



CITY OF LEXINGTON, TEXAS

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2024

ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED
SEPTEMBER 30, 2024



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ANNUAL FINANCIAL REPORT

of the

City of Lexington, Texas

**For the Year Ended
September 30, 2024**

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City of Lexington, Texas

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September 30, 2024

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lexington, Texas (the "City") as of and for the year ended September 30, 2024, 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 accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lexington, Texas, as of September 30, 2024, and the respective changes in financial position and, where applicable, cash flows thereof 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. 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 City of Lexington, Texas 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

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for one year after the date that the financial statements are issued.

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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of employer contributions to pension plan, and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be

an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lexington's basic financial statements. The accompanying supplemental information, such as the schedule of revenues, expenditures, and changes in net position – budget and actual – General Fund, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Brooks Watson & Co.

Brooks Watson & Co.
Certified Public Accountants
Houston, Texas
August 8, 2025

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

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City of Lexington, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2024

The purpose of the Management's Discussion and Analysis (the "MD&A") is to give the readers an objective and easily readable analysis of the City of Lexington's financial activities for the year ending September 30, 2024. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current-year results with those of the prior year, and discusses the positive and negative aspects of that comparison. GASB Statement No. 34 establishes the content of the minimum requirements for the MD&A. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

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

Financial Highlights

- The City's total combined net position was \$8,893,022 at September 30, 2024. Of this, \$1,723,095 (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- At the close of the current fiscal year, the City's only governmental fund reported a fund balance of \$50,382, a decrease of \$54,573.
- As of the end of the year, the unassigned fund balance of the general fund was a deficit of \$1,927.
- The City had an overall increase in net position of \$649,061, which is primarily due to the utility fund's revenues exceeding current year expenses and new government capital asset investments.

Government-Wide Statements

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

The Statement of Net Position presents information on all of the City of Lexington's assets and liabilities. The difference between the two is reported as *net position*. Over time, increases or decreases in net

City of Lexington, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2024

position may serve as a useful indicator of whether the financial position of the City of Lexington is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

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

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

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

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

City of Lexington, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2024

expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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

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

Proprietary Funds

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electricity, water distribution, wastewater collection/treatment, sanitation services, and water construction operations. The proprietary fund financial statements provide separate information for the electric, sanitation, water distribution, and wastewater collection/treatment funds. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Component Unit

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

Notes to Financial Statements

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

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI that GASB Statement No. 34 requires includes a budgetary comparison schedule for the general fund and schedule of funding progress for Texas Municipal Retirement System. RSI can be found after the basic financial statements.

City of Lexington, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2024

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Lexington, assets and deferred outflows exceeded liabilities and deferred inflows by \$8,893,022, as of September 30, 2024, in the primary government.

The largest portion of the City's net position, \$7,117,618, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2024	2023	2024	2023	2024	2023
Current and						
other assets	\$ 158,836	\$ 185,735	\$ 3,889,122	\$ 3,830,317	\$ 4,047,958	\$ 4,016,052
Noncurrent assets, net	1,851,263	1,480,336	6,224,507	6,211,942	8,075,770	7,692,278
Total Assets	2,010,099	1,666,071	10,113,629	10,042,259	12,123,728	11,708,330
Deferred Outflows	63,083	85,467	67,762	117,828	130,845	203,295
Other liabilities	103,644	64,333	1,130,518	1,250,252	1,234,162	1,314,585
Long-term liabilities	108,528	132,553	2,001,444	2,220,526	2,109,972	2,353,079
Total Liabilities	212,172	196,886	3,131,962	3,470,778	3,344,134	3,667,664
Deferred Inflows	8,397	-	9,020	-	17,417	-
Net Position:						
Net investment in						
capital assets	1,823,817	1,423,755	5,293,801	5,045,159	7,117,618	6,468,914
Restricted	52,309	49,185	-	-	52,309	49,185
Unrestricted	(23,513)	81,712	1,746,608	1,644,150	1,723,095	1,725,862
Total Net Position	\$ 1,852,613	\$ 1,554,652	\$ 7,040,409	\$ 6,689,309	\$ 8,893,022	\$ 8,243,961

Noncurrent assets for the primary government increased primarily due to an increase in capital asset purchases during the current year. Long-term liabilities for the primary government decreased due to principal payments made on outstanding debt during the year.

City of Lexington, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2024

Statement of Activities:

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2024	2023	2024	2023	2024	2023
Revenues						
Program revenues:						
Charges for services	\$ 77,834	\$ 61,312	\$ 2,620,459	\$ 2,428,577	\$ 2,698,293	\$ 2,489,889
Grants and contributions	328,137	56,615	205,906	384,473	534,043	441,088
General revenues:						
Property taxes	363,736	342,770	-	-	363,736	342,770
Sales taxes	284,500	301,634	-	-	284,500	301,634
Franchise and local taxes	13,850	17,818	-	-	13,850	17,818
Investment income	-	-	84,573	7,255	84,573	7,255
Other revenue	7,747	4,463	-	5,000	7,747	9,463
Total Revenues	1,075,804	784,612	2,910,938	2,825,305	3,986,742	3,609,917
Expenses						
General government	120,568	106,224	-	-	120,568	106,224
Municipal court	99,072	78,675	-	-	99,072	78,675
Police department	359,302	288,734	-	-	359,302	288,734
Fire services	54,005	73,587	-	-	54,005	73,587
Parks and recreation	35,170	16,530	-	-	35,170	16,530
Public works	183,154	99,875	-	-	183,154	99,875
Welfare	37,567	36,577	-	-	37,567	36,577
Interest and fiscal charges	1,612	1,428	-	-	1,612	1,428
Utilities	-	-	2,447,230	2,504,023	2,447,230	2,504,023
Total Expenses	890,451	701,630	2,447,230	2,504,023	3,337,681	3,205,653
Change in Net Position						
Before Transfers	185,353	82,982	463,708	321,282	649,061	404,264
Transfers	112,608	21,332	(112,608)	(21,332)	-	-
Total	112,608	21,332	(112,608)	(21,332)	-	-
Change in Net Position	297,961	104,314	351,100	299,950	649,061	404,264
Beginning Net Position	1,554,652	1,450,338	6,689,309	6,389,359	8,243,961	7,839,697
Ending Net Position	\$ 1,852,613	\$ 1,554,652	\$ 7,040,409	\$ 6,689,309	\$ 8,893,022	\$ 8,243,961

