>Liabilities</b>							
Accounts payable	\$ 16,500	\$ -	\$ -	\$ 53,890	\$ -	\$ -	\$ 70,390
<b>Deferred Inflows of Resources</b>							
Unavailable revenue - special assessments	-	-	-	31,360	-	-	31,360
<b>Fund Balances</b>							
Restricted for parks	-	-	-	-	-	79,134	79,134
Assigned for future capital projects	-	-	-	55,746	-	-	55,746
Unassigned	-	-	-	-	(3,025)	-	(3,025)
<b>Total Fund Balances</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>55,746</b>	<b>(3,025)</b>	<b>79,134</b>	<b>131,855</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>							
	<b>\$ 16,500</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 140,996</b>	<b>\$ (3,025)</b>	<b>\$ 79,134</b>	<b>\$ 233,605</b>

City of Lexington, Minnesota  
 Nonmajor Capital Projects Funds  
 Combining Statement of Revenues, Expenditures and  
 Changes in Fund Balances  
 For the Year Ended December 31, 2022

	<b>440</b>	<b>419</b>	<b>421</b>	<b>422</b>	<b>423</b>	<b>405</b>	Total
	2015 Street Improvements	Jackson Ave.	2021 Street Improvements	2022 Street Improvements	2023 Street Improvements	Park Dedication Fees	Capital Projects Funds
<b>Revenues</b>							
Special assessments	\$ -	\$ 2,851	\$ 8,699	\$ 18,815	\$ -	\$ -	\$ 30,365
Investment earnings	-	46	195	813	-	470	1,524
Total Revenues	<u>-</u>	<u>2,897</u>	<u>8,894</u>	<u>19,628</u>	<u>-</u>	<u>470</u>	<u>31,889</u>
<b>Expenditures</b>							
<b>Capital outlay</b>							
Public works	-	-	455	147,882	3,025	-	151,362
Culture and recreation	-	-	-	-	-	5,867	5,867
Total Expenditures	<u>-</u>	<u>-</u>	<u>455</u>	<u>147,882</u>	<u>3,025</u>	<u>5,867</u>	<u>157,229</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>2,897</u>	<u>8,439</u>	<u>(128,254)</u>	<u>(3,025)</u>	<u>(5,397)</u>	<u>(125,340)</u>
<b>Other Financing Sources (Uses)</b>							
Transfers in	-	-	-	184,000	-	-	184,000
Transfers out	-	(10,221)	(39,144)	-	-	-	(49,365)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(10,221)</u>	<u>(39,144)</u>	<u>184,000</u>	<u>-</u>	<u>-</u>	<u>134,635</u>
Net Change in Fund Balances	-	(7,324)	(30,705)	55,746	(3,025)	(5,397)	9,295
Fund Balances, January 1	<u>-</u>	<u>7,324</u>	<u>30,705</u>	<u>-</u>	<u>-</u>	<u>84,531</u>	<u>122,560</u>
Fund Balances, December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,746</u>	<u>\$ (3,025)</u>	<u>\$ 79,134</u>	<u>\$ 131,855</u>

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City of Lexington, Minnesota  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual (Continued on the Following Pages)  
For the Year Ended December 31, 2022  
(With Comparative Actual Amounts for the Year Ended December 31, 2021)

	2022			Variance with Final Budget	2021
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Revenues					
Taxes					
Property taxes	\$ 1,107,097	\$ 1,107,097	\$ 1,117,540	\$ 10,443	\$ 1,041,160
Licenses and permits					
Business	41,925	41,925	41,350	(575)	40,525
Nonbusiness	91,700	91,700	58,361	(33,339)	274,299
Total licenses and permits	<u>133,625</u>	<u>133,625</u>	<u>99,711</u>	<u>(33,914)</u>	<u>314,824</u>
Intergovernmental					
State					
Local government aid	448,239	448,239	448,239	-	440,657
Fire aid	10,000	10,000	14,931	4,931	17,435
Police aid	41,000	41,000	42,483	1,483	34,185
Other	-	-	-	-	38,741
County					
Recycling grant	26,000	26,000	23,446	(2,554)	24,997
Total intergovernmental	<u>525,239</u>	<u>525,239</u>	<u>529,099</u>	<u>3,860</u>	<u>556,015</u>
Charges for services					
General government	78,600	78,600	75,920	(2,680)	194,661
Fines and forfeitures	17,000	17,000	28,429	11,429	23,551
Investment earnings (loss)	14,025	14,025	2,444	(11,581)	(505)
Miscellaneous					
Other	4,000	4,000	9,010	5,010	29,630
Total Revenues	<u>1,879,586</u>	<u>1,879,586</u>	<u>1,862,153</u>	<u>(17,433)</u>	<u>2,159,336</u>

City of Lexington, Minnesota  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual (Continued)  
For the Year Ended December 31, 2022  
(With Comparative Actual Amounts for the Year Ended December 31, 2021)