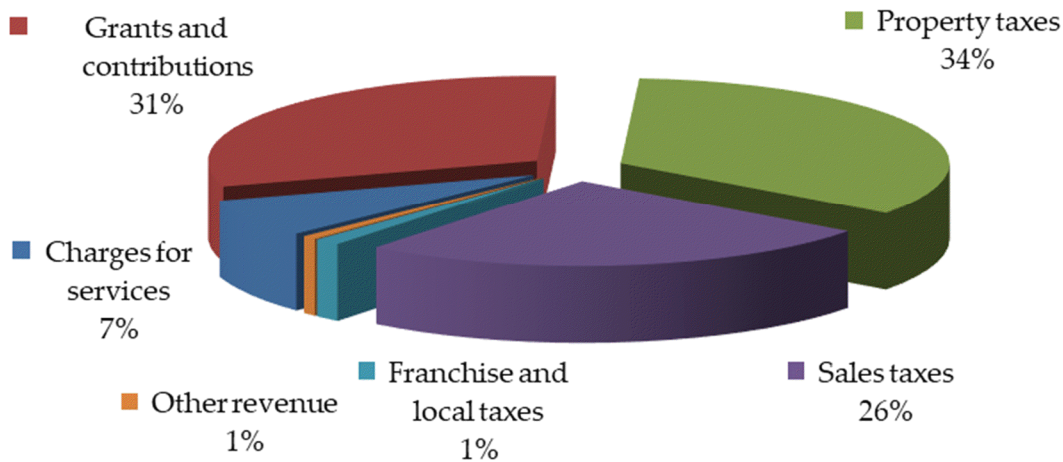
City of Lexington, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2024

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

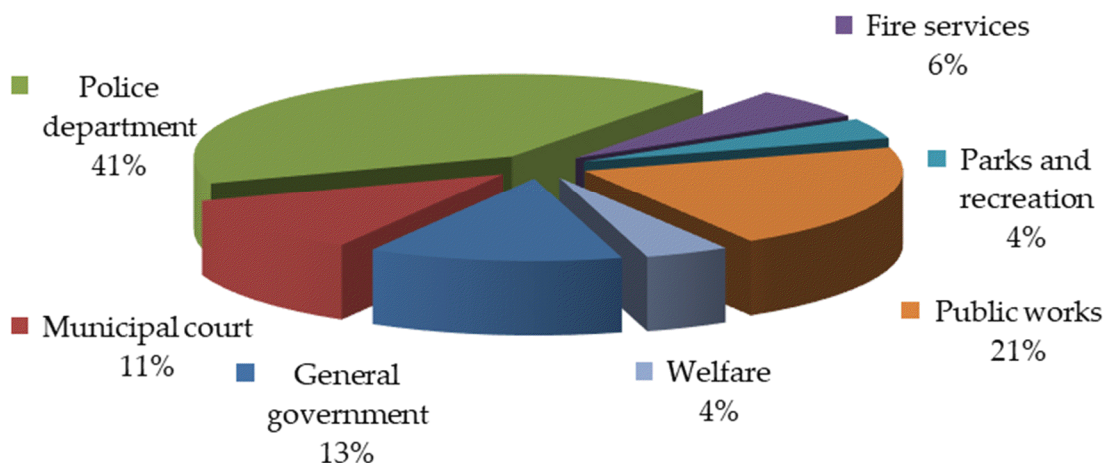
Governmental Activities - Revenues



For the year ended September 30, 2024, revenues from governmental activities totaled \$1,075,804. Sales tax, grants/contributions, and property tax are the City's largest revenue sources. Sales taxes decreased by \$17,134, or 6%, due to a reduction in local purchases and a slowdown in economic growth during the year. Property taxes increased by \$20,966, or 6%, due to a 12% increase in appraised property values offset by a 6% reduction in the general fund property tax rate. Grants and contributions increased by \$271,522, or over 100%, primarily due to nonrecurring Texas Community Development Block Grants "(TXCDBG)" received in the current year. Charges for services increased by \$16,522, or 27%, primarily due to greater court revenue resulting from additional citations issued during the year compared to last year.

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses



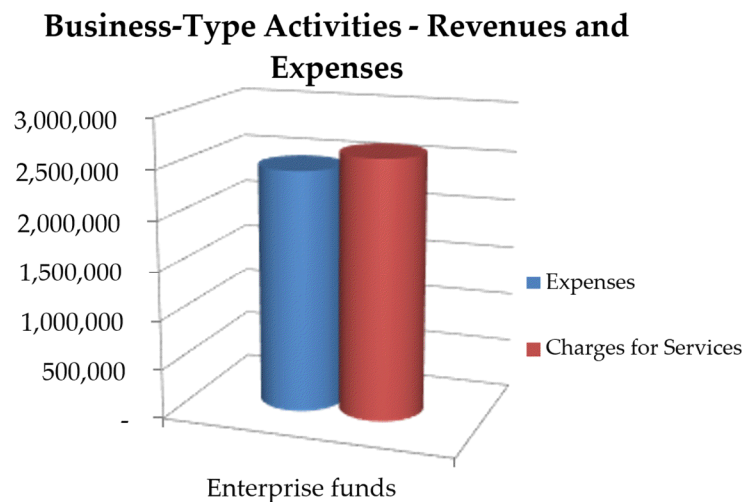
City of Lexington, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2024

For the year ended September 30, 2024, expenses for governmental activities totaled \$890,451. This represents an increase of \$188,821, or 27%, from the prior year. The City's largest functional expense is the police department of \$359,302, which primarily consists of salaries and benefits. Expenses for the police department increased by \$70,568 or 24%, which is primarily due to hiring additional police personnel, resulting in an increase in wages and benefits. Fire service expenses decreased by \$19,582, or 27%, due to nonrecurring building repairs and maintenance during the prior year. Parks and recreation expenses increased by \$18,640 or over 100%, primarily due to nonrecurring repairs and maintenance expenses in the current year. Public works increased \$83,279, or 83%, due to planning and administrative expenses related to the Resilient Community Program (RCP) funded through the Texas GLO grant. All other departmental expenses remained relatively consistent with the previous year.

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



For the year ended September 30, 2024, charges for services by business-type activities totaled \$2,620,459, which represents an increase of \$191,882, or 8%, from the previous year. The increase was primarily a result of greater electricity service revenues resulting from both higher rates and an increase in electricity customers. Total expenses decreased by \$56,793 or 2%, which is considered minimal.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

City of Lexington, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2024

As of the end of the year the general fund reflected a total fund balance of \$50,382. Unassigned fund balance reflected a total deficit of \$1,927 as of year-end.

There was a decrease in the general fund balance of \$54,573 from the prior year due to less anticipated revenues and transfers in from other funds.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total negative budget variance of \$54,573 in the general fund. Revenues reflected a negative variance of \$98,692, primarily due to nonrecurring grant receipts falling below expectations in the current year. Expenditures reflected a positive variance of \$183,854. All departmental expenditures were under budgeted amounts, with the exception of parks and recreation and capital outlay. Other financing sources and uses had an overall negative variance of \$139,735.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$1,851,263 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$6,224,507 in a variety of capital assets and infrastructure, net of accumulated depreciation.

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

- New street improvements totaling \$137,460.
- New Downtown Revitalization Program (DRP) sidewalks totaling \$215,091, primarily funded through the TXCDBG grant program.
- Police Motorola radio system totaling \$59,937, funded through an EDC grant.
- Construction in progress additions of \$14,452 for new marquee sign at the park.
- Water Well No 7 WFD & motor replacement costs totaling \$110,614.
- Construction in progress additions for water well and waterline improvements totaling \$25,800.
- Construction in progress additions for storm drainage project costs totaling \$161,024.
- Construction in progress additions for ground storage project costs totaling \$28,100.

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

City of Lexington, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2024

LONG-TERM DEBT

At the end of the current year, the City had total bonds outstanding of \$2,060,000. During the year, the City had a reduction in the bonds outstanding of \$165,000 (including premium amortization.) During the year, the City made principal payments on outstanding notes totaling \$8,372. The City had total notes payable outstanding of \$27,445 at year end. More detailed information about the City's long-term liabilities is presented in note IV. D to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Lexington and improving services provided to their public citizens. The City is budgeting conservatively for the upcoming year and planning to maintain similar services.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Lexington's finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Secretary at P.O. Box 56, Lexington, TX 78947.

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FINANCIAL STATEMENTS

City of Lexington, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
September 30, 2024

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	EDC
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 20,308	\$ 840,903	\$ 861,211	\$ 192,793
Investments	-	-	-	158,976
Receivables, net	86,219	628,186	714,405	23,534
Notes receivable due within one year	-	1,103	1,103	-
Restricted cash	52,309	2,411,485	2,463,794	-
Total Current Assets	158,836	3,881,677	4,040,513	375,303
Notes receivable due in more than one year	-	7,445	7,445	-
Capital assets:				
Non-depreciable	347,092	778,940	1,126,032	-
Net depreciable capital assets	1,504,171	5,445,567	6,949,738	-
Total Noncurrent Assets	1,851,263	6,231,952	8,083,215	-
Total Assets	2,010,099	10,113,629	12,123,728	375,303
<u>Deferred Outflows of Resources</u>				
Pension contributions	20,790	22,332	43,122	-
Pension investment losses (gains)	26,407	28,365	54,772	-
Pension difference in experience	15,886	17,065	32,951	-
Total Deferred Outflows of Resources	63,083	67,762	130,845	-

City of Lexington, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
September 30, 2024

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	EDC
<u>Liabilities</u>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 80,597	\$ 183,311	\$ 263,908	\$ 4,500
Customer deposits	-	193,300	193,300	-
Accrued interest payable	-	1,740	1,740	-
Line of credit	-	581,783	581,783	-
Compensated absences, current	14,298	15,337	29,635	-
Long-term debt due in one year	8,749	155,047	163,796	-
Total Current Liabilities	103,644	1,130,518	1,234,162	4,500
Noncurrent liabilities:				
Long-term debt due in more than one year	18,696	1,904,953	1,923,649	-
Compensated absences, noncurrent	1,589	1,704	3,293	-
Net pension liability	88,243	94,787	183,030	-
Total Noncurrent Liabilities	108,528	2,001,444	2,109,972	4,500
Total Liabilities	212,172	3,131,962	3,344,134	4,500
<u>Deferred Inflows of Resources</u>				
Pension assumption changes	8,397	9,020	17,417	-
Total Deferred Inflows of Resources	8,397	9,020	17,417	-
<u>Net Position</u>				
Net investment in capital assets	1,823,817	5,293,801	7,117,618	-
Restricted	52,309	-	52,309	370,803
Unrestricted	(23,513)	1,746,608	1,723,095	-
Total Net Position	\$ 1,852,613	\$ 7,040,409	\$ 8,893,022	\$ 370,803

See Notes to Financial Statements.

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City of Lexington, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2024