	2022				2021
	Budgeted Amounts		Actual Amounts	Variance With Final Budget	Actual Amounts
	Original	Final			
Expenditures					
Current					
General government					
Mayor and city council					
Personnel services	\$ 46,936	\$ 46,936	\$ 44,460	\$ 2,476	\$ 45,818
Other services and charges	1,125	1,125	230	895	71
Total mayor and city council	<u>48,061</u>	<u>48,061</u>	<u>44,690</u>	<u>3,371</u>	<u>45,889</u>
Administration					
Personnel services	278,146	278,146	270,663	7,483	250,803
Supplies	4,000	4,000	2,813	1,187	2,803
Other services and charges	219,095	219,095	170,361	48,734	143,824
Total administration	<u>501,241</u>	<u>501,241</u>	<u>443,837</u>	<u>57,404</u>	<u>397,430</u>
Elections					
Personnel services	12,317	12,317	9,485	2,832	6,579
Other services and charges	1,330	1,330	868	462	427
Total elections	<u>13,647</u>	<u>13,647</u>	<u>10,353</u>	<u>3,294</u>	<u>7,006</u>
Total general government	<u>562,949</u>	<u>562,949</u>	<u>498,880</u>	<u>64,069</u>	<u>450,325</u>
Public safety					
Police protection and administration					
Other services and charges	<u>921,390</u>	<u>921,390</u>	<u>915,860</u>	<u>5,530</u>	<u>859,252</u>
Fire fighting and administration					
Personnel services	148,763	148,763	129,794	18,969	151,147
Supplies	18,846	18,846	16,052	2,794	10,292
Other services and charges	72,225	72,225	67,292	4,933	57,815
Total fire fighting and administration	<u>239,834</u>	<u>239,834</u>	<u>213,138</u>	<u>26,696</u>	<u>219,254</u>
Building inspection					
Other services and charges	<u>77,500</u>	<u>77,500</u>	<u>106,839</u>	<u>(29,339)</u>	<u>363,920</u>
Animal control					
Other services and charges	<u>500</u>	<u>500</u>	<u>169</u>	<u>331</u>	<u>-</u>
Total public safety	<u>1,239,224</u>	<u>1,239,224</u>	<u>1,236,006</u>	<u>3,218</u>	<u>1,442,426</u>

City of Lexington, Minnesota  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual (Continued)  
For the Year Ended December 31, 2022  
(With Comparative Actual Amounts for the Year Ended December 31, 2021)

	2022			Variance With Final Budget	2021
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Expenditures (Continued)					
Current (continued)					
Public works					
General public works					
Personnel services	\$ 104,145	\$ 104,145	\$ 94,409	\$ 9,736	\$ 97,257
Supplies	52,754	52,754	39,274	13,480	41,734
Other services and charges	41,622	41,622	40,528	1,094	27,352
Total general public works	<u>198,521</u>	<u>198,521</u>	<u>174,211</u>	<u>24,310</u>	<u>166,343</u>
Recycling					
Personnel services	11,492	11,492	14,572	(3,080)	13,940
Supplies	2,600	2,600	2,640	(40)	2,560
Other services and charges	15,675	15,675	9,809	5,866	13,943
Total recycling	<u>29,767</u>	<u>29,767</u>	<u>27,021</u>	<u>2,746</u>	<u>30,443</u>
Total public works	<u>228,288</u>	<u>228,288</u>	<u>201,232</u>	<u>27,056</u>	<u>196,786</u>
Culture and recreation					
Parks					
Personnel services	67,716	67,716	61,452	6,264	62,505
Supplies	10,904	10,904	9,766	1,138	9,042
Other services and charges	45,505	45,505	40,612	4,893	26,867
Total culture and recreation	<u>124,125</u>	<u>124,125</u>	<u>111,830</u>	<u>12,295</u>	<u>98,414</u>
Total Expenditures	<u>2,154,586</u>	<u>2,154,586</u>	<u>2,047,948</u>	<u>106,638</u>	<u>2,187,951</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(275,000)	(275,000)	(185,795)	89,205	(28,615)
Other Financing Sources (Uses)					
Transfers in	<u>275,000</u>	<u>275,000</u>	<u>275,000</u>	<u>-</u>	<u>275,000</u>
Net Change in Fund Balances	-	-	89,205	89,205	246,385
Fund Balances, January 1	<u>1,254,448</u>	<u>1,254,448</u>	<u>1,254,448</u>	<u>-</u>	<u>1,008,063</u>
Fund Balances, December 31	<u>\$ 1,254,448</u>	<u>\$ 1,254,448</u>	<u>\$ 1,343,653</u>	<u>\$ 89,205</u>	<u>\$ 1,254,448</u>