		Program Revenues			Net (Expense) Revenue and Changes in Net Position					Component Unit	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Total	EDC		
					Governmental Activities	Business-Type Activities					
Primary Government											
Governmental Activities											
General government	\$ 120,568	\$ -	\$ 268,200	\$ -	\$ 147,632	\$ -	\$ 147,632	\$ -	-	-	
Municipal court	99,072	-	-	-	(99,072)	-	(99,072)	-	-	-	
Police department	359,302	77,834	-	-	(281,468)	-	(281,468)	-	-	-	
Fire services	54,005	-	-	-	(54,005)	-	(54,005)	-	-	-	
Parks and recreation	35,170	-	-	-	(35,170)	-	(35,170)	-	-	-	
Public works	183,154	-	-	-	(123,217)	-	(123,217)	-	-	-	
Welfare	37,567	-	-	-	(37,567)	-	(37,567)	-	-	-	
Interest and fiscal charges	1,612	-	-	-	(1,612)	-	(1,612)	-	-	-	
Total Governmental Activities	890,451	77,834	268,200	59,937	(484,480)	-	(484,480)	-	-	-	
Business-Type Activities											
Utilities	2,447,230	2,620,459	-	205,906	-	379,135	379,135	-	-	-	
Total Primary Government Component Unit	3,337,681	2,698,293	268,200	265,843	(484,480)	379,135	(105,345)	-	-	-	
Lexington EDC	179,945	-	-	-	-	-	-	-	(179,945)	-	
Total Component Unit	\$ 179,945	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	(179,945)	-	
General Revenues:											
Taxes											
					363,736	-	363,736	-	-	-	
					284,500	-	284,500	142,250	-	-	
					13,850	-	13,850	-	-	-	
					-	84,573	84,573	5,713	-	-	
					7,747	-	7,747	-	-	-	
					112,608	(112,608)	-	-	-	-	
					782,441	(28,035)	754,406	147,963	-	-	
Change in Net Position					297,961	351,100	649,061	(31,982)	-	-	
Beginning Net Position					1,554,652	6,689,309	8,243,961	402,785	-	-	
Ending Net Position					\$ 1,852,613	\$ 7,040,409	\$ 8,893,022	\$ 370,803	-	-	

See Notes to Financial Statements.

City of Lexington, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2024

	General Fund
<u>Assets</u>	
Cash and cash equivalents	\$ 20,308
Receivables, net	86,219
Restricted cash	52,309
Total Assets	\$ 158,836
<u>Liabilities</u>	
Accounts payable and accrued liabilities	\$ 80,597
Total Liabilities	80,597
<u>Deferred Inflows of Resources</u>	
Unavailable revenue - property taxes	27,857
Total Deferred Inflows of Resources	27,857
<u>Fund Balances</u>	
Restricted for:	
Municipal court security and technology	52,309
Unassigned	(1,927)
Total Fund Balance	50,382
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 158,836

See Notes to Financial Statements.

City of Lexington, Texas

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

September 30, 2024

Fund Balances - Total Governmental Funds	\$	50,382
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Adjustments for the Statement of Net Position:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Capital assets - non-depreciable	347,092
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Capital assets - net depreciable	1,504,171
----------------------------------	-----------

Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds	27,857
--	--------

Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expenditure) until then.

Pension contributions	20,790
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Pension investment losses (gains)	26,407
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Pension difference in experience	15,886
----------------------------------	--------

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 (revenues) until then.

Pension assumption changes	(8,397)
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Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.

Net pension liability	(88,243)
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Non-current liabilities due in one year	(8,749)
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Non-current liabilities due in more than one year	(18,696)
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Compensated absences	(15,887)
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Net Position of Governmental Activities	\$	1,852,613
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See Notes to Financial Statements.

City of Lexington, Texas

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

For the Year Ended September 30, 2024

	General Fund
<u>Revenues</u>	
Property tax	\$ 370,039
Sales tax	284,500
Franchise and local taxes	13,850
Intergovernmental	268,200
Fines and forfeitures	77,834
Other revenue	7,747
Total Revenues	1,022,170
<u>Expenditures</u>	
Current:	
General government	107,410
Municipal court	87,819
Police department	320,503
Fire services	52,790
Parks and recreation	38,185
Public works	76,101
Welfare	37,080
Debt service:	
Principal	8,372
Interest	1,612
Capital outlay	459,479
Total Expenditures	1,189,351
Excess (Deficiency) of Revenues Over (Under) Expenditures	(167,181)
<u>Other Financing Sources (Uses)</u>	
Transfers in	112,608
Total Other Financing Sources (Uses)	112,608
Net Change in Fund Balance	(54,573)
Beginning Fund Balance	104,955
Ending Fund Balance	\$ 50,382

See Notes to Financial Statements.

City of Lexington, Texas

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

For the Year Ended September 30, 2024

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

Net changes in fund balances - total governmental funds	\$	(54,573)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay		371,603
Depreciation expense		(60,613)
Capital contributions from component unit		59,937

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(6,303)
--	--	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences		(5,508)
Pension expense		(14,954)

The issuance of long-term debt (e.g., bonds, notes, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments		8,372
Change in Net Position of Governmental Activities	\$	297,961

See Notes to Financial Statements.

City of Lexington, Texas

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2024

	Utility Fund
<u>Assets</u>	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 840,903
Receivables, net	628,186
Notes receivable due within one year	1,103
Restricted cash	2,411,485
Total Current Assets	3,881,677
<u>Noncurrent Assets</u>	
Notes receivable due in more than one year	7,445
Capital assets:	
Non-depreciable	778,940
Net depreciable capital assets	5,445,567
Total Noncurrent Assets	6,231,952
Total Assets	10,113,629
<u>Deferred Outflows of Resources</u>	
Pension contributions	22,332
Pension investment losses (gains)	28,365
Pension difference in experience	17,065
Total Deferred Outflows of Resources	67,762
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts payable and accrued liabilities	183,311
Customer deposits	193,300
Accrued interest	1,740
Line of credit	581,783
Compensated absences, current	15,337
Long-term debt due within one year	155,047
Total Current Liabilities	1,130,518
<u>Noncurrent Liabilities</u>	
Long-term debt due in more than one year	1,904,953
Compensated absences, noncurrent	1,704
Net pension liability	94,787
Total Noncurrent Liabilities	2,001,444
Total Liabilities	3,131,962
<u>Deferred Inflows of Resources</u>	
Pension assumption changes	9,020
Total Deferred Inflows of Resources	9,020
<u>Net Position</u>	
Net investment in capital assets	5,293,801
Unrestricted	1,746,608
Total Net Position	\$ 7,040,409

See Notes to Financial Statements.

City of Lexington, Texas

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

For the Year Ended September 30, 2024

	Utility Fund
<u>Operating Revenues</u>	
Charges for water services	\$ 501,579
Charges for sewer services	214,350
Charges for garbage services	343,613
Charges for electrical services	1,517,810
Licenses and permits	14,673
Other revenue	28,434
Total Operating Revenues	2,620,459
<u>Operating Expenses</u>	
Salaries and wages	262,147
Employee benefits	120,611
Purchase professional and technical services	1,042,996
Purchased property services	264,446
Other operating expenses	194,335
Supplies	192,676
Depreciation	322,808
Total Operating Expenses	2,400,019
Operating Income (Loss)	220,440
<u>Nonoperating Revenues (Expenses)</u>	
Investment income	84,573
Interest expense	(47,211)
Total Nonoperating Revenues (Expense)	37,362
Income Before Capital Contributions and Transfers	257,802
<u>Capital Contributions and Transfers</u>	
Capital contributions	205,906
Transfers out	(112,608)
Capital Contributions and Transfers	93,298
Change in Net Position	351,100
Beginning net position	6,689,309
Ending Net Position	\$ 7,040,409

See Notes to Financial Statements.

City of Lexington, Texas

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 1 of 2) For the Year Ended September 30, 2024

	Utility Fund
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 2,419,962
Payments to employees	(372,361)
Payments to suppliers and contractors	(1,699,448)
Net Cash Provided by Operating Activities	348,153
<u>Cash Flows from Non-Capital Financing Activities</u>	
Transfers to other funds	(112,608)
Net Cash Provided (Used) by Non-Capital Financing Activities	(112,608)
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital purchases	(335,373)
Principal paid on debt	(149,654)
Interest paid on debt	(62,557)
Capital grants	205,906
Change in revolving credit line	(125,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	(466,678)
<u>Cash Flows from Investing Activities</u>	
Interest on investments	84,573
Net Cash Provided by Investing Activities	84,573
Net Increase (Decrease) in Cash and Cash Equivalents	(146,560)
Beginning cash and cash equivalents	3,398,948
Ending Cash and Cash Equivalents	\$ 3,252,388

City of Lexington, Texas

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 2 of 2) For the Year Ended September 30, 2024

	<u>Utility Fund</u>
<u>Reconciliation of Operating Income (Loss)</u>	
<u>to Net Cash Provided (Used) by Operating Activities</u>	
Operating Income (Loss)	\$ 220,440
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	322,808
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(206,565)
Notes receivable	1,200
Deferred outflows of resources:	
Pension contributions	(3,509)
Pension difference in experience	6,473
Pension investment returns	47,102
Increase (Decrease) in:	
Accounts payable and accrued expenses	(4,995)
Customer deposits	4,868
Deferred inflows of resources:	
Pension changes in assumption	9,020
Net pension liability	(48,689)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 348,153</u></u>

See Notes to Financial Statements.

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City of Lexington, Texas

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2024

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of government-wide financial statements

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

B. Reporting Entity

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

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

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

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2024

Discretely Presented Component Unit

Lexington Economic Development Corporation

The Lexington Economic Development Corporation ("LEDC") is governed by a board appointed by the City Council of the City of Lexington and any of whom can be removed from office by the City Council at its will. The LEDC was incorporated in the state of Texas as a non-profit industrial development corporation under Section 4A of the Development Corporation Act of 1979, for the purpose of the promotion and development of new and expanded business enterprises and to provide and encourage employment in the furtherance of the public welfare. The LEDC is discretely presented as it does not have the same governing body, and does not provide services entirely, or almost entirely to the city.

C. Basis of presentation – government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of presentation – fund financial statements

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

The government reports the following as a major governmental fund:

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

The government reports the following major enterprise fund:

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

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2024

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

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

E. Measurement focus and basis of accounting

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

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

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

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

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2024

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

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

F. Budgetary information

1. Budgetary basis of accounting

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

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

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

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

1. Cash and cash equivalents

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

2. Investments

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

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2024

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

- (1) Obligations, including letters of credit, of the United States or its agencies and instrumentalities;
- (2) direct obligations of the State of Texas or its agencies and instrumentalities;
- (3) collateral mortgage obligations although significantly limited;
- (4) other obligations, the principal and interest on which are unconditionally guaranteed or insured or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities;
- (5) obligations of state, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm of not less than A or its equivalent;
- (6) bonds issued, assumed, or guaranteed by the State of Israel;
- (7) interest-bearing banking deposits that are guaranteed or insured by:
 - (a) the Federal Deposit Insurance Corporation, or its successor; or
 - (b) the National Credit Union Share Insurance Fund or its successor; and
- (8) interest-bearing banking deposits other than those described by Subdivision (7) if:
 - (a) the funds invested in the banking deposits are invested through:
 - (i) a broker with a main office or branch office in the State of Texas
 - (ii) a depository institution with a main office or branch office in the State of Texas
 - (b) the broker or depository institution selected as described by Paragraph (a) arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the city's account;
 - (c) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and
 - (d) The city appoints as the city's custodian of the banking deposits issued for the city's account:
 - (i) the depository institution selected as described by Paragraph (a);
 - (ii) an entity described by Section 2257.41 (d); or
 - (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3.

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2024

3. *Inventory*

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

4. *Receivables and Interfund Transactions*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from component unit/primary government."

Advances between funds are offset by a fund balance reserve account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of any allowance for uncollectible amounts.

5. *Capital Assets*

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

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

City of Lexington, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2024

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

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

6. *Deferred outflows/inflows of resources*

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

In addition to liabilities, the statement of net position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

7. *Net position flow assumption*

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

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

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2024

8. *Fund balance flow assumptions*

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

9. *Fund balance policies*

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

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

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

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

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

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

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2024

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

10. Long-Term obligations

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

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

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

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

11. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2024

12. Pensions

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

13. Fair Value Measurement

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

H. Revenues and expenditures/expenses

1. Program revenues

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

2. Property taxes

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

3. Compensated absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the government-

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2024

wide financial statements. A liability for these amounts is reported in government-wide financial statements.

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

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general fund. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control is the fund level. No funds can be

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2024

transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2024, the primary government had no investment balances.