City of Lexington, Minnesota

Debt Service Funds  
 Combining Balance Sheet  
 December 31, 2022

	<b>599</b>	<b>591</b>	<b>592</b>	<b>551</b>	
	G.O. Refunding Bonds of 2012	Improvement Bonds of 2014	Improvement Bonds of 2017	Improvement Bonds of 2016	Total
<b>Assets</b>					
Cash and temporary investments	\$ -	\$ 127,501	\$ 291,986	\$ -	\$ 419,487
Receivables					
Special assessments	-	8,243	183,940	-	192,183
Due from other governments	-	1,341	1,400	-	2,741
	<u>-</u>	<u>1,341</u>	<u>1,400</u>	<u>-</u>	<u>2,741</u>
<b>Total Assets</b>	<u>\$ -</u>	<u>\$ 137,085</u>	<u>\$ 477,326</u>	<u>\$ -</u>	<u>\$ 614,411</u>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue - special assessments	\$ -	\$ 8,242	\$ 183,940	\$ -	\$ 192,182
<b>Fund Balances</b>					
Restricted for debt service	-	128,843	293,386	-	422,229
	<u>-</u>	<u>128,843</u>	<u>293,386</u>	<u>-</u>	<u>422,229</u>
<b>Total Deferred Inflows of Resources and Fund Balances</b>	<u>\$ -</u>	<u>\$ 137,085</u>	<u>\$ 477,326</u>	<u>\$ -</u>	<u>\$ 614,411</u>

City of Lexington, Minnesota  
Debt Service Funds  
Combining Schedule of Revenues, Expenditures and  
Changes in Fund Balances  
For the Year Ended December 31, 2022

	<b>599</b>	<b>591</b>	<b>592</b>	<b>551</b>	
	G.O. Refunding Bonds of 2012	Improvement Bonds of 2014	Improvement Bonds of 2017	Improvement Bonds of 2016	Total
Revenues					
Taxes					
Property	\$ -	\$ 46,896	\$ 83,040	\$ -	\$ 129,936
Franchise	-	-	-	4,090	4,090
Special assessments	-	9,986	24,563	-	34,549
Investment earnings	143	555	1,254	-	1,952
Total Revenues	<u>143</u>	<u>57,437</u>	<u>108,857</u>	<u>4,090</u>	<u>170,527</u>
Expenditures					
Debt service					
Principal	-	49,332	80,000	3,670	133,002
Interest and other	-	13,170	31,075	420	44,665
Total Expenditures	<u>-</u>	<u>62,502</u>	<u>111,075</u>	<u>4,090</u>	<u>177,667</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	143	(5,065)	(2,218)	-	(7,140)
Other Financing Sources					
Transfers out	<u>(25,777)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,777)</u>
Net Change in Fund Balances	(25,634)	(5,065)	(2,218)	-	(32,917)
Fund Balances, January 1	<u>25,634</u>	<u>133,908</u>	<u>295,604</u>	<u>-</u>	<u>455,146</u>
Fund Balances, December 31	<u>\$ -</u>	<u>\$ 128,843</u>	<u>\$ 293,386</u>	<u>\$ -</u>	<u>\$ 422,229</u>

City of Lexington, Minnesota  
 Summary Financial Report  
 Revenues and Expenditures For General Operations -  
 Governmental Funds  
 For the Years Ended December 31, 2022 and 2021

	Total		Percent Increase (Decrease)
	2022	2021	
Revenues			
Taxes			
Property taxes	\$ 1,247,476	\$ 1,171,149	6.52 %
Tax increment	279,475	219,383	27.39
Franchise taxes	188,290	183,523	2.60
Licenses and permits	99,711	314,824	(68.33)
Intergovernmental	828,638	761,015	8.89
Charges for services	79,051	241,360	(67.25)
Fines and forfeitures	28,429	23,551	20.71
Special assessments	64,914	42,155	53.99
Investment earnings	99,663	84,693	17.68
Miscellaneous	63,969	82,375	(22.34)
	<u>\$ 2,979,616</u>	<u>\$ 3,124,028</u>	(4.62) %
Total Revenues	<u>\$ 2,979,616</u>	<u>\$ 3,124,028</u>	(4.62) %
Per Capita	\$ 1,142	\$ 1,390	(17.85) %
Expenditures			
Current			
General government	\$ 914,146	\$ 553,376	65.19 %
Public safety	1,257,761	1,442,426	(12.80)
Public works	201,232	196,786	2.26
Culture and recreation	111,830	98,414	13.63
Capital outlay			
General government	9,244	44,377	(79.17)
Public safety	151,920	28,214	438.46
Public works	249,961	324,835	(23.05)
Culture and recreation	12,576	191,053	(93.42)
Debt service			
Principal	133,002	81,802	62.59
Interest and other	124,871	134,352	(7.06)
	<u>\$ 3,166,543</u>	<u>\$ 3,095,635</u>	2.29 %
Total Expenditures	<u>\$ 3,166,543</u>	<u>\$ 3,095,635</u>	2.29 %
Per Capita	\$ 1,213	\$ 1,377	(11.90) %
Total Long-term Indebtedness	\$ 1,427,509	\$ 1,560,511	(8.52) %
Per Capita	547	694	(21.21)
General Fund Balance - December 31	\$ 1,343,653	\$ 1,254,448	7.11 %
Per Capita	515	558	(7.75)

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, 2022

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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, 2022, 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 20, 2023.

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

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



**Abdo**  
Minneapolis, Minnesota  
May 20, 2023