As of September 30, 2024 the City's discretely presented component unit had the following investments:

Investment Type	Value	Weighted Average Maturity (Years)
Certificates of deposit	\$ 158,976	0.68
Total value	<u>\$ 158,976</u>	
Portfolio weighted average maturity		0.68

B. Receivables

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

	General	Utility	Total
Taxes			
Property taxes	\$ 27,857	\$ -	\$ 27,857
Sales taxes	47,068	-	47,068
Accounts	11,294	661,385	672,679
Allowance	-	(33,199)	(33,199)
Total	<u>\$ 86,219</u>	<u>\$ 628,186</u>	<u>\$ 714,405</u>

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

	EDC
Taxes	
Sales taxes	\$ 23,534
Total	<u>\$ 23,534</u>

On September 29, 2017, the City issued a \$16,548 note receivable to a local citizen as part of the citizen's purchase of 3.918 acres of land off of FM 1624. The note is due September 5, 2032. The note does not bear interest. As of September 30, 2024, the unpaid note receivable balance was \$8,548.

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2024

The note receivable will be repaid to the City in accordance with the following payment schedule:

Year ending September 30,	Note Receivable	
	Principal	Interest
2025	\$ 1,103	\$ -
2026	1,103	-
2027	1,103	-
2028	1,103	-
2029	1,103	-
After Preceding 5 Years	3,033	-
Total	\$ 8,548	\$ -

C. Capital Assets

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

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 347,092	\$ -	\$ -	\$ 347,092
Construction in progress	15,220	14,452	(29,672)	-
Total capital assets not being depreciated	362,312	14,452	(29,672)	347,092
Capital assets, being depreciated:				
Buildings	807,248	-	-	807,248
Machinery and equipment	1,065,786	64,537	-	1,130,323
Furniture and fixtures	12,733	-	29,672	42,405
Street and improvements	849,927	352,551	-	1,202,478
Total capital assets being depreciated	2,735,694	417,088	29,672	3,182,454
Less accumulated depreciation				
Buildings	476,132	16,702	-	492,834
Machinery and equipment	921,565	31,188	-	952,753
Furniture and fixtures	12,733	495	-	13,228
Street and improvements	207,240	12,228	-	219,468
Total accumulated depreciation	1,617,670	60,613	-	1,678,283
Net capital assets being depreciated	1,118,024	356,475	29,672	1,504,171
Total Capital Assets	\$ 1,480,336	\$ 370,927	\$ -	\$ 1,851,263

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2024

Depreciation was charged to governmental functions as follows:

General government	\$ 8,554
Police department	26,113
Fire services	1,215
Parks and recreation	11,437
Public works	12,807
Welfare	487
Total Governmental Activities Depreciation Expense	\$ 60,613

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

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 176,818	\$ -	\$ -	\$ 176,818
Construction in progress	387,198	214,924	-	602,122
Total capital assets not being depreciated	<u>564,016</u>	<u>214,924</u>	<u>-</u>	<u>778,940</u>
Capital assets, being depreciated:				
Machinery and equipment	462,733	9,836	-	472,569
Utility plants	9,992,183	110,613	-	10,102,796
Total capital assets being depreciated	<u>10,454,916</u>	<u>120,449</u>	<u>-</u>	<u>10,575,365</u>
Less accumulated depreciation				
Machinery and equipment	381,098	26,105	-	407,203
Utility plants	4,425,892	296,703	-	4,722,595
Total accumulated depreciation	<u>4,806,990</u>	<u>322,808</u>	<u>-</u>	<u>5,129,798</u>
Net capital assets being depreciated	<u>5,647,926</u>	<u>(202,359)</u>	<u>-</u>	<u>5,445,567</u>
Total Capital Assets	\$ 6,211,942	\$ 12,565	\$ -	\$ 6,224,507

Depreciation was charged to business-type functions as follows:

Electric	\$ 52,264
Water	121,091
Sewer	149,453
Total Business-Type Activities Depreciation Expense	\$ 322,808

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2024

D. Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Notes payable	\$ 35,817	\$ -	\$ (8,372)	\$ 27,445	\$ 8,749
Total Governmental Activities	<u>\$ 35,817</u>	<u>\$ -</u>	<u>\$ (8,372)</u>	<u>\$ 27,445</u>	<u>\$ 8,749</u>
Long-term liabilities due in more than one year				<u>\$ 18,696</u>	
Business-Type Activities:					
Certificates of obligation	\$ 1,972,314	\$ -	\$ (149,654)	\$ 1,822,660	\$ 155,047
Premium	252,686	-	(15,346)	237,340	
Total Business-Type Activities	<u>\$ 2,225,000</u>	<u>\$ -</u>	<u>\$ (165,000)</u>	<u>\$ 2,060,000</u>	<u>\$ 155,047</u>
Long-term liabilities due in more than one year				<u>\$ 1,904,953</u>	

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

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

Description	Interest Rates	Original Balance	Current Balance
Business-type Activities:			
Certificate of Obligation, series 2012	2.96%	\$ 1,500,000	\$ 350,000
Certificate of Obligation, series 2023A	2.00%	767,314	747,660
Certificate of Obligation, series 2023B	1.60% -3.10%	745,000	725,000
Total Business-Type Activities		<u>\$ 3,012,314</u>	<u>\$ 1,822,660</u>

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2024

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

Year ending September 30,	Certificates of Obligation	
	Principal	Interest
2025	\$ 155,047	\$ 35,196
2026	155,448	31,077
2027	160,857	26,876
2028	41,274	24,366
2029	41,699	23,621
After Preceding 5 Years	1,268,335	358,223
Total	\$ 1,822,660	\$ 499,359

In 2023 the City issued a series 2023A and 2023B certificate of obligation bonds in the amounts of \$767,314 and \$745,000, respectively. The bond were issued as part of a Texas Water Development Fund agreement and to be utilized for the construction of utility infrastructure.

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

Year ending September 30,	Notes Payable	
	Principal	Interest
2025	\$ 8,749	\$ 1,235
2026	9,143	841
2027	9,553	430
Total	\$ 27,445	\$ 2,506

In 2023 the City purchased new police body cameras and tasers through a note payable with Axon Enterprise, Inc. in the amount of \$45,802 and interest of 4.5%. The City's annual principal and interest payments total \$9,984. As of September 30, 2024, the liability balance is \$27,445 and the net book value of the asset is \$27,481.

City of Lexington, Texas

NOTES TO THE FINANCIAL STATEMENTS, Continued

September 30, 2024

E. Other Long-term Liabilities

The following is a summary of changes in the City's other long-term liabilities for the year ended. The City uses the general fund and utility fund to liquidate compensated absences.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 10,379	\$ 15,887	\$ (10,379)	\$ 15,887	\$ 14,298
Total Governmental Activities	<u>\$ 10,379</u>	<u>\$ 15,887</u>	<u>\$ (10,379)</u>	<u>\$ 15,887</u>	<u>\$ 14,298</u>
Other Long-term Liabilities Due in More than One Year				<u>\$ 1,589</u>	
Business-Type Activities:					
Compensated Absences	\$ 17,041	\$ 15,797	\$ (15,797)	\$ 17,041	\$ 15,337
Total Business-Type Activities	<u>\$ 17,041</u>	<u>\$ 15,797</u>	<u>\$ (15,797)</u>	<u>\$ 17,041</u>	<u>\$ 15,337</u>
Other Long-term Liabilities Due in More than One Year				<u>\$ 1,704</u>	

F. Interfund Transactions

Transfers between the primary government funds during the 2024 year were as follows:

Transfer In	Transfer Out	Amounts
General Fund	Utility Fund	112,608
	Totals	<u>\$ 112,608</u>

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

G. Line of Credit

The City has a line of credit with a 2.45% interest rate. As of September 30, 2024 the balance was \$581,783, a reduction of \$125,000 from the previous year. No additional draws were made, and interest paid during the year amounted to \$12,311. The full amount is considered current as the total is set to be paid or renewed after one year

City of Lexington, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2024

H. Restricted Net Position / Fund Balance

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

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

	<u>Governmental Activities</u>
Restricted for:	
* Municipal court	\$ 52,309
Total	<u><u>\$ 52,309</u></u>

*Restricted by enabling legislation

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with over 2,700 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

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

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

City of Lexington, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2024

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City had not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

C. Arbitrage

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

D. Pension Plans

Texas Municipal Retirement System

1. Plan Description

The City of Lexington, Texas participates as one of 934 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.tmrs.com.

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

City of Lexington, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2024

2. Benefits Provided

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

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

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

	<u>Plan Year 2022</u>	<u>Plan Year 2023</u>
Employee deposit rate	6%	6%
Matching ratio (city to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/25	60/5, 0/25
Updated service credit	100%	100%
Annuity increase (to retirees)	70% of CPI	70% of CPI

Employees covered by benefit terms

At the December 31, 2023 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	11
Inactive employees entitled to but not yet receiving benefits	25
Active employees	<u>13</u>
Total	<u>49</u>

3. Contributions

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

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2024

benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Lexington, Texas were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City of Lexington, Texas were 8.08% and 9.87% in calendar years 2023 and 2024, respectively. The City's contributions to TMRS for the year ended September 30, 2024, were \$54,536, and were equal to the required contributions.

4. Net Pension Liability (Asset)

The City's Net Pension Liability (Asset) was measured as of December 31, 2023, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the December 31, 2023 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	2.75% per year
Investment Rate of Return	6.75% net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with 110% of the Public Safety table used for males and 100% the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale MP-2021 to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale MP-2021 to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS as of December 31, 2022. They were adopted in 2023 and first used in the December 31, 2023 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with

City of Lexington, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2024

an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, Gabriel Roeder Smith & Company (GRS) focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2024 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Public Equity	35.0%	7.70%
Core Fixed Income	6.0%	4.90%
Non-Core Fixed Income	20.0%	8.70%
Other Public/Private Markets	12.0%	8.10%
Real Estate	12.0%	5.80%
Hedge Funds	5.0%	6.90%
Private Equity	10.0%	11.80%
Total	100.0%	

Discount Rate

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

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2024

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

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

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 477,125	\$ 183,030	\$ (56,290)

Changes in the Net Pension Liability (Asset)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/2022	\$ 2,120,705	\$ 1,873,159	\$ 247,546
Changes for the year:			
Service cost	68,716	-	68,716
Interest	141,061	-	141,061
Difference between expected and actual experience	52,695	-	52,695
Changes of assumptions	(36,146)	-	(36,146)
Contributions – employer	-	43,891	(43,891)
Contributions – employee	-	32,593	(32,593)
Net investment income	-	215,749	(215,749)
Benefit payments, including refunds of emp. contributions	(130,532)	(130,532)	-
Administrative expense	-	(1,379)	1,379
Other changes	-	(12)	12
Net changes	95,794	160,310	(64,516)
Balance at 12/31/2023	\$ 2,216,499	\$ 2,033,469	\$ 183,030

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2024, the City recognized pension expense of \$79,886.

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2024

At September 30, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and investment earnings	\$ 54,772	\$ -
Differences between expected and actual economic experience	32,951	-
Changes in actuarial assumptions	-	(17,417)
Contributions subsequent to the measurement date	43,122	-
Total	\$ 130,845	\$ (17,417)

The City reported \$43,122 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability (asset) for the year ending September 30, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31,	
2024	\$ 29,904
2025	17,358
2026	40,907
2027	(17,863)
2028	-
Thereafter	-
Total	\$ 70,306

E. Related Party Transactions

The City Mayor is related to the owner of a construction company that was contracted to perform services for the City. The services totaled \$6,075 during the fiscal year ending September 30, 2024.

F. Subsequent Events

There were no material subsequent events through August 8, 2025, the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

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City of Lexington, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended September 30, 2024

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property tax	\$ 359,549	\$ 370,039	\$ 10,490
Sales tax	286,667	284,500	(2,167)
Franchise and local taxes	24,700	13,850	(10,850)
Intergovernmental	362,295	268,200	(94,095)
Fines and forfeitures	80,000	77,834	(2,166)
Other revenue	7,651	7,747	96
Total Revenues	<u>1,120,862</u>	<u>1,022,170</u>	<u>(98,692)</u>
<u>Expenditures</u>			
Current:			
General government	397,260	107,410	289,850
Municipal court	186,791	87,819	98,972
Police department	372,016	320,503	51,513
Fire services	70,700	52,790	17,910
Parks and recreation	17,000	38,185	(21,185)
Public works	128,419	76,101	52,318
Welfare	37,080	37,080	-
Debt service:			
Principal	17,627	8,372	9,255
Interest	1,612	1,612	-
Capital outlay	144,700	459,479	(314,779)
Total Expenditures	<u>1,373,205</u>	<u>1,189,351</u>	<u>183,854</u>
Revenues Over (Under) Expenditures	<u>(252,343)</u>	<u>(167,181)</u>	<u>85,162</u>
<u>Other Financing Sources (Uses)</u>			
Transfers in	252,343	112,608	(139,735)
Total Other Financing Sources (Uses)	<u>252,343</u>	<u>112,608</u>	<u>(139,735)</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>(54,573)</u>	<u>\$ (54,573)</u>
Beginning fund balance		104,955	
Ending Fund Balance		<u>\$ 50,382</u>	

Notes to Required Supplementary Information

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

City of Lexington, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Years Ended:

	12/31/2023	12/31/2022	12/31/2021	12/31/2020	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Total pension liability										
Service cost	\$ 68,716	\$ 51,359	\$ 63,353	\$ 65,823	\$ 53,568	\$ 62,245	\$ 53,618	\$ 66,484	\$ 57,510	\$ 40,266
Interest	141,061	133,265	126,678	130,165	125,657	122,201	119,224	115,277	114,218	106,668
Differences between expected and actual experience	52,695	51,040	33,764	(122,633)	5,779	11,842	1,661	(10,893)	(29,913)	26,401
Changes of assumptions	(36,146)	-	-	-	7,996	-	-	-	13,761	-
Benefit payments, including refunds of participant contributions	(130,532)	(127,156)	(113,252)	(134,323)	(130,351)	(151,151)	(118,272)	(93,650)	(74,240)	(73,959)
Net change in total pension liability	95,794	108,508	110,543	(60,968)	62,649	45,137	56,231	77,218	81,336	99,376
Total pension liability - beginning	2,120,705	2,012,197	1,901,654	1,962,622	1,899,973	1,854,836	1,798,605	1,721,387	1,640,051	1,540,675
Total pension liability - ending (a)	2,216,499	2,120,705	2,012,197	1,901,654	1,962,622	1,899,973	1,854,836	1,798,605	1,721,387	1,640,051
Plan fiduciary net position										
Contributions - employer	\$ 43,891	\$ 32,553	\$ 48,717	\$ 45,145	\$ 37,116	\$ 42,284	\$ 37,223	\$ 46,686	\$ 40,972	\$ 33,402
Contributions - members	32,593	24,476	29,766	30,711	26,046	30,167	25,819	31,912	28,707	23,830
Net investment income	215,749	(152,395)	245,054	137,029	251,002	(52,621)	220,790	101,885	2,232	82,787
Benefit payments, including refunds of participant contributions	(130,532)	(127,156)	(113,252)	(134,323)	(130,351)	(151,151)	(118,272)	(93,650)	(74,240)	(73,959)
Administrative expenses	(1,379)	(1,324)	(1,138)	(888)	(1,421)	(1,018)	(1,145)	(1,152)	(1,359)	(864)
Other	(12)	1,580	9	(35)	(43)	(52)	(58)	(62)	(68)	(71)
Net change in plan fiduciary net position	160,310	(222,266)	209,156	77,639	182,349	(132,391)	164,357	85,619	(3,756)	65,125
Plan fiduciary net position - beginning	1,873,159	2,095,425	1,886,269	1,808,630	1,626,281	1,758,672	1,594,315	1,508,696	1,512,452	1,447,327
Plan fiduciary net position - ending (b)	\$ 2,033,469	\$ 1,873,159	\$ 2,095,425	\$ 1,886,269	\$ 1,808,630	\$ 1,626,281	\$ 1,758,672	\$ 1,594,315	\$ 1,508,696	\$ 1,512,452
Fund's net pension liability (asset) - ending (a) - (b)	\$ 183,030	\$ 247,546	\$ (83,228)	\$ 15,385	\$ 153,992	\$ 273,692	\$ 96,164	\$ 204,290	\$ 212,691	\$ 127,599
Plan fiduciary net position as a percentage of the total pension liability	91.74%	88.33%	104.14%	99.19%	92.15%	85.59%	94.82%	88.64%	87.64%	92.22%
Covered payroll	\$ 543,210	\$ 407,938	\$ 496,105	\$ 511,843	\$ 434,103	\$ 502,790	\$ 430,322	\$ 531,871	\$ 478,452	\$ 397,161
Fund's net position as a percentage of covered payroll	33.69%	60.66%	-16.78%	3.01%	35.47%	54.43%	22.35%	38.41%	44.45%	32.13%

City of Lexington, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Fiscal Years Ended:

	9/30/2024	9/30/2023	9/30/2022	9/30/2021	9/30/2020	9/30/2019	9/30/2018	9/30/2017	9/30/2016	9/30/2015
Actuarially determined employer contributions	\$ 54,536	\$ 41,034	\$ 36,213	\$ 49,089	\$ 43,556	\$ 40,136	\$ 38,232	\$ 37,223	\$ 46,657	\$ 39,624
Contributions in relation to the actuarially determined contribution	\$ 54,536	\$ 41,034	\$ 36,213	\$ 49,089	\$ 43,556	\$ 40,136	\$ 38,232	\$ 37,223	\$ 46,657	\$ 39,624
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Annual covered payroll	\$ 578,163	\$ 509,176	\$ 425,091	\$ 514,426	\$ 497,774	\$ 472,161	\$ 451,337	\$ 429,294	\$ 533,816	\$ 464,677
Employer contributions as a percentage of covered payroll	9.43%	8.06%	8.52%	9.54%	8.75%	8.50%	8.47%	8.67%	8.74%	8.53%

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

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

Notes

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	20 years (longest amortization ladder)
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.85% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2023 valuation pursuant to an experience study of the ending 2022.

Mortality

Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).
Pre-retirement: PUB(10) mortality tables, with the 110% Public Safety table used for males and the 100% of the General Employee table used for females. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).

Other Information:

Notes

There were no benefit changes during the year.

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